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FY 2003—Second Half

Inspector General Act of 1978

★ Twenty-fifth Anniversary

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On the cover: Graphic commemorating the 25th anniversary of the enactment of the Inspector General Act of 1978, courtesy of the President's Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency.

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). The current report is largely organized according to some of the most significant management challenges facing the Department. Notably, we in OIG have had a productive 6-month period. Based on our audit work this reporting period, we achieved total dollar results of $41.2 million, based on questioned/unsupported costs and funds to be put to better use that we disclosed. We issued 40 audit reports. Our investigative efforts resulted in $24.1 million in recoveries/collections, fines, restitutions, claims established, cost avoidance, and administrative penalties. Our investigations produced 244 indictments and 223 convictions. We issued 268 reports of investigation.

During this period, OIG continued to devote significant effort to addressing homeland security issues in USDA programs. We issued reports concerning security standards for federally funded research at non-Federal institutions, security over Natural Resources Conservation Service assets, security over aircraft and aircraft facilities, a staged laboratory break-in, and a threatening hoax anthrax letter. Information technology work includes our report to fulfill the requirements of the Federal Information Security Management Act for FY 2003 and two cases of child pornography in the workplace.

In the area of protecting the U.S. food supply and agriculture, OIG completed an audit on weaknesses in Food Safety and Inspection Service recall operations, as well as investigations of poisoned meat and sale of rat-infested meat. Public corruption investigations address bribery, visa fraud, and embezzlement schemes. We also are reporting on the Business and Industry Guaranteed Loan Program, the Rural Rental Housing Program, and Rural Utilities Service water projects. Investigations involving USDA feeding programs and audits of farm programs and Federal crop insurance follow. An audit of controls over the travel card program rounds out this period's reporting.

We are proud of OIG's accomplishments this semiannual period. In addition to our mission work in performing audits and investigations, we worked collaboratively to establish organizational goals, values, and strategies to ensure our future success. We are also celebrating the 25th anniversary of the enactment of the Inspector General Act of 1978. Finally, I once again wish to express my appreciation for the support shown by Secretary Veneman, Deputy Secretary Moseley, and program officials at all levels of the Department, as well as the members of the Senate and House of Representatives with whom we work.

Phyllis K. Fong

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. 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—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, with hundreds of programs. While we at OIG do not make policy or run programs, our auditors work 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 "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 reduce hunger by providing children and low-income individuals with access to food, a healthy diet, and nutrition education.

- USDA ensures that the Nation's commercial supply of meat, poultry, and egg products is safe, wholesome, and correctly labeled. 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 works with a number of national and international organizations including the Meat and Poultry Advisory Committee Staff and National Advisory Committee on Meat and Poultry Inspection, the National Advisory Committee on Microbiological Criteria for Foods, and the Codex Alimentarius Commission, an international organization created by the United Nations to promote the health and economic interests of consumers.

- 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 the quality of U.S. agricultural products, 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 on the Nation's 1.6 billion acres of private and other non-Federal land. Stewardship of 191 million acres of national forests and grasslands rests with the Forest Service (FS), the largest USDA agency.

- 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, 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.

- USDA helps rural communities, home to approximately 60 million Americans, 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, operations, and employees. OIG's goal is to promote economy, efficiency, and effectiveness. In addition, investigators concentrate on preventing and detecting crimes, as well as assisting with the prosecution of criminal and civil cases. Auditors conduct financial and performance audits of USDA's programs and activities.

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 producers who suffered losses and need help. As Federal law enforcement officers, OIG special agents conduct a wide range of criminal investigations. Some involve theft, smuggling, bribery, extortion, embezzlement, food tampering, processing and sale of adulterated food products, threats against the food supply, false claims, misuse of loan funds, or other fraud against the Government. Others involve workplace violence, including threats, assaults, or homicide of Departmental employees, while engaged in performance of official duties; and child pornography perpetrated by USDA employees using Government systems and equipment. OIG special agents are authorized to make arrests, execute warrants, and carry firearms.

Our activities better ensure the Department's protection of production agriculture, the public, and USDA employees, and we save the Government money. Taxpayers expect and deserve to have their money benefit those who are entitled. Funds for improperly implemented programs can be put to better use. Based on our audit work this reporting period, management officials agreed to recover $17.8 million and put an additional $19 million to better use. Our investigative efforts resulted in $24.1 million in recoveries/collections, fines, restitutions, claims established, cost avoidance, and administrative penalties. Our investigations produced 244 indictments and 223 convictions. This report covers the period April 1 through September 30, 2003.

MANAGEMENT CHALLENGES

The Reports Consolidation Act of 2000 requires OIG to identify and report annually the most serious management challenges the Department and its agencies face. This year, we have summarized USDA's most serious management challenges by issue area, rather than by mission. USDA's major management challenges frequently cross organizational lines within the Department and should be addressed on a coordinated basis. The management challenges OIG identified last year fall under one or more of the general issue areas we have identified this year. While progress has been made in each challenge facing USDA, more can be done to strengthen management controls, to ensure USDA benefits go to those intended, and to protect the integrity of USDA's programs and activities. Also, we have identified three new emerging issues that either mandate new requirements or have not been effectively addressed on a Department-wide coordinated basis. OIG has identified 10 Department-wide and 2 agency-specific challenges that we believe are the most significant management issues facing USDA.

Department-wide Challenges

1. Homeland Security Considerations Should Be Incorporated Into Program Design and Implementation
2. Increased Oversight and Monitoring of Food Safety Inspection Systems Are Needed To Meet Hazard Analysis and Critical Control Point (HACCP) Goals
3. Risk Must Be Examined and Improper Payments Minimized Within USDA – *Emerging Issue*
4. Financial Management – Improvements Made but Additional Actions Still Needed
5. Information Technology Security – Much Accomplished, More Needed
6. Controls Over Germplasm Storage Material and Genetically Engineered Organism Field Testing Are Critical to U.S. Markets – *Emerging Issue*
7. Civil Rights Complaints Processing Still a Concern at USDA
8. Research Misconduct Policy Not Consistently Implemented – *Emerging Issue*
9. USDA Faces Major Challenges in Implementing the 2002 Farm Bill and Disaster Assistance Legislation
10. Integrity of the Federal Crop Insurance Programs Policyholders' Database Must Be Strengthened

Agency-Specific Challenges

11. Strong Internal Control Structure Is Critical to the Delivery of Forest Service Programs
12. Improvements and Safeguards Needed for Rural Multi-Family Housing Program

STRATEGIC GOALS

OIG's strategic plan reflects the work of all levels of the organization. It assesses our purpose, our future, and the needs we must meet to achieve our mission, realize our vision, and provide a worthy return on the U.S. taxpayers' investment. As part of our Strategic Plan for Fiscal Years (FY) 2004-2008, we have developed four goals, which will be achieved by specific strategies and actions:

1. Support USDA Management in the Identification and Reduction of Vulnerabilities in Benefits Programs
2. Support USDA in the Enhancement of Safety and Security Measures To Protect Agricultural Resources and Related Public Health Concerns
3. Maximize USDA Effectiveness Through Increasing the Efficiency With Which USDA Manages and Employs Public Assets and Resources
4. Ensure OIG Readiness To Achieve Its Strategic Business Goals

As we refocus our overall business planning efforts, one byproduct is that we anticipate reformatting our semiannual reports. For FY 2004, we will produce results-oriented semiannual documents, whereby our strategic plan will provide a framework against which we will report. Ultimately, our strategic plans, annual plans, budget requests, and semiannual reports will work in concert to present a unified view of historical trends, our current situation, ongoing efforts, and future goals. This will achieve continuity among successive semiannual reports, as well as other documents describing our work. In addition, our reporting will dovetail with the President's Management Agenda and the Department's strategic 5-year plan.

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Homeland Security

The events of September 11, 2001, and subsequent heightened concern about potential terrorist attacks and threats have added a new dimension to the Department's missions and priorities. At issue are USDA's missions to ensure the safety and abundance of the Nation's food supply, from the farm to the table, and to protect the health of American agriculture from the introduction of foreign animal and plant pests and diseases. USDA must now readily identify its assets, perform security risk assessments, and design and implement appropriate safeguards to prevent or deter deliberate acts to contaminate the food supply, disrupt or destroy American agriculture, or harm U.S. citizens. At the same time, USDA must work in concert with the Department of Homeland Security (DHS) to continue to strengthen the current inspection and safeguard processes for the unintentional introduction of pests, diseases, and contaminants on imported products. The Department has been both proactive and responsive to specific vulnerabilities identified by OIG. However, it must continue its efforts to shift from a focus on safety goals to both safety and security in each of its mission areas; to foster effective coordination and communication across jurisdictional lines to better define roles and responsibilities; and to increase Departmental oversight of, and accountability by, USDA agencies.

The Department, in response to our audit recommendations, has taken significant steps to incorporate these approaches in restructuring some of its mission activities. However, more needs to be done to provide assurance that established policies and procedures are consistently implemented and that effective inter- and intra-agency coordination and communication continue.

This year, there was a significant transfer of responsibilities and personnel from USDA to DHS. A major challenge now faced by USDA is timely and effective coordination and communication, not only within USDA, but also with DHS. Prior audits disclosed material weaknesses within USDA when certain functions were solely the responsibility of USDA. Therefore, it is imperative that USDA continue to work with DHS to help ensure appropriate control systems and processes.

Currently, we have a number of ongoing reviews evaluating the spectrum of USDA agencies' homeland security initiatives and activities in response to the heightened alert resulting from September 11. (1) We initiated a review of controls and procedures over chemicals and radioactive materials stored and used at USDA facilities. This review is pointing to the need for Department-wide policies and procedures on the accountability of hazardous chemicals. (2) We reviewed homeland security issues as they pertained to USDA owned or controlled agricultural commodity inventories, focusing on the actions taken by FSA and the Commodity Credit Corporation to minimize the risk to such commodities, and thus to the food and feed supply of the country. We will issue these reports soon. (3) We are also reviewing APHIS' controls over pesticides, drugs, and other hazardous materials used in protecting agriculture from animal predators. In the wrong hands, such chemicals could be harmful to people and animals alike. Previously, we found that APHIS could not account for material amounts of some of these chemicals.

For the second half of FY 2003, OIG issued three audit reports relating to homeland security. For the full fiscal year, OIG issued seven audit reports. OIG's investigations for the second half of FY 2003 yielded 10 indictments, 10 convictions, and $2.1 million in monetary results. For the full fiscal year, OIG results totaled 17 indictments, 23 convictions, and $2.5 million.

FRONT-LINE VULNERABILITIES

Government-wide Policies Are Needed To Establish Security Standards for Federally Funded Research at Non-Federal Institutions

As part of our effort to assist the Government in strengthening homeland security, we reviewed non-Federal institutions that receive USDA funding to conduct research into human, animal, and plant diseases. We evaluated the controls these institutions exercise over biological agents and toxins, and chemical and radioactive materials.

We visited 104 laboratories at 11 USDA-funded institutions and determined that although some of the institutions had implemented security standards on their own, no Federal Government-wide or institution-wide standards provided security guidance to the laboratories. Institutions that manifested a concern with security were generally those whose laboratories had experienced break-ins or domestic terrorist attacks prior to September 11, 2001. We found deficiencies in inventory controls over biological materials, physical security at the laboratories, and access to research areas. For example:

- Only 1 of the 11 institutions we visited had a centralized database to maintain an institution-wide summary-level inventory of the biological materials under their administration.

- Forty-three of the 104 laboratories we visited did not maintain detailed inventory records for their biological agents stored in freezers, and only a few conducted periodic physical inventories.

- Of the 104 laboratories visited, 39 laboratories at all 11 institutions used or stored pathogens on the Centers for Disease Control and Prevention (CDC) select list or the APHIS list of high-consequence pathogens, and 20 laboratories at 10 of the institutions did not have security that we regarded as being commensurate with the risk associated with these pathogens.

- In an unsecured freezer at one institution, we discovered a CDC select agent for which no risk assessment had been made. The agent, *Yersinia pestis*, causes bubonic and pneumonic plague and requires strict containment. The freezer in which this agent was stored had not been inventoried since 1994, when a box of unidentified pathogens was noted as missing.

- A laboratory at a second institution claimed to have stored in its freezer *Actinobacillus pleuropneumoniae*, a pathogen that causes a severe and often fatal contagious disease in swine. However, laboratory personnel had never inventoried the freezer completely to identify how many vials or containers of the *pleuropneumoniae* pathogen it actually had and how much it ought to have had.

- None of the sites we visited did background checks on visitors. Only 2 of the 11 institutions we reviewed performed limited background checks on the custodians and maintenance employees in facilities housing hazardous materials.

We recommended that the issues raised in our report be elevated to the Department of Homeland Security and to the Executive Office of the President’s Homeland Security Council, and that a Federal Government-wide set of security standards be established. We recommended that these standards call for:

- A centralized database of all biological materials stored at an institution,

- written procedures concerning background checks for all individuals having access to CDC- and APHIS-listed agents and toxins as well as a requirement to report missing pathogens, and

- risk assessments of laboratories and security upgrades based on the risks assessed.

The Department generally agreed with the findings and recommendations and specifically agreed that a consolidated set of security standards should apply to federally funded research at all non-Federal institutions handling various types of biohazardous material. Department officials have begun and plan to continue discussions with the Homeland Security Council for the Executive Office of the President regarding biohazardous materials, including those issues identified in our report. The Department has also provided guidance to USDA client organizations that is based on Departmental Manual 9610-1, USDA Security Policies and Procedures for Biosafety Level-3 Facilities. Additionally, the Cooperative State Research, Education, and Extension Service (CSREES) plans to modify its “Terms and Conditions” for entities receiving USDA funding by February 1, 2004, to incorporate all laws, regulations, and guidance regarding biosecurity governed by CDC and APHIS.

