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On the cover: The American flag and the U.S. Department of Agriculture (USDA) flag flew at half mast on September 11, 2002, during a ceremony at USDA headquarters in Washington, D.C., to commemorate the 1-year anniversary of the events of September 11, 2001. Office of Inspector General (OIG) photo by Bill Stover.

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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
CDFA	California Department of Food and Agriculture
CR	Office of Civil Rights
DCAA	Defense Contract Audit Agency
DHS	U.S. Department of Homeland Security
ERS	Economic Research Service
FAMU	Florida Agricultural and Mechanical University
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
GAO	U.S. General Accounting Office
GIPSA	Grain Inspection, Packers and Stockyards Administration
HMPC	Hazardous Materials Policy Council
NASS	National Agricultural Statistics Service
NCRI	National Center for Resources Innovation
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
PPQ	Plant Protection and Quarantine
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
VS	Veterinary Services

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 report is largely organized according to some of the most significant management challenges facing USDA. During this period, OIG continued to devote significant effort to addressing homeland security issues in USDA programs. We issued reports concerning safeguards against foreign pests and diseases at ports-of-entry, controls over permit systems for animal and plant pathogens, securing our borders encompassing National Forest System land, security over explosives in ski areas, smuggling of infested foreign fruit, a J-1 visa waiver scheme, and food stamp trafficking involving possible ties to terrorism.

In the area of food safety, OIG completed an audit of the reinspection of imported meat and poultry, along with investigations of poisoned meat and false labeling. Public corruption investigations follow up on a highly publicized forest fire in Colorado and address an instance of employee theft. Information technology work includes a case of child pornography in the workplace and audits of two agencies. We also report on the Business and Industry Guaranteed Loan Program, Federal crop insurance fraud, and a raid on an illegal cockfighting ring. Financial management audits round out this period's reporting. Notably, USDA's consolidated financial statements and those of the Forest Service achieved their first-ever unqualified opinions. We attribute this to outstanding efforts by the USDA Chief Financial Officer (CFO) and agency CFOs, and OIG audit staff.

We are proud of OIG's accomplishments this semiannual period. I am particularly grateful to all the dedicated professional staff of OIG, who have been invaluable during my transition period as incoming Inspector General. We are all deeply appreciative of 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
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 that is integral to USDA's mission—we take as our motto and our purpose, "Ensuring the Integrity of American Agriculture."

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

HIGHLIGHTS OF USDA AGENCIES

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

- USDA helps keep America's farmers and ranchers in business as they face the uncertainties of weather and markets. The Farm Service Agency (FSA) helps ensure the well-being of U.S. agriculture through the administration of farm commodity programs; farm operating, ownership, and emergency loans; conservation and environmental programs; emergency and disaster assistance; domestic and international food assistance; and international export credit programs. The Foreign Agricultural Service (FAS) opens, expands, and maintains global market opportunities through international trade, cooperation, and sustainable development activities. The Risk Management Agency (RMA) provides agricultural producers with the opportunity to achieve financial stability through effective risk management tools, such as crop insurance.
- The Department works to harness the Nation's agricultural abundance with a goal of ending hunger and improving nutrition and health in the United States and in many other places around the world. It administers the food stamp and other nutrition

assistance programs, and links scientific research to nutritional needs. The Food and Nutrition Service (FNS) works to increase food security and reduce hunger by providing children and low-income people with access to food, a healthy diet, and nutrition education.

- 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 while encouraging fair international trade in food.
- 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, and assisting with, and preparing for, the prosecution of criminal and civil cases. Auditors perform 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, animal fighting, 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 \$2.3 million and put an additional \$30 million to better use. Our investigative efforts resulted in \$44.4 million in recoveries, fines, restitutions, claims established, and cost avoidance. Our investigations produced 247 indictments and 212 convictions. This report covers the period October 1, 2002, through March 31, 2003.

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Homeland Security

FRONT-LINE VULNERABILITIES

Inadequate Safeguards at Ports-of-Entry Could Allow Foreign Pests and Diseases Into the United States

The Animal and Plant Health Inspection Service (APHIS), through its Plant Protection and Quarantine (PPQ) unit, is responsible for inspecting agricultural products entering the United States to detect and intercept foreign pests or diseases that could threaten U.S. agriculture. APHIS-PPQ spent about \$223 million on these inspection programs in fiscal year (FY) 2001, and fielded approximately 3,300 inspectors and technicians to screen arriving passengers and cargo at 141 land, sea, and air ports-of-entry. The budget for FY 2002 rose to approximately \$405 million, including a \$50 million supplemental appropriation for homeland security.