Improvements Needed in Security Over NRCS Assets

As part of our ongoing homeland security effort, which includes identifying and protecting USDA resources, we evaluated the assets maintained by the Natural Resources Conservation Service (NRCS) and the measures implemented by the agency to protect such assets. We found that NRCS has not yet developed or applied effective homeland security policies to adequately safeguard some assets such as aerial photography, dams, plant cultivars (cultivated varieties used by researchers to restart plantings in case of a disaster), and weapons. For example, although NRCS carries out much of its work through partnering efforts, it has not developed strategic action plans to protect and minimize damage to its agency-funded assets, including dams now maintained and owned by local sponsors, in the event of an attack.

In addition, NRCS has not performed the required background checks for some headquarters and State office personnel and allows many types of volunteers, students, and partners who have not had background checks to access computer systems and data that may contain sensitive information. We concluded that agency officials have critically assessed neither the vulnerability of NRCS assets to attack nor the availability of sensitive information that might assist a terrorist or terrorist groups.

We recommended that NRCS review procedures for release of sensitive information included in aerial photography, coordinate with local sponsors to mitigate risks associated with NRCS-assisted dams, ensure plant materials are stored at national seed laboratories, and ensure authority is obtained prior to allowing firearms for personal protection from dangerous wildlife or identify alternative methods of protection. In addition, we recommended that NRCS develop a plan of action to track the status of security clearances for each current employee, including volunteers, stay-in-school staff, and partners. We also recommended that NRCS expedite required clearances for personnel assigned to the National Headquarters office. NRCS staff concurred with the findings and recommendations.

Subsequent Review Found Further Actions Needed To Strengthen Security Over Aircraft and Aircraft Facilities

As part of our ongoing review of departmental vulnerability to terrorism, we followed up on a prior audit (October 2001 through January 2002) to determine the status of the audit's recommendations and to ensure that all aircraft acquired or used by the Forest Service (FS) for firefighting purposes were adequately accounted for and secured. We had determined that air tankers are vulnerable to theft and could be attractive to terrorists wishing to disperse biological or chemical weapons in the air.

A DC-6 air tanker undergoing heavy maintenance at a contractor's facility. OIG photo.

During our current audit, we inventoried all 42 existing air tankers under FS contract and concluded that they were adequately secured at the time of our visits. The majority of the air tankers at the facilities we visited were inoperable because they were undergoing heavy maintenance.

We revisited the seven FS air tanker bases reviewed in our prior audit and found that only two of the bases had added new security features since our last visit. However, FS had made progress toward fulfilling the recommendations of our audit. FS had completed its initial assessments of the air tanker bases to determine their security needs, and the agency was in the process of finalizing its National Aviation Security Policy, which will establish minimum security standards based on risk level.

Although FS has made progress in implementing our audit recommendations, our review identified additional issues that require further action.

- FS had not established adequate controls to account for Federal Excess Personal Property (FEPP) aircraft loaned to States for firefighting purposes. We noted that 52 of the 276 FEPP aircraft currently on loan to States had tanks capable of dispersing biological or chemical weapons.

- FS does not require States with FEPP aircraft to conduct security assessments at their aircraft facilities and to develop security plans that meet the FS' minimum standards.

- The FS draft National Aviation Security Policy does not require FS' Washington Office to review and approve security-level determinations and security plans made by air tanker base managers.

- FS had not formally notified all appropriate Federal agencies to monitor the use and security of air tankers no longer under its jurisdiction and control, including C-130A and PB4Y-2 air tankers that had been effectively grounded by FS due to safety concerns.

OIG has made a number of recommendations to address the accountability and security of contactor and FEPP aircraft and to increase FS internal controls over its security program. We have also recommended that FS notify the applicable Federal agencies, in writing, about the PB4Y-2s and C-130As no longer under FS jurisdiction so that the use and security of these aircraft may be appropriately monitored. FS officials generally agreed with our findings and recommendations. However, FS disagreed that it should assume responsibility to ensure the security of all C-130As obtained through the Historic Aircraft Exchange Program during periods when the aircraft are not under FS control. FS has agreed to consult with USDA's Office of the General Counsel (OGC) and the U.S. Department of Justice on this issue.

INVESTIGATING SABOTAGE AND THREATS

Graduate Student Sentenced in Staged Laboratory Break-In

In a new development to a case previously reported in the semiannual report for FY 2002—2nd half, a Federal district judge sentenced a former graduate student at Michigan State University (MSU) to 10 months of incarceration, followed by 3 years of supervised release. The judge also sentenced him to 120 hours of community service and ordered him to pay $69,937 in restitution for his role in falsifying research funded by CSREES. The restitution represents salary paid to the individual during the period he worked on CSREES-funded research at MSU developing a vaccine against *Actinobacillus pleuropneumoniae* (APP), which causes pneumonia in swine. During the investigation, the individual confessed to staging a break-in at the MSU lab in September 2002 in an attempt to conceal APP research findings he had fabricated over the previous 5 years. The news media reported that samples of a highly virulent, genetically altered strain of APP had been stolen during the apparent break-in. Investigation by OIG, the FBI, and MSU police found that no theft had occurred, and that the APP strain reported to be stolen is no more virulent than naturally occurring APP. The graduate student admitted, first in an interview with agents and later in an FBI-administered polygraph examination, that he had never mutated the trkH gene in APP bacteria, as he had claimed, which rendered fraudulent all the lab's research that had been built on the supposed mutation. He also stated that he did not remove any APP samples from the lab. CSREES continues to freeze funding for the current APP grant until an ethics/misconduct investigation by MSU officials can be completed following the criminal investigation.

Individual Sentenced for Mailing a Threatening Anthrax Hoax Letter to USDA Employee

In June 2003, a Federal judge sentenced a Florida man to 3 years of probation, 150 hours of community service, mental health treatment, and $824 in restitution for mailing a threatening letter allegedly tainted with anthrax to an NRCS District Conservationist in Deland, Florida, in the fall of 2001. The county sent a full hazardous materials response team to the office when the anthrax threat was discovered. The letter contained a white powder, which was tested and found not to be contaminated with anthrax. The defendant admitted that he wrote the threatening letter, put a commercial headache powder in the envelope, and mailed it to NRCS because he was upset that NRCS had denied his request for financial assistance to dig a pond.

Information Technology (IT)

USDA depends on information technology (IT) to efficiently and effectively deliver its programs and provide meaningful and reliable financial reporting. One of the more significant dangers USDA faces is a cyberattack on its IT infrastructure, whether by terrorists seeking to destroy unique databases or criminals seeking economic gains. While the Department and its agencies continue to strive to improve the security over IT resources, significant progress is still needed toward establishing an effective security program. Specifically, increased management involvement and commitment at the agency level is needed to effectively implement a strong IT security program. Despite the efforts of OIG and the Office of the Chief Information Officer (OCIO) during the past several years to heighten awareness of security issues, our reviews in 10 agencies during this year continue to show that the Department and its agencies are not yet in compliance with Office of Management and Budget (OMB) Circular A-130 (Management of Federal Information Resources), Appendix III. This noncompliance includes preparing security plans for all major applications, conducting risk assessments, establishing disaster recovery plans, and implementing a system certification/authorization process. We also continue to find that agencies do not have strong physical and logical access controls over IT resources and have not yet effectively used the vulnerability scanning tools provided by the Department to identify and mitigate known security vulnerabilities in their systems.

In FY 2004, we plan to perform a review of the National Information Technology Center's (NITC) general controls to assess whether they are in place and operating effectively. We will also perform a review of security over USDA IT resources as is mandated by the Federal Information Security Management Act (FISMA). Currently, electronic Government (e-Gov) initiatives are in place in 20 USDA programs. We will be performing a review of these initiatives to evaluate the security controls in place, and to assess whether data integrity and confidentiality may be compromised. We will be performing a review of application controls on critical USDA systems to determine whether an effective level of security is built in to protect data integrity and confidentiality. We will also be performing a review to evaluate security controls and the overall management of IT assets at select agencies. Prior audits have identified significant weaknesses in physical and logical access controls, and a lack of adequate system documentation and contingency planning.

For the second half of FY 2003, OIG issued two audit reports relating to IT. For the full fiscal year, OIG issued four audit reports. OIG's investigations for the second half of FY 2003 yielded one indictment, three convictions, and $1,400 in monetary results. For the full fiscal year, OIG results totaled one indictment, four convictions, and $2,911.

The Department Is Improving Its IT Security, but Further Actions Are Needed

The Department and most of its agencies have taken numerous actions in the past few years to improve security over their IT resources; however, additional actions are needed. Most critical is management commitment and accountability for implementing the requirements of OMB Circular A-130 and other federally mandated security guidelines.

Our recent audit work was comprehensive, as we reviewed the following nine agencies: FAS, FSIS, GIPSA, APHIS, RMA, ERS, NITC, the Office of Budget and Program Analysis, and the Office of the Chief Economist. We found that the Department is not in compliance with the requirements of OMB Circular A-130 in preparing all the required security plans, conducting risk assessments, preparing disaster recovery plans, providing security awareness training to all employees, and performing system certifications and accreditations. We also found physical and logical access control weaknesses in every agency we reviewed, hindering agencies' abilities to adequately protect their critical IT resources. Further, most agencies we reviewed did not have adequate controls in place to timely identify and correct potential system vulnerabilities that could compromise the confidentiality, integrity, and availability of critical IT systems and data. Finally, we found that not all agencies had adequate controls in place to properly manage and test changes to their applications, leaving those applications vulnerable to unauthorized and potentially malicious changes.

What we found at FSIS and NITC was typical of our comprehensive review:

- Our vulnerability scans of selected FSIS systems disclosed weaknesses that may be exploited both internally and externally from the Internet. FSIS had not adequately protected physical access to its headquarters computer facility by limiting it to users who need access to perform their duties, and it had not completed all security plans required by OMB Circular A-130. FSIS database administrators were allowed to make changes to FSIS data without following up with appropriate personnel to verify the validity of the changes, and FSIS had not implemented a standard system development life cycle process for managing its application development and change control process.

- Significant improvements have been made since the last general controls review at NITC, including the implementation of password policies in accordance with National Institute of Standards and Technology guidance, reduction of users with special access privileges, completion of risk assessments, and completion of a mainframe security plan. However, NITC needs to complete its disaster recovery and business resumption planning efforts, prepare security plans for general support systems, certify and accredit all critical systems, implement controls to periodically reconcile user identifications to current employee and contractor listings, finalize its change control management process, and finalize secure access from the Internet.

Our comprehensive report fulfilled the requirements of FISMA for FY 2003. We made recommendations in individual agency reports to correct the weaknesses we identified; therefore, we made no additional recommendations in this report.

Two NRCS Employees Sentenced to Prison on Child Pornography Violations

- The former director of National Production Services for the Natural Resources Conservation Service (NRCS) in Fort Worth, Texas, pled guilty in Federal court to possessing child pornography from about June 2000 through May 2001 on his Government-issued computer at a Government facility. On July 8, 2003, he was sentenced to 57 months of imprisonment to be followed by 3 years of supervised release.

- In fall 2001, a former Arkansas NRCS district conservationist admitted that he had accessed and downloaded pornography, including child pornography, on his Government computer while on duty, and later pled guilty to possession of child pornography. In April 2003, he was sentenced to serve 27 months of confinement, ordered to participate in a sex offender treatment program while incarcerated, and ordered to pay a $1,000 fine. He was also ordered to serve 3 years of supervised release after incarceration and, as part of his probation, to participate in mental health counseling and to have no access or subscription to any Internet sources. OIG conducted this investigation jointly with the FBI.

Protecting the U.S. Food Supply and Agriculture

Protecting the food supply and agriculture within the Department includes those activities designed to ensure that the food the consumer eats is safe and properly labeled and graded, and that the Nation's plant and animal resources are safeguarded. These activities are performed by the Food Safety and Inspection Service (FSIS); the Agricultural Marketing Service (AMS); the Animal and Plant Health Inspection Service (APHIS); and the Grain Inspection, Packers and Stockyards Administration (GIPSA). The activities include inspecting all domestic establishments that prepare meat and poultry products for sale or distribution; reviewing foreign inspection systems and establishments; inspecting and quarantining animals and plants at U.S. ports-of-entry; controlling agricultural losses caused by predatory animals; developing standards for licensing and testing veterinary biologics; establishing grading standards for eggs, tobacco, livestock, dairy products, poultry, fruits, vegetables, and grain; and performing weighing and inspection services to ensure the standards are met.

In 1998, the Department, through FSIS, implemented a major change to its food safety system and created a new regulatory system for meat and poultry safety within the meat and poultry plants it regulates. The Pathogen Reduction and Hazard Analysis and Critical Control Point (HACCP) rule is the centerpiece of the new regulatory approach because it mandates HACCP, sets certain food safety performance standards, establishes testing programs to ensure those standards are met, and assigns new tasks to inspectors to enable them to ensure regulatory performance standards are met. In 2000, OIG reported on FSIS' implementation of HACCP, concluding that while FSIS had taken positive steps in its implementation of the science-based HACCP system, HACCP plans were not always complete; FSIS needed to place greater emphasis on pathogen testing; and it needed to define its oversight role in the HACCP system, and hold plants accountable for noncompliance. During 2002, USDA experienced some of the largest recalls in its history. OIG's reviews of two of these recalls in the past year indicate that FSIS still faces significant challenges to ensure the successful implementation of HACCP. Most critical to this process are FSIS' assessment of plant HACCP plans and resolution of any deficiencies; establishment of management controls to accumulate and analyze data to monitor and assess the adequacy of food safety systems; establishment of criteria to initiate enforcement actions; baseline studies to define the goals, objectives, and performance measurements for pathogen testing programs; and better supervision and oversight of field inspection processes. Also, FSIS must reassess its recall process, including traceback policies, to identify the product source, and improve monitoring to ensure timely notification of the recall and maximum recovery of the product. While FSIS has generally been responsive to these issues and has made some changes to its inspection policies and procedures, complete corrective actions and estimated timeframes for addressing these weaknesses are not yet known.

For FY 2004, we plan to audit controls over APHIS' Emergency Pest Eradication and Control Programs and evaluate agency memoranda of understanding with DHS. Under our ongoing food safety efforts we will audit FSIS' food safety automated information systems and continue to monitor implementation of the HACCP regulation along with evaluating very small meat and poultry establishments' compliance with HACCP requirements. In addition, we will conduct work to review the egg processing inspection activity.

For the second half of FY 2003, OIG issued one audit report relating to protecting the U.S. food supply and agriculture. For the full fiscal year, OIG issued three audit reports. OIG's investigations for the second half of FY 2003 yielded 12 indictments, 10 convictions, and $4.5 million in monetary results. For the full fiscal year, OIG results totaled 18 indictments, 15 convictions, and $4.5 million.

FOOD SAFETY

ConAgra Recall Exposed Weaknesses in FSIS Recall Operations

At the request of the Senate Committee on Agriculture, Nutrition, and Forestry, we performed an audit of the Food Safety and Inspection Service's (FSIS) oversight of the recall by the ConAgra Beef Company (ConAgra) of 18 million pounds of ground beef and beef products suspected of being contaminated with *Escherichia coli (E. coli)* O157:H7. Beginning in mid-June 2002, at least 46 people in 16 States became ill from contaminated meat. About 1 month earlier, FSIS' microbiological tests of ground beef at a meat grinder that used product supplied by ConAgra identified the presence of *E. coli*

O157:H7. ConAgra officials agreed to an initial voluntary recall of about 354,000 pounds of ground beef produced in late May of that year. A subsequent FSIS review of ConAgra records showed that beef product from that plant had been testing positive for *E. coli* O157:H7 as early as April 12 and as late as July 11. The recall was consequently expanded to include about 18 million pounds of beef product.

We evaluated the effectiveness of USDA's management and oversight of the recall of ConAgra product. We also determined whether FSIS was aware of potential problems at ConAgra prior to the recall and whether FSIS and ConAgra operated in accordance with HACCP requirements. Our audit found that neither ConAgra nor FSIS effectively fulfilled their responsibilities under the Hazard Analysis and Critical Control Point (HACCP) system. ConAgra did not design or reassess its food safety system to ensure it operated in compliance with sanitation standard operating procedures (SSOP) and HACCP requirements. Data was available to both ConAgra and FSIS in the period prior to the recall that indicated *E. coli* O157:H7 contamination was becoming a continuous problem at ConAgra. FSIS inspectors did not recognize and/or respond to these indicators but instead followed FSIS policies that effectively limited the documents the inspectors could review and the enforcement actions they were allowed to take.

FSIS needs to be more proactive in its oversight by seeking access to available sources of data and analyzing, on an ongoing basis, the data's importance as indicators of problems that could impact food safety. Also, FSIS needs to reassess its management and oversight of the recall process. The recall was ineffective and inefficient because adequate controls and processes were not in place to timely identify the source (establishment) of the contaminated product or provide reasonable assurance that recovery of the recalled product was maximized or enforcement actions taken, as necessary. As of the end of January 2003, only about 3 million pounds of the 18 million pounds of recalled product had been recovered. The majority of the beef was not returned or accounted for.

- *Pre-Recall Indicators Showed Problems*. The Hazard Analysis and Critical Control Point (HACCP) program generally requires FSIS to test for *E. coli* O157:H7 at plants producing ground beef. We found that FSIS inspectors at ConAgra did not perform their own tests and did not review other test results that were available to them. Under FSIS policy, plants like ConAgra that performed their own pathogen tests as a part of HACCP were exempt from FSIS testing, and those tests ConAgra performed apart from HACCP were not directly presented to FSIS for review. None of the tests taken by ConAgra for HACCP purposes in 2001 and 2002 showed the presence of *E. coli* O157:H7, while at least 63 of the tests taken for non-HACCP purposes in 2002 did. FSIS inspectors did not pursue the non-HACCP test results because they determined FSIS had no clear authority to review non-Government tests even though they knew those tests showed the presence of the *E. coli* pathogen. On April 18, 2003, FSIS issued a notice that instructed inspection personnel to collect raw ground beef samples whenever they received a request, and the notice no longer permitted plants exemptions from sampling for *E. coli* based on plants conducting their own tests.

- *Reanalysis of Hazards Was Lacking*. In designing its HACCP system, ConAgra management assumed that *E. coli* O157:H7 contamination was not likely. Consequently, the ConAgra HACCP system was unprepared to respond to the actual hazards that could and did present themselves. FSIS regulations require that a plant reassess its HACCP system when food safety hazards are found in the finished product.

  ConAgra did not perform a reassessment of its HACCP system, even though its tests were showing an increasing presence of *E. coli* O157:H7 contamination. FSIS plant inspectors were aware of some of ConAgra's tests, but they believed that because the tests were not part of the HACCP program, they could not use the test results to force ConAgra to reassess its HACCP system.

- *Enforcement Actions Were Indecisive*. Before the recall, FSIS issued multiple noncompliance notifications to ConAgra for fecal contamination of product (the source of *E. coli*), but it took no decisive enforcement action. Instead, it continually allowed ConAgra to introduce superficial stopgap measures, such as increasing supervision or retraining an employee. The actions taken by ConAgra did not provide assurance that the physical and biological hazards to the production process had been identified and controlled. The inspectors continued to issue citations because FSIS has not established criteria for determining when repeat violations warrant taking additional enforcement action or require a plant to reassess its HACCP plan.

- *Both FSIS and Beef Processors Were Unprepared for a Recall.* Although FSIS encourages all establishments to prepare recall plans, HACCP plans for two of the grinders using ConAgra beef did not address recall procedures. One of these grinders was unable to readily determine from its records which of its customers received the recalled product.

  FSIS policies added to the inefficiency of the recall by impeding the inspectors' ability to trace a contaminant from the grinder's establishment back to the supplier. Concurrences needed before traceback samples could be tested contributed to a 7-day delay in the recall and added to the quantity of beef product recalled.

  - FSIS had imposed no specific requirement that plants keep production or distribution records. Poor records at the establishments that used ConAgra beef increased the difficulty FSIS had in tracking the further distribution of the ground meat.

  - Reviews designed by FSIS to determine the effectiveness of the recall (whether distributors were notified and distribution was stopped) were not used to exercise control over the recall process because they were performed too late and problems found received limited management attention.

  - Even though 67 of the 490 effectiveness checks we reviewed indicated that distributors and others in the distribution chain had not been notified of the recall, FSIS district managers determined the recall was a success because, to their knowledge, no one consuming the unrecovered product became ill.

  During the recall, ConAgra altered its HACCP process by introducing lactic acid into the production of ground beef to control the *E. coli* O157:H7 contaminant. FSIS approved the use of the acid but did not adequately document how it determined that lactic acid was an appropriate antimicrobial intervention in ground beef. We found scientific evidence in two ARS studies that the use of lactic acid in ground beef may raise the cooking temperature necessary to destroy the *E. coli* O157:H7 contaminant.

- *Monitoring Needs To Be Proactive.* The recall of ConAgra beef products might have progressed more effectively if FSIS had provided closer monitoring of ConAgra and the establishments that processed its beef. Primarily, FSIS needed to ensure the establishments' HACCP plans were technically sufficient to ensure compliance with HACCP and Standard Sanitation Operating Procedure requirements. HACCP plans at all three of the plants we reviewed for this audit did not adequately address all food safety hazards.

  FSIS officials stated that the FSIS in-plant personnel performing most of the reviews of HACCP plans were not sufficiently trained and, therefore, not technically competent to make accurate assessments of the plans. In 2000, FSIS started a program to hire and train a staff of technically competent personnel, and by the end of 2002, it had about 105 individuals available to review the more than 5,000 HACCP plans at federally inspected plants. However, even with the program in place, FSIS does not want or plan to have approval authority over establishment HACCP plans.

FSIS oversight needed strengthening in other key areas:

- FSIS guidance to reinspect carcasses when fecal contamination is observed is not clearly announced in FSIS' written policy, but rather is expressed obscurely in the model generic Beef Slaughter HACCP plan. We noted at least 1 case where 175 beef carcasses at ConAgra may have been contaminated with fecal matter and were not reinspected.

- FSIS' current random nationwide sampling of plants for the presence of *E. coli* O157:H7 does not verify the effectiveness of HACCP systems and does not measure the extent of a hazard. We concluded that the sampling should be based on the risk posed by individual plants.

- FSIS has no written procedures that require FSIS personnel to take control of or monitor beef that has tested positive for *E. coli* O157:H7. FSIS allowed ConAgra to resell contaminated beef without verifying that the buyers would not reuse it as raw ground product.

We concluded that two conditions were material internal control weaknesses: (1) FSIS lacked a process to accumulate, review, and analyze all data available to assess the adequacy of food safety systems; and (2) accurate assessments of HACCP plans had not been made because FSIS lacked sufficient, competent staff to make those assessments.

We recommended that FSIS 1) provide clear authority to ensure that it has access to all plant pathogen and microbial testing results; 2) make recall activities more effective by ensuring that ground beef is readily traceable from manufacturing to point-of-sale; 3) issue regulations to provide clear directions on traceback samples; 4) establish a management control process to accumulate, review, and analyze all data available to the agency; 5) increase supervision and oversight of ConAgra until the plant demonstrates it is capable of sanitary and wholesome production; 6) ensure that inspectors acceptably apply HACCP requirements; 7) define the goals, objectives, and methods of its *E. coli* O157:H7 testing program and ensure that the program is risk-based and includes performance measures; and 8) instruct FSIS inspection personnel to take control of *E. coli* O157:H7 adulterated product and verify that product is properly processed or destroyed.

During the recall and audit, FSIS took a number of actions to strengthen its inspection procedures. In October 2002, FSIS informed establishments producing raw beef products of the need to reassess their HACCP plans, based on the assumption that *E. coli* O157:H7 is a hazard reasonably likely to occur at all stages of the process. FSIS has also begun comprehensive food safety assessments to evaluate the adequacy of HACCP plans and food safety systems. These assessments are critical to the success of HACCP.

In response to the audit, FSIS stated that the agency had already recognized many of the issues reported and is committed to making cost-effective improvements in its inspection programs. FSIS will continue to strengthen its programs with updated policy and guidance, base policy decisions on science, provide supplemental training for field personnel, increase accountability, and provide better supervision and oversight to ensure a safe and wholesome food supply. These actions are consistent with the Department's vision statement, issued in July 2003, that set out its core goals to improve the safety of U.S. meat, poultry, and egg products and to better protect public health. These goals are (1) improve the management and effectiveness of regulatory programs; (2) ensure that policy decisions are based on science; (3) improve coordination of food safety activities with other public health agencies; (4) enhance public education efforts; and (5) protect meat, poultry, and egg products against intentional contamination.

Supermarket Employee Poisons Meat

On September 19, 2003, a former meat cutter in Michigan was sentenced in Federal court to 9 years in prison, followed by 3 years of supervised release, and ordered to pay $12,161 in restitution. As previously reported, a Federal grand jury indicted the meat cutter in February 2003, charging him with poisoning meat with an insecticide and poisoning meat to seriously injure a business. The charges stem from an investigation conducted by OIG, the FBI, and local health authorities after approximately 130 consumers returned product or complained of sickness after eating ground beef purchased from a supermarket in Michigan in early January 2003. Ninety-two people who ate the contaminated hamburger reported acute symptoms including burning in the mouth and lips, lightheadedness, dizziness, nausea, and vomiting. Preliminary lab results indicated the contaminant to be nicotine, and meat tampering was suspected. Further investigation disclosed that the meat cutter contaminated approximately 250 pounds of ground beef with Black Leaf 40, a pesticide containing nicotine, because of ongoing disagreements with co-workers in the meat department at the store. He said he had hoped that his action would result in his co-workers being disciplined or fired.

Meat Firm and Officers Plead Guilty to Selling Rat-Infested Meat

A Los Angeles corporation, its president, and its warehouse manager were placed on probation and were fined more than $105,000 after they pled guilty to selling and offering to sell adulterated meat food products for human consumption. Our joint investigation with FSIS Compliance disclosed that the company, which was engaged in the business of purchasing, storing, and selling meat and poultry products in commerce to retail customers, had sold adulterated meat and poultry product that had been gnawed by and otherwise contaminated by rodents.