We concluded that although APHIS provides considerable coverage of some entry points, it has left others vulnerable because it has not based its inspection coverage on an effective systematic assessment of the risks involved with various pests and the pathways by which they can enter the country. APHIS has a statistically based risk-assessment system, but has not ensured that the various ports and other entry points apply a consistent methodology for collecting data for higher level analysis. In addition, the agency has not implemented an organizational strategy for interpreting and applying the results obtained from risk-assessment reviews performed at the ports, and it has not pursued identified potential deficiencies.

APHIS management concluded that their inspection personnel were correctly concentrated on inspections of air passengers and their baggage. At the ports we visited, about 65 percent of the PPQ inspectors were assigned to such duties, despite the fact that interception rates for this pathway have traditionally been low in comparison to the resources committed. By contrast, staffing at cargo ports was based on pest interception counts that did not consider the magnitude or potential distribution of incoming shipments. Thus, in making staffing determinations, APHIS assigned the same weight to an interception of a single piece of fruit from an airline passenger as to the interception of a 2,000-pound case of fruit from a cargo container whose contents could be shipped to various points within the country.

Many border crossings were inadequately staffed. Consequently, APHIS could inspect only a small percentage of incoming trucks, other vehicles, and rail traffic. In addition, APHIS is heavily dependent on U.S. Customs Service inspectors, whose knowledge of agricultural products and their associated risks is less than that of their counterparts in APHIS. The agency has also approved shippers' participation in the Customs Service's Line Release Program without adequate review, which minimizes inspections of high-volume and low-risk products. These reduced inspection levels can facilitate smuggling operations.

Because its programs of risk-assessment were not systematic, APHIS' FY 2000 Government Performance and Results Act (GPRA) report to Congress did not accurately reflect the agency's accomplishments in preventing the entry of pests and diseases. The compliance rate for vehicles crossing the borders was based on incomplete information.

We recommended that APHIS redirect its risk studies to assess the threat from carriers and cargoes that other indicators show are a potential risk or that have received little study, and apply those studies effectively. A second party should review inspection data before ports forward the results to headquarters for database input. We recommended that APHIS develop guidelines to ensure that sufficient numbers of inspections of all types are thoroughly performed, including those of rail cargo. Finally, we recommended that APHIS implement controls over the collection, calculation, and reporting of performance data for GPRA.

APHIS officials generally concurred and are taking corrective actions, some already completed. Many of the functions have been transferred to the U.S. Department of Homeland Security (DHS), with whose OIG we have held preliminary meetings to ensure that corrective actions are addressed.

The Homeland Security Act of 2002 (P.L. 107-296) provided for the transfer from USDA of APHIS functions relating to the agricultural import and entry inspection activities and the Plum Island Animal Disease Center, to DHS. The APHIS functions were to be transferred to DHS on March 1, 2003, and the Plum Island Animal Disease Center was to be transferred on June 1, 2003. Pursuant to the law, the Inspector General that exercises oversight over any agency prior to transfer to DHS, shall continue to exercise oversight during the

period of time between transfer of such agency to DHS and appointment of the Inspector General of DHS. As such, not only will we continue to review those agencies and programs that remain with USDA, but we will also continue oversight of transferred agencies, as mandated. Further, we will continue to work with DHS's OIG to ensure coordination and exchange of appropriate information, in order for both OIGs to carry out their respective missions with respect to agriculture.

Inadequate Controls Over Permit Systems Could Allow Prohibited Materials To Be Illegally Introduced Into the United States

APHIS-PPQ issues permits for the importation and in-country movement of plant pathogens and tracks them through its Joint Permit System, while Veterinary Services (VS) issues permits under similar circumstances for animal pathogens and tracks them through its Permit Issuance Tracking System. These systems contain tens of thousands of records. Under both systems, materials requiring a permit arrive at ports-of-entry in sealed packages bearing appropriate documentation. PPQ staff at ports-of-entry check both VS and PPQ packages for proper documentation, but their means of verifying the validity of incoming shipments are limited. We disclosed several issues in our report.

- PPQ and VS do not routinely perform inspections of all new applicants for import permits.
- PPQ's computerized system for tracking the status of active and pending permits does not automatically flag permits that have expired or are about to expire, and it does not incorporate controls to ensure that APHIS personnel input complete information on new permits. PPQ and VS do not perform followup inspections to ensure that regulated materials imported under permit are properly disposed of when the permit expires.
- PPQ and VS do not require accountable documentation to accompany shipments of permitted material, which increases the risk that the permit system could be misused. APHIS also allows incoming passengers, including foreign nationals, to hand-carry permit packages.