SAFETY OF PRODUCTION AGRICULTURE

Prompted by an outbreak of Exotic Newcastle Disease (END) in the Southwestern United States, OIG began an initiative to investigate criminal activity that could contribute to further outbreaks and spread of END, one of the most infectious poultry diseases. OIG's initiative employed a two-prong approach to target (1) actual cockfighting activities and (2) the smuggling of fighting cocks into the United States. Smuggling in turn can result in the introduction of dangerous diseases into the United States, because the animals being smuggled are not inspected or quarantined to guarantee their health. Details of several of our recent cockfighting cases follow.

More than 4,700 Fighting Cocks Seized in Northern California; 24 Subjects Arrested

An OIG special agent, working undercover, developed the probable cause for the issuance of 3 search warrants that resulted in law enforcement agents seizing more than 4,700 fighting cocks in 3 raids in northern California in 2003. Also as a result of these search warrants, California state criminal charges were filed against 24 individuals for "owning, keeping, or training animal(s) for fighting." Seven of the charged individuals have been sentenced, 2 are fugitives, and the remaining 15 subjects are awaiting trials. Also seized during the searches were several firearms and a large quantity of cockfighting paraphernalia. Most of the fighting birds have since been destroyed. This joint law enforcement operation also involved Napa County, California, sheriff's deputies, as well as sheriff's deputies and animal control officers from several other California counties. The Humane Society of the United States helped coordinate the operation. This operation was particularly significant because fighting cocks contributed greatly to the spread of END in southern California and other Southwestern States in late 2002 and early 2003.

Two Illegal Cockfighting Rings in Bronx, New York, Raided

In January 2003, OIG special agents, law enforcement officers of the New York City Police Department, and agents of the American Society for the Prevention of Cruelty to Animals jointly raided a cockfighting operation in progress in the Bronx, New York. Approximately 137 people were either arrested or summoned, and 38 fighting cocks were seized. We conducted another raid operation in April 2003 in which 84 people were either arrested or summoned and 144 fighting cocks were seized.

Dozens of dead fighting cocks. OIG photo.

New Mexico Man Caught Smuggling Five Fighting Cocks Into United States From Mexico

On January 14, 2003, a New Mexico man tried to smuggle five live fighting roosters from Mexico into the United States near the Columbus, New Mexico, port-of-entry. An accomplice handed the roosters over from the Mexican side of the fence to him. He placed the crate of roosters in his truck and was driving toward his home when he was stopped by Border Patrol agents and interviewed. He confessed that he had smuggled the roosters into the United States because he knew it was illegal to bring in live birds. He also stated that he was bringing the roosters into New Mexico for fighting purposes. The man later pled guilty to failure to obtain an import permit and was ordered to pay a $475 fine.

Public Corruption

A continuing priority for OIG is the investigation of alleged criminal acts by USDA employees involving USDA programs and operations. The percentage of wrongdoers is small, but to maintain the public trust, those who commit crimes must be brought to justice. Descriptions of some recent investigations follow.

During the past 6 months, public corruption investigations resulted in 10 convictions of current or former USDA employees and 31 personnel actions. OIG's investigations for the second half of FY 2003 also yielded 14 indictments and $209,980 in monetary results. For the full fiscal year, OIG results totaled 26 indictments, 21 convictions, and $3.2 million.

Former RD State Director Sentenced to Prison Term for Bribery

In June 2003, the former State Director of Rural Development (RD) in Virginia was sentenced to serve 27 months in Federal prison and ordered to pay a fine of $49,000 after he pled guilty to bribery. OIG's investigation revealed that, almost immediately after taking office, he began accepting cash payments and other financial assistance from real estate developers who had encouraged him to apply to become State Director. During his tenure as State Director, he accepted more than $60,000 from various real estate developers doing business with USDA and gave them favorable treatment in return. He was indicted in December 2002 on one bribery count for accepting $32,000 from the president of a Texas development company in August 1999. In return, the former State Director allowed the company to continue to manage USDA-financed housing projects, even though a 1995 OIG audit had shown that the company had skimmed funds from numerous projects. The developer skimmed an additional several hundred thousand dollars from his Virginia housing projects after the audit. (The developer died before the investigation uncovered his involvement in the bribery scheme.) This case was worked jointly with the FBI.

Visa Fraud Ring Involving USDA Employee Uncovered

A former Senior Agricultural Economist for the USDA Economic Research Service has pled guilty to charges of conspiracy to commit visa fraud and has agreed, as part of the plea agreement, to remit to the Government approximately $82,000 that he obtained as a result of his role in the scheme. This economist, working with others, arranged for Chinese nationals to fraudulently obtain visas to illegally enter and remain in the United States. Although they were not agricultural specialists, the Chinese nationals received letters of invitation on USDA letterhead to enter the United States as part of a Government delegation of agricultural specialists. Each immigrant paid $10,000 for costs associated with obtaining the visas. As a result of the scheme, from late 1999 through April 2002, 99 Chinese immigrants improperly entered and remained in the United States. The U.S. Embassy in Beijing, China, denied approximately 150 other applicants' visas when the scheme was discovered. Two co-conspirators have also been criminally charged and have entered guilty pleas. This was a joint investigation with the State Department.

Three USDA Employees Sentenced in Embezzlement Schemes

- In Minnesota, a former Animal and Plant Health Inspection Service (APHIS) accounting clerk pled guilty in Federal court to embezzling $48,599 in APHIS program payments and was sentenced to serve 16 months in prison, followed by 3 years of probation. The subject used identification cards that he obtained from homeless people to create fake veterinarians in the APHIS computer system and then authorized the issuance of payments to the fake veterinarians for nonexistent services. He retrieved the fraudulent APHIS program checks from a post office box that he opened as part of the scheme. In addition to the prison sentence, he was ordered to pay a $100 special assessment fee and restitution of $48,599.

- In June 2003, a former Forest Service telecommunications specialist in Arkansas was sentenced to 6 months of home detention and 5 years of probation, and ordered to pay $12,500 in restitution and a $20,000 fine. He had pled guilty to charges of theft of Government money and making false statements in conjunction with the unauthorized use of his Government-issued credit card. From late 1998 to about April 2001, the employee was responsible for purchasing radio equipment for the FS. However, he purchased approximately $70,000 in items not related to his job, including a digital camera and computers.

- Also in June 2003, a Farm Service Agency (FSA) Acting County Executive Director in Maine pled guilty to converting to her own use $22,150 in FSA funds. She was subsequently fired, and in August 2003 was sentenced to home confinement, 5 years of probation, and restitution of $22,150.

Rural Development (RD)

One of our agency-specific management challenges addresses the fact that improvements and safeguards are needed for the Multi-Family Housing (MFH) program, which comes under the purview of the Rural Housing Service in the Rural Development mission area. A substantial portion of RHS' current Rural Rental Housing (RRH) loan portfolio involves properties over 20 years old. RHS faces a major challenge to maintain its portfolio in good repair so that it will continue to provide safe, decent, and affordable housing for low- to moderate-income rural residents. RHS needs to address several challenges in its management of the MFH program. RHS needs to inspect and repair its aging portfolio; accurately report to Congress the units built in its guaranteed MFH program; plan for future increases in rental assistance costs; implement wage-matching to identify excessive rental assistance costs; fairly use equity incentives to keep RRH projects in the program; and continue to implement regulatory and other internal controls to address deficiencies that have been identified in the program.

For FY 2004, we will continue to review the RHS MFH program. We plan to audit RHS' management operations of the MFH program to determine if RHS implemented corrective actions to identify unauthorized, ineligible, or fictitious project expenses, particularly those that involve identity-of-interest companies. We also plan to audit RRH construction and rehabilitation costs to ensure that the costs were actually incurred and were for authorized purposes. Both audits will follow up on previous nationwide reviews of the MFH program.

More work is scheduled for the MFH program involving expansion of the RRH tenant certification audit in Florida to a nationwide review of the accuracy and eligibility of RRH tenant subsidies. In our reviews of the MFH program, we will utilize our increasing expertise with RHS' database systems to identify potential problems and trends that may indicate fraud, waste, or abuse.

In late 2003, we also initiated a review of RHS' servicing of its Single Family Housing Program and accuracy of borrowers accounts, which is conducted at the Centralized Servicing Center (CSC) in St. Louis, Missouri. The ongoing work will include an assessment of CSC's servicing actions and how the automated systems support these functions. We also plan to determine whether there is any pattern or substance to the numerous hotline complaints that OIG-Investigations has received concerning allegations of inaccuracies and improprieties involving CSC servicing actions.

Finally, we will again audit RD's FY 2004 financial statements and continue to monitor the contracted audit work for the Rural Telephone Bank financial statements.

For the second half of FY 2003, OIG issued 11 audit reports relating to Rural Development. For the full fiscal year, OIG issued 20 audit reports. OIG's investigations for the second half of FY 2003 yielded four indictments, six convictions, and $523,977 in monetary results. For the full fiscal year, OIG results totaled 17 indictments, 16 convictions, and $21.6 million.

RURAL BUSINESS-COOPERATIVE SERVICE (RBS)

RBS Needs To Take Action To Reduce Losses in the B&I Loan Program

After OIG's comprehensive review, we issued an audit report that summarized the results of 21 audits performed in 16 States to disclose recurring issues that need to be addressed by the RBS' national office in the Business and Industry (B&I) loan program. We examined 38 guaranteed loans totaling over $125 million and 18 direct loans totaling over $14 million. We questioned $58 million in guaranteed loans and $5.8 million in direct B&I loans.

We identified instances where RD had guaranteed questionable loans, failed to identify lender negligence in servicing existing loans, and honored guarantees in situations where lenders had not fulfilled loan obligations. We attributed these conditions to inappropriate appraisal methods used to determine the value of loan collateral, and to inadequate lender assessments of borrowers' financial conditions when loans were guaranteed and on an annual basis thereafter. Rural Development also lacked effective procedures to enforce compliance when lenders failed to meet agency requirements. In addition, RD officials had not always verified that lenders complied with agency requirements prior to honoring loan guarantees.

As a result, agency officials were unaware of lender negligence until our review.

Rural Development and OIG have identified conditions in the past that are similar to those disclosed during our current review. Since 1980, OIG has issued 46 such audit reports with monetary findings of over $224 million. With more than $4.7 billion in loan guarantees, RD needs to ensure that lenders are making sound loans and properly monitoring borrower financial conditions to reduce the risk of significant losses to the Government. However, the results of our review may not accurately indicate the extent of problems in the B&I Guaranteed Loan Program because 55 percent of the loans we reviewed were delinquent.

Rural Development's annual performance reports also inaccurately depicted the number of jobs created and saved by the B&I Guaranteed Loan Program. The agency reported program results based on borrower projections, rather than the actual number of jobs created and saved by the program. In addition, the agency's data collection and input controls did not ensure the accuracy of reported results.

We found that RD lacked effective measures to enforce borrower compliance with agency requirements, such as borrowers providing current financial statements and insurance coverage. We also found weaknesses in collateral appraisals, procedures to verify the existence of collateral, and procedures to file required legal documents. However, since the B&I Direct Loan Program is no longer being funded, we did not recommend any corrective action for direct loanmaking.

We recommended that RD establish guidelines to (1) better identify the most appropriate appraisal methods used to value collateral, (2) verify that lenders use the most appropriate appraisal method, (3) require that lenders use audited financial statements to perform financial analyses of borrowers, (4) enforce lender compliance with critical agency oversight controls, (5) require annual lender visits for all new and delinquent borrowers, and biennial lender visits for current borrowers, and (6) define deficiencies that classify loans in significant nonmonetary default and require acceleration of all loans in that classification. We also recommended that the agency require that the loss claims be evaluated by State loan committees. Further, we recommended specific procedures that would improve the accuracy of RD's annual performance report.

RBS disagreed with the report recommendations, with the exception of using State loan committees to review liquidated loss loans, and the need for implementation of improvements to the accuracy of annual performance reports. We are in the process of responding to their concerns.

Lender Misrepresents Use of Loan Proceeds and Provides Negligent Servicing of B&I Loan

At the request of the RBS national office, we conducted a review of a guaranteed B&I loan made to a tomato cooperative in Arkansas. This audit was conducted after the completion of our national audit of the B&I program. We found that the lender misrepresented key financial information and inadequately serviced nine loans totaling over $9.6 million for the cooperative. The borrower defaulted, resulting in a potential liability to RBS of over $7.4 million (about $7 million remaining guarantee plus about $448,000 accrued interest). The lender has filed a loss claim.

Our audit found that the lender processed guaranteed loans to an ineligible borrower, improperly allowed the borrower to use guaranteed funds to pay delinquent Federal debt, allowed the borrower to use guaranteed loan funds for unauthorized purposes, and failed to adequately supervise construction of facilities financed with loan proceeds. As a result, the borrower built facilities that did not conform to plans approved by RBS. The lender falsely represented to RBS that these conditions did not exist. In addition, the lender allowed the borrower to divert $6 million in working capital away from the cooperative for personal use. These conditions eventually led to the failure of the cooperative.

We recommended that RBS, after consultation with OGC, take actions to contest the guarantees, or substantially reduce the remaining balance of the loan note guarantees. RBS agreed with our recommendation and on August 29, 2003, notified the lender that it will not honor loan note guarantees totaling over $6.9 million of principal and $448,000 of interest.

RBS Should Improve Controls To Minimize Liquidation Losses on Guaranteed B&I Loans

We conducted a review of the process used by RBS to liquidate defaulted B&I loans. We reviewed the files for 10 judgmentally selected (highest dollar loss) liquidated loans with final loss payments in fiscal year 2001. We conducted our review at 7 RBS State offices and at 10 lenders' offices. The loans accounted for about $13.1 million out of $25.5 million in total final losses for 2001. We found no material weaknesses in RBS' controls over B&I loan liquidation.

Nevertheless, about $818,000 could have been saved if RBS had improved controls. For four loans, lenders either did not file estimated loss claims or filed them late, resulting in almost $582,000 in excess interest costs to the Government. For three loans, RBS improperly authorized about $199,000 in protective advances (for security, maintenance, etc., to protect the collateral at liquidation), resulting in excessive interest expenses of about $16,000. RBS approved final loss claims that contained errors for two loans reviewed either because agency procedures were inadequate or staff did not follow established procedures, resulting in excess final loss payments of about $45,000. For one loan, the lender did not provide supporting documentation for about $194,000 worth of protective advances plus accrued interest. Since the Government guaranteed 90 percent of this loan, the final excess loss claim totaled almost $175,000.

We recommended that RBS (1) establish a control to ensure that lenders timely submit estimated loss claims after RBS approves their liquidation plans, (2) clarify when State office staff should authorize protective advances, (3) direct State office staff to recover about $45,000 from lenders for errors on final loss claims, (4) direct State office staff to recover about $175,000 for unsupported protective advances after consulting with OGC, and (5) direct State office staff to obtain and review supporting documentation when claimed liquidation expenses and protective advances surpass a predetermined amount. The agency concurred with our findings and recommendations.

RURAL HOUSING SERVICE (RHS)

Rental Subsidy Payment Errors Exceeded $4.7 Million in Florida's RRH Program

We evaluated the Florida State Office's (SO) controls over the tenant eligibility determination process in the Rural Rental Housing (RRH) Program and accuracy of rental subsidy payments to borrowers on behalf of low-income tenants. As of April 2002, RRH provided rental subsidies to 327 projects with 14,705 rental units of which 10,326 units received rental assistance.

The State had not implemented wage and benefit match provisions, and supervisory reviews were generally not of sufficient depth to detect the material problems identified by the audit. We statistically estimated that tenant certifications for 2,583 (20.8 percent) of the 14,705 units contained errors in households (including those of apparent illegal aliens) receiving improper rental subsidies totaling about $4.7 million (overpayments of $4.4 million and underpayments of about $271,000). The primary cause for the improper subsidies was that tenants did not accurately report their incomes at certifications or they did not notify the project managers of subsequent changes. The project managers did not have an independent source, such as wage and benefit matching, to verify household income, and RD had not fully implemented controls over the tenant certification process to monitor and improve the quality of certifications.

We made a series of recommendations regarding the SO's oversight and monitoring of the tenant certification process, including substantially expanding the use of wage and benefit matching and more substantive supervisory reviews. In addition, we recommended that the SO (1) establish a claim and collect the overpayments from the households in our sample who received excess benefits and (2) review the tenant certifications for all 80 units at 1 project where the manager failed to follow RD certification procedures, determine the amount of overpayments, and recover them.

The SO generally agreed with four of the report's seven recommendations. These recommendations addressed (1) reviewing and recovering overpayments questioned in the report, (2) working with the Florida Department of Law Enforcement and the Florida Department of Labor and Employment Security to permit wage and benefit matching information sharing with project managers, and (3) developing procedures for project managers' verification of applicants' citizenship or legal alien status.

The SO disagreed with the other three recommendations. They addressed (1) requiring wage matches on all households at both initial certifications and annual recertifications, (2) developing additional procedures and guidelines for (a) RD staff to follow when conducting supervisory reviews and (b) project managers to follow when forecasting tenants' annual incomes.

We evaluated the SO comments on the three recommendations, and our basic position remains unchanged.

Louisiana Developer and Four Associates Forfeit Gold Coins, Sentenced for Equity Skimming

A major real estate developer has been sentenced to serve 5 years in Federal prison and ordered to pay fines and restitution of $3.7 million. The developer and his associates devised a scheme to skim several million dollars from RRH and U.S. Department of Housing and Urban Development (HUD) properties owned by the subject and others by having contractors submit inflated invoices for work done at the properties. The subject obtained the funds paid for the inflated costs from the contractors and converted those funds, which had been “skimmed” from the equity of the property, into gold coins. During the investigation, we seized 1,599 gold coins valued at nearly $600,000, as well as an investment account totaling $1.288 million. The gold coins and investment account were forfeited to the Government. The associates and one of the developer’s corporations also have been sentenced. The sentences ranged from probation to 5 months in Federal prison, with fines and restitution totaling over $700,000.

Gold coins seized by the Government. OIG photo.

RURAL UTILITIES SERVICE (RUS)

RUS Did Not Maximize Leverage of Limited Water and Waste Grant Funds With Private Sector

RUS did not leverage limited grant and loan funds for maximum benefit to proposed water and waste projects in rural areas. For example, RUS did not limit grant subsidies to only the most needy applicants. As a result, we statistically estimated that, during a 4-year period, grant funds totaling about $85.5 million were provided unnecessarily to 97 projects. In addition, we estimated that RUS made concurrent loans totaling about $97.9 million to projects that could have been financed with private credit. RUS procedures did not allow private lender funding for the loan portion of projects where the agency determined grants were a necessary part of project funding. We estimated that 169 grant recipients received RUS loan funding, totaling about $163.3 million, which could have been financed by commercial lenders if RUS procedures allowed decoupling of grant and loan funding. In addition, we projected that inadequate tests for other credit were completed for 286 projects receiving grants totaling about $325.4 million.

We recommended that RUS discontinue its current policy of making grants contingent on RUS loans being used to finance the balance of project costs and that RUS work with private creditors. In addition, we recommended that RUS revise current policy and require proposals from nationwide investment lenders to be solicited and analyzed before it considers each future grant obligation. Also, we recommended that RUS establish Government Performance and Results Act-specific goals for successful referrals of grant applicants to private credit and/or participation in joint financing with the private sector.

RUS officials generally concurred with the audit recommendations and plan to publish a directive in support of maximizing use of grant funding.

Two Water Association Circuit Riders Plead Guilty in False Travel Claim Scam

In April 2001, the National Rural Water Association (NRWA) informed RD officials that the Executive Director and wastewater circuit rider for the Nevada Rural Water Association had resigned, following discovery of evidence that he had falsified work and travel claims. (NRWA contracts with local and State associations to provide technical assistance on water, wastewater, and solid waste issues for operators and board members of rural utility systems. USDA, through RUS, reimburses NRWA for official time and travel expense claims.) After discussions with RD officials, OIG conducted an investigation and found that the former Nevada wastewater circuit rider had submitted false documentation and claims from 1998 until his requested resignation in 2001, resulting in improper payments to him of more than $50,000. The Nevada water circuit rider (a separate employee) had also submitted false documentation and claims that resulted in payments to him in excess of $15,000. The former wastewater circuit rider pled guilty to mail fraud and was sentenced to 6 months of home confinement and 5 years of probation, and ordered to pay restitution of more than $37,000. The water circuit rider, who also resigned from his position, has pled guilty to one felony charge of false statements and was sentenced to 120 hours of community service and placed on probation for 3 years.

Feeding Programs

The Food and Nutrition Service (FNS) administers the Department's food assistance programs, which include the Food Stamp Program (FSP); the Child Nutrition Programs (CNP); and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). These three major entitlement programs will account for approximately $42 billion in estimated expenditures in FY 2004.

Since FNS programs have large cash outlays, the potential exists for fraud and large dollar losses. In FY 2004, we will emphasize audits of FNS programs, particularly FSP, to ensure that critical internal control checks are in place to guarantee efficiency, effectiveness, and economy. We will continue to monitor Electronic Benefits Transfer (EBT) systems as they are implemented. Additionally, our plan calls for audits of FNS' implementation of revised WIC vendor regulations, controls over eligibility for the National School Lunch Program, and analyses of EBT databases.

For the second half of FY 2003, OIG issued 13 audit reports relating to feeding programs. For the full fiscal year, OIG issued 22 audit reports. OIG's investigations for the second half of FY 2003 yielded 127 indictments, 163 convictions, and $9.3 million in monetary results. For the full fiscal year, OIG results totaled 300 indictments, 290 convictions, and $23 million.

FOOD STAMP PROGRAM (FSP)

Philadelphia Investigation Nets Seven Convictions, $3.3 Million Restitution Order

OIG special agents have investigated three grocery stores in the Philadelphia area that fraudulently redeemed over $3.4 million in paper food stamps and food stamp benefits issued via the EBT system. Seven owners, employees, or associates of these markets have now been convicted on charges of trafficking in food stamp benefits, money laundering, and conspiracy. An eighth individual is a fugitive and is believed to have left the United States. The seven convicted individuals received sentences ranging from probation to 46 months in prison and were ordered to pay more than $3.3 million in restitution to USDA. The IRS participated in one of these investigations.

Operator Ordered To Pay $1 Million in Restitution

The former operator of a disqualified Chicago retail store was sentenced to 27 months of incarceration and 3 years of supervised release. The individual also was ordered to pay $1 million in restitution to USDA. The individual pled guilty to wire fraud for participation in a food stamp benefit trafficking scheme that occurred from January 1996 through September 1997.

Indiana Needs To Improve Controls and Oversight Over FSP Costs

Our review of the accuracy and allowability of FSP administrative costs claimed in Indiana identified unsupported administrative costs of $1.8 million for FY 2000. The State agency did not have controls in place to properly process FSP costs in a consistent and accurate manner. The State agency did not provide adequate oversight over its local office operations, and had not performed a management evaluation review of its two largest counties in 7 years. The State agency also did not comply with its approved cost allocation plan. We identified numerous weaknesses with its methodology to allocate indirect costs through its random moment sampling time study. Based on the results of our testing, we questioned whether the $79 million charged for FY 2002 FSP expenditures correctly represented actual FSP activity.

We made recommendations to recover the unsupported costs and for the State agency to improve controls over the reimbursement and claiming of FSP administrative costs. FNS generally agreed with our findings.

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

Husband and Wife Sentenced in WIC-Related Counterfeit Manufacturer Coupon Scam

On March 12, 2003, the primary subject of this investigation was sentenced to 22 months of imprisonment followed by 3 years of probation for his role in counterfeiting manufacturer discount coupons for the only kind of infant formula approved for use by WIC recipients in Ohio. He then used these fake coupons to purchase the formula throughout Ohio, Kentucky, and other areas in the Midwest, and resold it at a profit. After his sentencing, the defendant was immediately remanded to the custody of the U.S. Marshal. The subject's wife was sentenced to 3 years of probation and ordered to pay $27,000 in restitution and a $1,000 fine for defrauding FSP and WIC from June 1996 to September 1998. The subject and his wife were charged with welfare and WIC fraud conspiracy. The subject was also charged with income tax evasion and illegally transporting money out of the United States. The producer of the infant formula had projected that the redemption value of discount coupons for the infant formula would approximate $175,000. With the counterfeit coupons included, the redemption value for all coupons exceeded $415,000.

WIC Fraud Conspiracy in Phoenix, Arizona, Involves Maricopa County Employee

From at least March 2002 through February 2003, an employee of Maricopa County, Arizona, prepared fraudulent applications and WIC checks for many fictitious clients. She and three accomplices pretended to be those clients in order to obtain infant formula and other food products from local grocery stores. Another accomplice resold the formula at a profit. All five participants in the scheme shared in the proceeds from the resales. The Maricopa County employee was sentenced to 15 months of imprisonment, followed by 3 years of supervised release, and ordered to pay $83,049 in restitution. Two of the accomplices have pled guilty to conspiracy and await sentencing. The third accomplice, who was indicted on one count of conspiracy and eight counts of theft from the WIC program, is a fugitive from justice.

Program Irregularities and Abuses

FARM PROGRAMS

OIG's Farm Programs work encompasses a variety of farm commodity, farm credit, and conservation programs administered by the Farm Service Agency. The programs are funded primarily through the Commodity Credit Corporation, a Government entity for which FSA provides operating personnel.

Since the new Farm Bill—the Farm Security and Rural Investment Act of 2002 (the 2002 FSRIA)—was enacted in May 2002, market conditions have improved, and the only major disaster assistance authorized is the $3.1 billion provided in the Agricultural Assistance Act of 2003 (2003 AAA). The 2002 FSRIA mandated substantial changes in farm program and conservation payments; we have been monitoring the effects of those changes. Total FSA outlays are projected to be about $19.4 billion in 2003 and $18.2 billion in 2004. FSA's 2004 budgeted program level is more than 27 percent of the Department's total.

In FY 2004, we will continue monitoring implementation of the 2002 FSRIA and the 2003 AAA and intend to conduct reviews of affected farm programs including the Milk Income Loss Contract Program, 2001/2002 Crop Disaster Program, and Sugar Beet Disaster Program. Also, as Congress continues to challenge Government agencies to "do more with less," we plan to systemically assess the efficiency of certain comprehensive processes and initiatives administered or undertaken by FSA. Specifically, we will look at FSA's internal end-of-year payment limitation review process, program compliance activities, and compliance with the Improper Payments Information Act of 2002. Our more systemic approach to work for FY 2004 corresponds with the Department's comprehensive Human Capital Plan, which includes implementing management initiatives both within the agencies and from a corporate perspective in support of the President's Management Agenda.

For the second half of FY 2003, OIG issued five audit reports relating to farm programs. For the full fiscal year, OIG issued six audit reports. For farm-related programs (RMA/FSA), OIG's investigations for the second half of FY 2003 yielded 38 indictments, 20 convictions, and $8.1 million in monetary results. For the full fiscal year, OIG results totaled 68 indictments, 72 convictions, and $12.8 million.

FARM SERVICE AGENCY (FSA)

Peanut Quota Buyout Program Generally Well Managed

On May 13, 2002, the Farm Bill eliminated the long-standing peanut quota system and enacted the Peanut Quota Buyout Program (QBOP) to compensate quota holders $0.55 per pound of quota for the loss of asset value. For the 16 States with peanut quotas, QBOP payments were expected to cost approximately $1.3 billion. QBOP payments for the States we reviewed, Georgia and Florida, were $535 million and $55 million respectively. We selected the two largest payment counties in each State for review. The payments in the four counties totaled about $96.3 million.

QBOP procedures allowed payments to producers who were quota holders as of May 13, 2002. At the 4 county offices reviewed, we identified 1,365 payments totaling about $9 million made to parties other than the quota holders/owners of record reflected in FSA's farm records system as of May 13, 2002. This generally was due to producers not reporting changes in ownership to FSA.

However, of the 102 payments tested, we questioned 4 payments totaling almost $153,000, made by 3 service centers, because the payees could not provide sufficient proof of ownership. One service center generally did not obtain sufficient documentation to support payments to parties other than the owners of record. The service center made 184 payments totaling about $1.4 million to the other parties.

We recommended that FSA evaluate the four questioned payments for eligibility and recovery, as appropriate, and have all county offices that made QBOP payments review and certify that they have adequate documentation that payees were eligible quota holders. FSA generally agreed with the recommendations.

North Dakota Insurance Agent/Farmer Sentenced in $14 Million Fraud Scheme

In an update from our last semiannual report, a North Dakota insurance agent/farmer and two of his farming entities were convicted for their roles in a scheme to defraud USDA and the IRS of more than $14 million. From 1988 to 2000, the insurance agent created false farming entities and filed false applications and claims for FSA and RMA benefits. In June 2003, the insurance agent was sentenced to serve 60 months in prison and ordered to forfeit $5.9 million to the United States. Both of the farming entities were placed on probation for 5 years. The identification and seizure of assets is currently being conducted.

FEDERAL CROP INSURANCE

Our risk management work encompasses a variety of Federal Crop Insurance Corporation (FCIC) programs administered by the Risk Management Agency (RMA). FCIC receives funds from four main sources: capital stock subscriptions from the U.S. Treasury, premium income from producers purchasing insurance policies, administrative fees paid by producers purchasing catastrophic risk protection insurance, and appropriations for Federal premium subsidies and operating expenses.

Our work is designed to ensure overall program integrity, prevent and detect program/ insurance losses, provide a visible audit presence, ensure program objectives are being accomplished, and assist program managers to find solutions for known or potential program weaknesses. Emphasis on crop insurance programs is needed because of the significance of prior audit findings; the expansion (i.e., new types of insurance) and revision of major insurance programs; the reliance placed upon the Federal Crop Insurance Programs by Congress to be the “safety net” for American farmers; and the mandated changes under the Agricultural Risk Protection Act (ARPA).

As last reported, our FY 2003 audits continued to disclose problems with RMA’s administration of the FCIC programs in the areas of crop loss claims (preparation and loss adjustment), producers’ reporting of production, conflicts of interest within the reinsured companies and/or representatives, and establishment of a reliable quality control system.

One of the initiatives under the President’s Management Agenda is to improve financial performance in Government programs. This initiative includes determining agencies’ efforts to determine and reduce erroneous payment rates, including actual and targeted rates, where available, for benefits and assistance programs over $2 billion. Based on prior and ongoing reviews involving RMA, we have identified this initiative as a management challenge. To address these concerns, major audits of RMA planned for FY 2004 include audits to assess the distribution of insurance policies by the insurance companies within the three insurance pools provided for within the Standard Reinsurance Agreement (SRA), the extent of improper payments made within the insurance programs, RMA’s renegotiation of its SRA with the insurance companies, and RMA’s implementation of significant selected ARPA provisions.

For the second half of FY 2003, OIG issued two audit reports relating to risk management. For the full fiscal year, OIG issued three audit reports. For farm-related programs (RMA/FSA), OIG’s investigations for the second half of FY 2003 yielded 38 indictments, 20 convictions, and $8.1 million in monetary results. For the full fiscal year, OIG results totaled 68 indictments, 72 convictions, and $12.8 million.

RISK MANAGEMENT AGENCY (RMA)

Improvements Needed in the Data Reconciliation Process

Our review of the Department's implementation of the Agricultural Risk Protection Act of 2000 (ARPA) concluded that the Risk Management Agency (RMA) and Farm Service Agency (FSA) initiated reasonable actions to implement 19 of 30 significant ARPA provisions we identified. For 10 of the remaining 11 provisions, we concluded that the agencies' actions were not developed enough to adequately assess their progress. The remaining ARPA provision required the Secretary of Agriculture, through RMA and FSA, to reconcile at least annually, beginning with the 2001 crop year, all relevant information received from producers who obtained crop insurance coverage.

We determined that the Department had not timely or effectively performed data reconciliation efforts for producers that carried crop insurance on their 2001 crops. A number of factors, including differences in agency program definitions and weaknesses in planning and coordinating the referral of errors among the agencies and reinsured companies, contributed to this condition. As a result, effectiveness of the reconciliation as a tool to enhance program integrity has been compromised and the reconciliation process, as it is presently being conducted, may not be in compliance with legislative requirements. We continue to stress that unless a common information system is developed and implemented, the inefficient use of RMA and FSA resources to meet this legal requirement will remain.

We recommended that RMA and FSA, in consultation with the Under Secretary for Farm and Foreign Agricultural Services, establish an executive-level task force to develop plans for reengineering the Department's data reporting for each producer, landowner, and policyholder under an integrated common information collection system. In addition, we recommended that the agencies develop strategies to address each of the conditions cited. We also recommended that RMA obtain written legal opinions as to whether (1) reinsured companies can be required to participate in the data reconciliation process and to clarify their role and responsibilities in resolving identified discrepancies and (2) the limited sampling plan being used to address and resolve the discrepancies identified during the 2001 reconciliation meets the requirements of ARPA.

The RMA Administrator agreed to obtain the opinions from OGC. However, at this time these opinions have not been provided to OIG. RMA generally concurred with the audit findings and recommendations.

RMA officials conditionally concurred with the recommendation to develop strategies for addressing each of the 10 conditions cited, including promptly completing the 2001 crop year reconciliation and any associated corrective actions for all identified discrepancies, and to require RMA and FSA to take immediate action to address the methodology to be implemented for reconciling and resolving 2002 crop year data. RMA officials stated in their response to the audit report that RMA is in the process of analyzing the conditions cited and the 10 factors outlined in the draft report, and that they plan to meet with FSA to determine the appropriate actions necessary to address each one. RMA officials stated in their response, dated September 10, 2003, that they expect to complete this review and provide their response to the recommendation within 60 days.

RMA officials also conditionally concurred with the recommendation to include the issues identified by the report, as well as any corrective actions taken or contemplated to address OIG's recommendations, in RMA's next annual report to Congress. RMA officials stated in their response to the audit report that RMA plans to include a discussion on the Data Reconciliation Process in its next annual report to Congress.

Financial Management and Accountability

In FY 2003, we performed audits or provided oversight of audits of the FY 2002 financial statements for CCC, FCIC, FNS, FS, and the RD mission area, including the Rural Telephone Bank (RTB), as well as the FY 2002 consolidated USDA financial statements. All entities received an unqualified opinion. An audit of the FY 2001 balance sheet for the Department's working capital fund was also completed under contract. An unqualified opinion was issued within this abbreviated scope.

In addition to financial statement audits, OIG's work encompasses USDA's implementation of the Improper Payments Information Act of 2002. The act requires the head of each Federal agency with estimated improper payments in excess of $10 million to report on actions taken to reduce them. OMB defines improper payments as payments that should not have been made or that were made in incorrect amounts under statutory, contractual, administration, or other legally applicable requirements. In FY 2003, we initiated a review of FNS' adherence with OMB requirements regarding improper payments in FSP, WIC, and NSLP.

In FY 2004, we will examine the myriad of USDA payment programs and develop an approach that will determine whether USDA has controls in place to identify and prevent improper payments. For example, we will examine RMA's error rate over crop insurance claims and conduct an audit of the use of purchase cards in USDA. In addition, we will review the implementation of the new law from the departmental perspective. Our audit efforts help determine whether USDA's financial systems provide accurate and timely information to the Department's management. These efforts also determine whether USDA has taken adequate actions to reduce improper payments made by its programs.

For the second half of FY 2003, OIG issued one audit report relating to financial management and accountability. For the full fiscal year, OIG issued 12 such audit reports.

DEPARTMENTAL ADMINISTRATION (DA)/OFFICE OF THE CHIEF FINANCIAL OFFICER (OCFO)

Controls Over the Travel Card Program Needed Strengthening

Internal controls over the individually billed travel card account (IBA) program needed to be strengthened at the time of our audit (issued June 2003). Methods and measures, such as establishing uniform and consistent review and monitoring processes, had not been formally prescribed. The current management of the Office of the Chief Financial Officer (OCFO) is working toward implementing measures to minimize misuse. However, the conditions we noted stemmed from ineffective controls despite certifications from previous management that those controls had been instituted in response to our prior recommendations in this area. In the absence of adequate controls, we found evidence that IBA was used improperly.

Although we did not identify any significant monetary loss to the Department, we estimated that total misuse, to include not using the card when required, totaled more than $7.7 million. Further, we estimated that more than $5.8 million of the nearly $78.5 million charged during the period involved transactions for other than bona fide travel-related charges. The most egregious activity we noted was use of the travel card when employees were not on authorized travel.

We also identified a number of obvious cases of misuse at various types of vendors, such as a $6,000 purchase of an automobile and enrollment in a bartending college. Our analysis of 25 individuals who obtained the most in cash advances from automated teller machines (ATMs) during the scope of the review disclosed that in every case they repeatedly abused their IBA privileges by obtaining excessive cash advances for travel, or when not on travel. Twelve of the twenty-five individuals never traveled for official Government purposes, yet their card usage amounted to almost $196,000 during the review period. Several individuals acknowledged using the withdrawn funds first to pay personal debts and then to repay the bank, thereby paying for unauthorized withdrawals with subsequent unauthorized withdrawals and creating a kiting scheme.

As a result, improper charges, if unpaid, could negatively impact the Department in the form of lost rebates from the contractor bank. We also found that agencies took inconsistent disciplinary actions when they identified misuse; this was traceable to the lack of specific travel card policy/guidance issued by DA.

OCFO and various agencies took action to improve the travel card program in response to our interim disclosures. We recommended that OCFO officials formally promulgate the interim measures that they have enacted to ensure permanent and lasting corrective action. OCFO issued departmental guidance that established a “zero-tolerance” policy for card misuse, lowered ATM cash advance limits, standardized lower credit limits on USDA travel cards, deactivated or canceled travel cards of infrequent travelers, and blocked transactions from non-travel-related merchants. Further, OFCO officials have stated that they have provided additional training to employees on travel card regulations. In addition, DA should establish policy/ guidance for fair, equitable, and consistent treatment of all employees when misuse is identified. OCFO generally agreed with the findings and recommendations, as did the Assistant Secretary for Administration.

Summary of Audit Activities—April 2003-September 2003

Reports Issued			40
Audits Performed by OIG	39		
Evaluations Performed by OIG	0		
Audits Performed Under the Single Audit Act	0		
Audits Performed by Others	1		
Management Decisions Made			
Number of Reports			38
Number of Recommendations			283
Total Dollar Impact (Millions)			$41.2
Questioned/Unsupported Costs		$22.2[ab]	
Recommended for Recovery	$17.8		
Not Recommended for Recovery	$ 4.4		
Funds To Be Put to Better Use		$19.0	

[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—April 2003-September 2003

Reports Issued		268
Cases Opened		202
Cases Closed		323
Cases Referred for Prosecution		173
Impact of Investigations		
Indictments		244
Convictions		223[a]
Searches		46
Arrests		190
Total Dollar Impact (Millions)		$24.1
Recoveries/Collections	$ 8.5[b]	
Restitutions	$13.2[c]	
Fines	$ 0.6[d]	
Claims Established	$ 0.1[e]	
Cost Avoidance	$ 0.5[f]	
Administrative Penalties	$ 1.2[f]	
Administrative Sanctions		123
Employees	31	
Businesses/Persons	92	

[a] Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 223 convictions do not necessarily relate to the 244 indictments.
[b] Includes money received by USDA or other Government agencies as a result of OIG investigations.
[c] Restitutions are court-ordered repayments of money lost through a crime or program abuse.
[d] Fines are court-ordered penalties.
[e] Claims established are agency demands for repayment of USDA benefits.
[f] Consists of loans or benefits not granted as the result of an OIG investigation.
[g] Includes monetary fines or penalties authorized by law and imposed through an administrative process as a result of OIG findings.

Full FY 2003 Results in Key Categories

OCTOBER 2002-SEPTEMBER 2003

Summary of Audit Activities

Reports Issued		71
Total Dollar Impact (Millions)		$74.1
Questioned/Unsupported Costs	$25.1	
Funds To Be Put to Better Use	$49.0	

Summary of Investigative Activities

Reports Issued	461
Impact of Investigations	
Indictments	491
Convictions	435
Total Dollar Impact (Millions)	$68.5
Administrative Sanctions	405

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, which 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)
APHIS	02/20/03	1.	Safeguards To Prevent Entry of Prohibited Pests and Diseases Into the United States (33601-3-Ch)	0	0
	03/31/03	2.	Controls Over Permits To Import Biohazardous Materials (33601-4-Ch)	0	0
ARS	03/28/03	3.	Florida A&M University - Science Center Cooperative Agreement (02007-1-At)	560,371	421,764
CCC	12/26/02	4.	FY 2002 CCC Financial Statements (06401-15-FM)	0	0
FNS	02/07/03	5.	FSP Administrative Costs (27099-14-Te)	8,663,131	0
	03/31/03	6.	FSP Employment & Training Program - Tennessee (27601-12-At)	3,152,731	614,600
FS	02/28/03	7.	FY 2002 Forest Service Financial Statements – Summary of IT Findings (08401-2-FM)	0	0
OPPM	10/21/02	8.	Departmental Compliance With the National Energy Policy Acts and Executive Order 13123 (89099-1-HQ)	0	0
RBS	01/10/03	9.	Lender Servicing of B&I Guaranteed Loans (34601-4-At)	3,766,908	3,766,908
RMA	01/09/03	10.	FY 2002 FCIC Financial Statements (05401-11-FM)	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)
CCC	02/26/02	11. FY 2001 CCC Financial Statements (06401-4-KC)	19,586	0
Office of Civil Rights (CR)	09/30/98	12. Evaluation of CR Efforts To Reduce Complaints Backlog (60801-1-Hq)	0	0
	03/24/99	13. Evaluation of CR Management of Settlement Agreements (60801-2-Hq)	0	0
	03/10/00	14. Office of CR Management of Employment Complaints (60801-3-Hq)	0	0
	03/10/00	15. Status of Implementation of Recommendations Made in Prior Evaluations of Program Complaints (60801-4-Hq)	0	0
CSREES	08/06/02	16. Grants to National Center for Resources Innovation (13099-2-Te)	1,246,161	1,246,161
FNS	03/22/00	17. CACFP - National Initiative to Identify Problem Sponsors - Wildwood, Inc. (27010-3-KC)	319,279	0
	05/11/01	18. NSLP - Food Service Management Companies (27601-12-KC)*	3,572,137	3,572,137
	09/10/01	19. 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)
	11/21/01	20. CACFP - Wildwood, Inc. - Phase II (27010-6-KC)	36,895,611	36,895,611
	03/29/02	21. NSLP - Chartwell's Food Service Management Company (27601-13-KC)*	307,711	307,711
FS	03/31/97	22. Research Cooperative and Cost Reimbursable Agreements (08601-18-SF)	1,771,984	468,547
	11/14/01	23. MATCOM – Contract Audit (08017-10-KC)	66,899	66,899
FSA	09/28/95	24. Disaster Assistance Payments, Lauderdale, TN (03006-4-At)	1,805,828	1,672,929
	03/30/99	25. Payment Limitation - Mitchell County, Georgia (03006-20-At)	881,924	881,924
	07/30/01	26. 1999 Crop Disaster Program (03099-42-KC)	950,891	950,891
	09/30/02	27. Assessments on Imported Tobacco (03099-164-At)	4,583,797	4,583,797
FSIS	06/21/00	28. Implementation of the Hazard Analysis and Critical Control Point System (24001-3-At)	0	0
	06/21/00	29. Imported Meat and Poultry Inspection Process (24099-3-Hy)	0	0
	09/30/02	30. Overtime Controls (24099-4-At)	0	0
Multiagency	09/30/98	31. CSREES Managing Facilities Construction Grants (50601-5-At)	3,824,211	74,366
	03/31/99	32. Private Voluntary Organization Grant Fund Accountability (50801-6-At)	18,629,558	18,501,064
	9/28/00	33. Crop Loss Disaster Assistance Program (50801-3-KC)	10,728,872	149,178

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	09/09/02	34. Management of USDA Hazardous Waste Management Funds (50801-12-At)	1,813,809	0
OCIO	03/30/01	35. Security Over USDA IT Resources Needs Improvement (50099-27-FM)	0	0
	09/10/02	36. FY 2002 USDA Government Information Security Reform Act (50099-50-FM)	0	0
RBS	10/01/99	37. B&I Loan - Indiana Farms Pork Marketing (34099-3-Ch)	595,511	595,511
	01/28/02	38. Lender Servicing of B&I Guaranteed Loans – Florida (34601-3-At)	1,536,060	1,536,060
RD	08/05/02	39. Security Over IT Resources - Rural Development (85099-2-FM)	0	0
RHS	01/08/99	40. RRH Program - Dujardin Property Management, Inc., Everett, WA (04801-5-SF)*	195,694	195,694
	05/25/00	41. RRH Nationwide Initiative in Missouri, St. Louis, MO (04801-2-KC)	4,922,879	4,919,579
	09/28/01	42. RRH, Insurance Expenses, Phase II (04601-4-KC)	596,665	500,667
RMA	09/30/97	43. Crop Insurance on Fresh Market Tomatoes (05099-1-At)	15,082,744	0
	02/28/01	44. FY 2000 FCIC Financial Statements (05401-1-Hq)	0	0

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	03/12/01	45. RMA/FCIC FY 2000 Financial Statements Report on Management Issues (05401-2-Hq)	0	0
	03/14/01	46. Crop Insurance for Specialty Crops (05601-4-At)	2,254,014	2,254,014
	05/21/01	47. Review of Written Agreements (05002-1-Te)	1,565,730	1,565,730
	03/15/02	48. Monitoring of RMA's Implementation of Manual 14 Reviews/Quality Control Review System (05099-14-KC)	0	0
	09/30/02	49. Viability of 1999 Fall Watermelon Crop Insurance In Texas (05601-8-Te)	21,100,000	21,100,000
	09/30/02	50. Review of Large Insurance Claims for Watermelon (05601-9-Te)	6,998,779	6,998,779

AUDITS WITHOUT MANAGEMENT DECISION - NARRATIVE FOR NEW ENTRIES

1. Safeguards To Prevent Entry of Prohibited Pests and Diseases Into the United States (33601-3-Ch), Issued February 20, 2003

Management decision has not been accepted for 30 of the 37 recommendations. APHIS needs to provide us with additional information regarding its Memoranda of Understanding with the U.S. Department of Homeland Security (DHS), and the arrangements that have been or will be made to transfer inspection responsibilities to DHS. We also need additional information on other functions that will remain the responsibility of APHIS, such as the plans to enhance the accuracy of the WADS database, the completion of background checks for APHIS employees, and the methodology to be used in preparing GPRA reports.

2. Controls Over Permits To Import Biohazardous Materials (33601-4-Ch), Issued March 31, 2003

Four of the 11 recommendations remain open. APHIS officials need to provide an additional response to clarify the current Veterinary Service (VS) procedures for inspecting new applicants prior to permit issuance. In addition, agency officials need to explain how they would check the validity of VS permit packages arriving at ports-of-entry where APHIS personnel are not present, and how they would handle permit packages that do not involve agricultural select agents.

3. Florida A&M University - Science Center Cooperative Agreement (02007-1-At), Issued March 28, 2003

ARS agreed with most of our recommendations, but generally disagreed with our recommendations that it recover the $233,184 reimbursed for ineligible personnel expenses and disallow the $57,444 pending reimbursement, and recover the $114,512 reimbursed for 36 ineligible items and disallow the $16,624 pending reimbursement from ineligible items. ARS agreed that one project was ineligible and agreed to recover expenses associated with that project. ARS and OIG continue to disagree whether three other projects are eligible.

4. FY 2002 CCC Financial Statements (06401-15-FM), Issued December 26, 2002

We issued an unqualified opinion on CCC's financial statements. However, as in prior years, we continue to identify material weaknesses in its internal controls over financial reporting. CCC still needs to improve its (1) information security controls, (2) financial system functionality, (3) mechanisms that govern funds controls, (4) financial reporting policies and procedures, and (5) budgetary accounting and reporting policies and procedures.

We also identified instances of noncompliance with (1) the Computer Security Act of 1987 and the Government Information Security Reform Act (GISRA), (2) the Debt Collection Improvement Act of 1996, and (3) the Federal Financial Management Improvement Act of 1996. We have agreed to management decision on 9 recommendations and continue to work with CCC to reach management decision on the remaining 20 recommendations. To reach management decision on many of the remaining recommendations, CCC needs to provide us the proposed completion dates for its planned corrective actions.

5. FSP Administrative Costs (27099-14-Te), Issued February 7, 2003

The New Mexico State Agency responsible for FSP did not follow FNS and Federal procurement guidelines to fund a new computer system to administer FSP and other Federal programs. The State agency incurred unauthorized expenditures of over $8 million allocable to FSP. One recommendation remains open in the report. FNS continues to work with the State agency to identify and recover unauthorized amounts that may have been improperly reimbursed to the State. To accept management decision, we will need documentation to show establishment of a claim for amounts to be recovered.

6. FSP Employment & Training Program – Tennessee (27601-12-At), Issued March 31, 2003

This audit disclosed significant fiscal and program management deficiencies in the State agency's Employment and Training program. Excessive costs of over $3 million were claimed for a 2-year period. Management decisions have not been reached on four recommendations. We continue to work with FNS to resolve these recommendations.

7. FY 2002 Forest Service Financial Statements – Summary of IT Findings (08401-2-FM), Issued February 28, 2003

Management decisions have not been reached on the report's 16 recommendations. The report, issued as a result of the FY 2002 FS Financial Statement audit, had recommendations to implement controls and improve security over the FS' IT resources. We are reviewing agency response to our recommendations, and working with FS to achieve management decision.

8. Departmental Compliance With the National Energy Policy Acts and Executive Order 13123 (89099-1-HQ), Issued October 21, 2002

Our audit disclosed that some information included in the Department's Annual Report on Energy Management Activities was unsupported, incorrect, and/or incomplete, and thus could not be independently verified. We attributed this condition to the absence of adequate quality assurance procedures established by the Office of Procurement and Property Management (OPPM), the agency within USDA delegated by the Assistant Secretary for Administration with the responsibility to prepare the Annual Report. We recommended that OPPM develop a management control process to ensure it verifies and maintains documentation that supports the assertions made in the Annual Report. We are working with OPPM to implement our recommendations.

9. Lender Servicing of B&I Guaranteed Loans (34601-4-At), Issued January 10, 2003

Seven of this report's recommendations remain without management decision. We recommended that RBS, in conjunction with the Office of the General Counsel, reduce the guarantee. We based our recommendation on the lender's lack of due diligence in the planning and construction of the proposed sawmill, selection of an unorthodox method of appraising machinery and equipment, and the application of guaranteed loan funds for an unauthorized purpose (repaying itself for funds advanced before RBS' conditional commitment).

10. FY 2002 FCIC Financial Statements (05401-11-FM), Issued January 9, 2003

We issued an unqualified opinion on FCIC's financial statements. However, we identified one material internal control weakness related to the reconciliation of fund balances reported by the U.S. Treasury with its general ledger. We identified two reportable conditions related to its monitoring of the Reinsured Organizations and its financial reporting process. We also identified instances of noncompliance with the Privacy Act of 1974 and the Federal Financial Management Improvement Act of 1996. We have reached management decision on four recommendations and continue to work with FCIC to reach management decision on the remaining three recommendations. To reach management decision for one of the recommendations, FCIC needs to implement an independent, comprehensive, and continuous monitoring and testing effort to ensure its financial management systems comply with Federal requirements.

INDICTMENTS AND CONVICTIONS

Between April 1 and September 30, 2003, OIG completed 268 investigations. We referred 173 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 244 indictments and 223 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 223 convictions do not necessarily relate to the 244 indictments. Fines, recoveries/collections, restitutions, claims established, cost avoidance, and administrative penalties resulting from our investigations totaled about $24.1 million.

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

Indictments and Convictions
April 1 - September 30, 2003

Agency	Indictments	Convictions*
AMS	2	0
APHIS	45	15
ARS	6	3
CSREES	1	2
ERS	3	0
FNS	127	161
FS	2	2
FSA	33	17
FSIS	12	10
NRCS	3	4
OCFO	1	0
RBS	1	1
RHS	3	3
RMA	5	3
RUS	0	2
Totals	244	223

*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 807 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, 2003
(Total = 807)

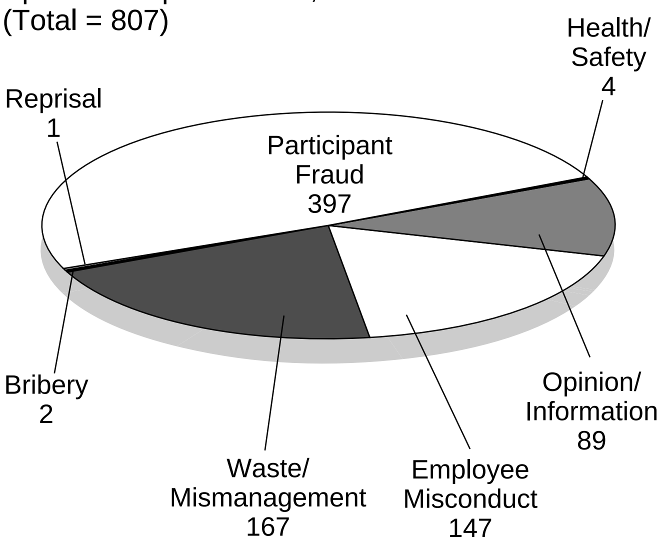
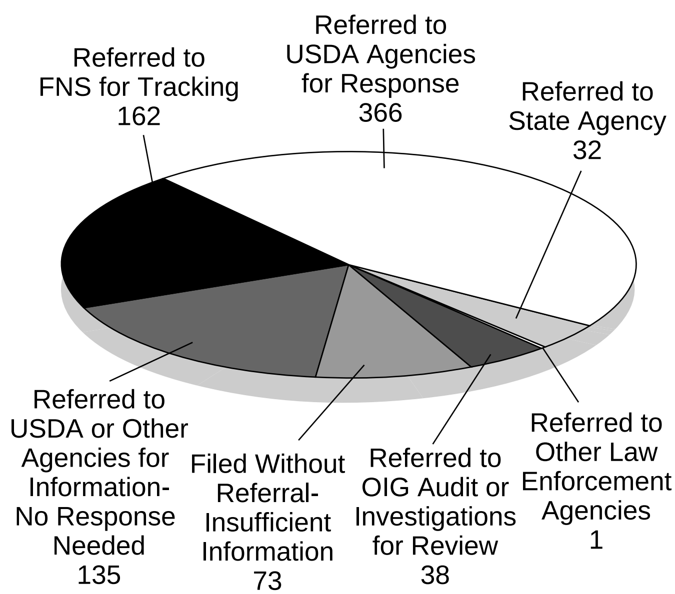


Figure 2

Disposition of Complaints
April 1 to September 30, 2003



FREEDOM OF INFORMATION ACT (FOIA) AND PRIVACY ACT (PA) REQUESTS FOR THE PERIOD APRIL 1 TO SEPTEMBER 30, 2003

Number of FOIA/PA Requests Received		128
Number of FOIA/PA Requests Processed:		133
Number Granted	27	
Number Partially Granted	29	
Number Nondisclosed	77	
Reasons for Denial:		
No Records Available	12	
Referred to Other Agencies	21	
Denied in Full (Exemption 7A)	17	
Request Withdrawn	3	
Fee-Related	6	
Not a Proper FOIA Request	8	
Not an Agency Record	0	
Duplicate Request	3	
Other	7	
Requests for OIG Reports From Congress and Other Government Agencies		
Received	38	
Processed	35	
Appeals Processed		3
Appeals Completely Upheld	2	
Appeals Partially Reversed	0	
Appeals Completely Reversed	0	
Number of OIG Reports/Documents Released in Response to Requests		52

NOTE: A request may involve more than one report.

During this 6-month period, 31 audit reports were published on the Internet at the OIG Web site: www.usda.gov/oig.

Appendix I

INVENTORY OF AUDIT REPORTS
WITH QUESTIONED COSTS AND LOANS
FROM APRIL 1 THROUGH SEPTEMBER 30, 2003

		DOLLAR VALUES	
	NUMBER	QUESTIONED COSTS AND LOANS	UNSUPPORTED[a] COSTS AND LOANS
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 2003	40	153,124,841	84,772,187
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	15	30,578,737	9,254,559
TOTALS	55	$183,703,578	$94,026,746
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	18		
(1) DOLLAR VALUE OF DISALLOWED COSTS			
RECOMMENDED FOR RECOVERY		$17,831,270	$2,371,663
NOT RECOMMENDED FOR RECOVERY		$4,361,483	$0
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		$13,051,303	$5,652,581
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	37	$149,031,962	$86,002,502
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	29	$128,079,489	$76,754,606

[a]Unsupported values are included in questioned values.

Appendix II

INVENTORY OF AUDIT REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE
FROM APRIL 1 THROUGH SEPTEMBER 30, 2003

	NUMBER	DOLLAR VALUE
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 2003	16	$53,191,308
B. WHICH WERE ISSUED DURING THE REPORTING PERIOD	3	$675,867,175
TOTALS	19	$729,058,483
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	7	
(1) DOLLAR VALUE OF DISALLOWED COSTS		$19,008,946
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		$1,981
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	12	710,047,556
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	9	34,180,381

Appendix III

SUMMARY OF AUDIT REPORTS RELEASED
FROM APRIL 1 THROUGH SEPTEMBER 30, 2003

DURING THE 6-MONTH PERIOD FROM APRIL 1 THROUGH SEPTEMBER 30, 2003, THE OFFICE OF INSPECTOR GENERAL ISSUED 40 AUDIT REPORTS, INCLUDING 1 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	5	$448,289	$152,535	
FOOD AND NUTRITION SERVICE	13	$1,831,418	$6,663	
FOOD SAFETY AND INSPECTION SERVICE	2			
FOREST SERVICE	3			
MULTIAGENCY	5	$20,052		
NATURAL RESOURCES CONSERVATION SERVICE	1			
RURAL BUSINESS-COOPERATIVE SERVICE	6	$23,608,137	$9,095,361	$598,112
RURAL HOUSING SERVICE	4	$4,670,841		$3,183,305
RURAL UTILITIES SERVICE	1			$672,085,758
TOTALS	40	$30,578,737	$9,254,559	$675,867,175
TOTAL COMPLETED:				
SINGLE AGENCY AUDIT	35			
MULTIAGENCY AUDIT	5			
SINGLE AGENCY EVALUATION	0			
MULTIAGENCY EVALUATION	0			
TOTAL RELEASED NATIONWIDE	40			
TOTAL COMPLETED UNDER CONTRACT[b]	1			
TOTAL SINGLE AUDIT ISSUED[c]	0			

[a]Unsupported values are included in questioned values
[b]Indicates audits performed by others
[c]Indicates audits completed as Single Audit

– – Continued

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
FROM APRIL 1 THROUGH SEPTEMBER 30, 2003

AUDIT NUMBER RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
FARM SERVICE AGENCY					
030060008SF 2003/04/16	DISASTER PAYMENTS TO PRUNE PRODUCERS IN CALIFORNIA – PRODUCER D		$295,754		
030060016CH 2003/06/06	FARM SERVICE COUNTY OFFICE AUDIT FY 2002				
030080002KC 2003/09/25	REVIEW OF CCC BIDDING PROCEDURES AND AWARDS FOR COMMODITIES				
030990166AT 2003/08/12	IMPLEMENTATION OF THE PEANUT QUOTA BUYOUT PROGRAM		$152,535	$152,535	
036010019KC 2003/09/30	2000 MARKETING ASSISTANCE LOANS AND LOAN DEFICIENCY PAYMENTS				
TOTAL: FARM SERVICE AGENCY		5	$448,289	$152,535	
FOOD AND NUTRITION SERVICE					
270100006TE 2003/09/24	NATIONAL SCHOOL LUNCH PROGRAM, NOVA CHARTER SCHOOL SOUTHEAST				
270100007TE 2003/09/23	NATIONAL SCHOOL LUNCH PROGRAM, LAKE WORTH – ISD		$1		
270100008TE 2003/09/30	ACCOUNTABILITY AND OVERSIGHT OF THE NATIONAL SCHOOL LUNCH PROGRAM – ST. MARGARET MARY SCHOOL, SAN ANTONIO, TX				
270100009KC 2003/06/03	NATIONAL SCHOOL LUNCH PROGRAM – EFFINGHAM, KS				
270100010KC 2003/07/31	NATIONAL SCHOOL LUNCH PROGRAM – GIRARD, KS				
270100011KC 2003/08/05	NATIONAL SCHOOL LUNCH PROGRAM – OTTAWA, KS		$1,415		
270100012KC 2003/08/29	NATIONAL SCHOOL LUNCH PROGRAM – PITTSBURG, KS		$3,319		
270100013KC 2003/06/20	NATIONAL SCHOOL LUNCH PROGRAM – BONNER SPRINGS, KS				
270100015CH 2003/08/13	FOOD STAMP PROGRAM ADMINISTRATIVE COSTS		$1,799,597		
270100018KC 2003/08/04	NATIONAL SCHOOL LUNCH PROGRAM, ELWOOD, KS				
270160001SF 2003/04/16	CACFP AUDIT FUNDS – CALIFORNIA DEPARTMENT OF EDUCATION		$27,086	$6,663	
270990013TE 2003/06/23	TEXAS EBT SYSTEM DEVELOPMENT				
270990022SF 2003/09/24	REVIEW OF ELECTRONIC BENEFITS TRANSFER SYSTEM DEVELOPMENT – STATE OF NEVADA				
TOTAL: FOOD AND NUTRITION SERVICE		13	$1,831,418	$6,663	
FOOD SAFETY AND INSPECTION SERVICE					
240990001FM 2003/08/11	SECURITY OVER INFORMATION TECHNOLOGY RESOURCES AT FSIS				
246010002KC 2003/09/30	FSIS OVERSIGHT OF CONAGRA RECALL				
TOTAL: FOOD SAFETY AND INSPECTION SERVICE		2			
FOREST SERVICE					
080030008SF 2003/04/01	FOREST SERVICE'S SOUTHERN CALIFORNIA CONSERVATION STRATEGY GROUP				
080160001SF 2003/09/30	FOLLOW-UP REVIEW OF FOREST SERVICE SECURITY OVER AIRCRAFT AND AIRCRAFT FACILITIES				
080170012KC 2003/08/01	CONTRACT AUDIT – MANAGEMENT ASSISTANCE CORPORATION OF AMERICA (MACA)				
TOTAL: FOREST SERVICE		3			

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
FROM APRIL 1 THROUGH SEPTEMBER 30, 2003

AUDIT NUMBER RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
MULTIAGENCY					
500990012KC 2003/09/30	USDA – IMPLEMENTATION OF THE AGRICULTURAL RISK PROTECTION ACT				
500990014AT 2003/09/29	CONTROLS OVER BIOLOGICAL AGENTS, CHEMICALS AND RADIOACTIVE MATERIALS – USDA FUNDED RESEARCH FACILITIES				
500990015KC 2003/09/30	2000 CROP DISASTER PROGRAM		$20,052		
50990052FM 2003/09/24	FY 2003 FEDERAL INFORMATION SECURITY MANAGEMENT ACT				
506010005HQ 2003/06/06	ADEQUACY OF INTERNAL CONTROLS OVER TRAVEL CARD EXPENDITURES				
TOTAL: MULTIAGENCY		5	$20,052		
NATURAL RESOURCES CONSERVATION SERVICE					
100990010KC 2003/09/30	NRCS HOMELAND SECURITY PROTECTION OF FEDERAL ASSETS				
TOTAL: NATURAL RESOURCES CONSERVATION SERVICE		1			
RURAL BUSINESS-COOPERATIVE SERVICE					
340990005TE 2003/09/30	REQUEST AUDIT OF B&I LOAN IN LOUISIANA		$5,585,136		
340990006TE 2003/07/29	B&I REQUEST AUDIT IN ARKANSAS		$6,993,578		
346010005AT 2003/08/27	RD LENDER SERVICING OF B&I GUARANTEED LOANS IN GEORGIA		$9,145,549	$8,920,598	
346010008SF 2003/09/30	RURAL DEVELOPMENT – LIQUIDATION OF BUSINESS AND INDUSTRY GUARANTEED LOANS		$220,009	$174,763	$598,112
346010010TE 2003/07/23	LENDER SERVICING OF B&I GUARANTEED LOANS - LOUISIANA		$1,663,865		
346010015TE 2003/09/30	NATIONAL REPORT ON B&I LOAN PROGRAM				
TOTAL: RURAL BUSINESS-COOPERATIVE SERVICE		6	$23,608,137	$9,095,361	$598,112
RURAL HOUSING SERVICE					
040040003AT 2003/06/26	RD RRH PROGRAM TENANT INCOME VERIFICATION - GAINESVILLE, FL		$4,598,330		$3,183,305
040040005HY 2003/05/27	SURVEY OF SINGLE FAMILY HOUSING PROGRAM IN MAINE				
040990005AT 2003/06/12	RD B&I GUARANTEED LOAN – PARADISE OF PUERTO RICO, INC.				
046010002HY 2003/07/22	REVIEW OF PROGRESSIVE PROPERTY MANAGEMENT, INC., RRH PROJECTS		$72,511		
TOTAL: RURAL HOUSING SERVICE		4	$4,670,841		$3,183,305
RURAL UTILITIES SERVICE					
096010006KC 2003/09/08	RURAL UTILITIES SERVICE WATER AND WASTE GRANTS				$672,085,758
TOTAL: RURAL UTILITIES SERVICE		1			$672,085,758
GRAND TOTAL:		**40**	**$30,578,737**	**$9,254,559**	**$675,867,175**

Abbreviations of Organizations

AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
CCC	Commodity Credit Corporation
CSREES	Cooperative State Research, Education, and Extension Service
CR	Office of Civil Rights
DHS	U.S. Department of Homeland Security
ERS	Economic Research Service
FAS	Foreign Agricultural Service
FCIC	Federal Crop Insurance Corporation
FNS	Food and Nutrition Service
FS	Forest Service
FSA	Farm Service Agency
FSIS	Food Safety and Inspection Service
GIPSA	Grain Inspection, Packers and Stockyards Administration
NASS	National Agricultural Statistics Service
NITC	National Information Technology Center
NRCS	Natural Resources Conservation Service
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OGC	Office of the General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPPM	Office of Procurement and Property Management
RBS	Rural Business-Cooperative Service
RD	Rural Development
RHS	Rural Housing Service
RMA	Risk Management Agency
RUS	Rural Utilities Service
USDA	U.S. Department of Agriculture

U.S. DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
STOP 2309
1400 INDEPENDENCE AVE., SW
WASHINGTON, DC 20250-2309