We recommended that both PPQ and VS take the following steps: (1) develop written procedures covering

their preapproval and followup inspections of permit applicants, (2) develop a system of accountable permit documents and mailing labels to allow them to monitor incoming permit shipments and verify their validity upon arrival at ports-of-entry, (3) discontinue the practice of allowing incoming passengers to hand-carry permit materials from the port-of-entry, and (4) establish controls to ensure that permit-holders properly dispose of imported hazardous materials when their permits expire. Finally, we recommended that PPQ institute new controls and procedures to ensure that its permit tracking system contains complete and accurate information on all permit-holders.

The agency generally agreed with the report's findings and recommendations.

FS Needs To Expand Work With Other U.S. Agencies To Secure Borders

We conducted a review to assess Forest Service (FS) involvement in securing U.S. borders encompassing National Forest System land, as part of our ongoing review of departmental vulnerability to terrorism. Our audit determined that significant challenges need to be addressed. FS is responsible for management of Federal lands that include approximately 1,000 miles of international borders. These areas are potentially vulnerable to infiltration by unauthorized individuals. The Border Patrol has overall responsibility for securing these borders but has limited resources to cover national forest lands.

The FS Law Enforcement and Investigations organization has 620 law enforcement personnel to cover over 191 million acres. The agency has an insufficient number of officers assigned to the 7 national forests that are contiguous with international borders. These law enforcement officers lack enforcement authority over illegal entry into the United States and may not arrest persons crossing the border unless they commit a crime over which FS has jurisdiction. In the absence of such a crime, FS officers may only detain suspicious persons until a Border Patrol agent arrives.

FS has agreed with our recommendation to formally notify DHS of the issues raised in our report. The agency also agreed to actively participate with other agencies to develop a cohesive, multiagency strategy for securing U.S. borders.

FS Needs To Improve Security Over Munitions and Explosives

FS has custody of significant amounts of explosives and is responsible for military artillery and munitions issued to ski resort operators for avalanche control. FS did not have an overall management program that effectively ensured the safety and security of explosives and munitions located on FS lands. Basic controls were not always implemented, and those that were implemented were not always followed. Even after the events of September 11, 2001, FS did not sufficiently evaluate its security program to address possible vulnerabilities. These conditions have increased the vulnerability of munitions and explosives to theft or misuse. Our review disclosed the following vulnerabilities relating to accountability and security:

- FS's management information system was not designed to account for explosives and munitions magazines. As a result, FS could not readily determine the locations and contents of magazines located on FS lands.
- Duties for recordkeeping and conducting physical inventories of explosives and munitions were not separated. In some cases, recordkeeping was poor, making inventory reconciliation difficult.
- Keys to magazines were not adequately safeguarded to prevent unauthorized access.
- FS and permittees did not conduct adequate background investigations of staff who handled explosives and munitions or who had access to them.
- Finally, some magazines contained excessive stockpiles of munitions while others contained expired and deteriorating supplies of explosives and munitions.

FS concurred with our series of recommendations to correct these problems.



Artillery shell stored at FS magazine. OIG photo.

Importer Pleads Guilty to Smuggling Charge

We began a joint investigation in February 2001 with the California Department of Food and Agriculture (CDFA) after CDFA officials notified us that an importer of Asian fruit had imported approximately 44,000 pounds of prohibited fresh longans into the Port of Long Beach. The longans were infested with eight different species of insect pests, including the Oriental fruit fly. The importer made a false statement on the manifest that the longans had been frozen and, therefore, could legally be imported into the United States from Thailand. The importer bought the fresh longans for \$9.13 per container and sold them for as much as \$57.50. At the time, frozen longans were selling for an average price of \$17.60 per container in the Los Angeles market. The importer has pled guilty to a Federal felony smuggling charge and is scheduled to be sentenced later this year.

Almost 1,400 Pounds of Marijuana Seized in Border Blitz

In December 2002, OIG special agents participated in "Operation Fruitcake," a joint law enforcement operation conducted at the Commercial Cargo Facility in Nogales, Arizona, to determine whether smuggled agricultural products were entering the United States. During the operation, search of a cargo truck containing fruit resulted in the seizure of 1,395 pounds of marijuana. This operation was conducted in cooperation with APHIS-PPQ Smuggling Interdiction and Trade Compliance officers and various Federal, State, and local agencies.



Marijuana seized on the Arizona border. OIG photo.

Doctor Ordered To Pay \$1 Million In J-1 Visa Waiver Case

A west Texas doctor was sentenced to serve 3 years of probation, fined \$5,000, and ordered to pay \$1 million for the cost of prosecution, and was ordered to provide 5 hours per week of free medical service to the indigent and needy of a west Texas city during his probationary period, after he pled guilty to misprision (concealment) of a felony in a J-1 visa waiver scheme.

Most aliens admitted to the United States on a J-1 visa to participate in educational exchange programs are required to return to their home country or last permanent residence for 2 years before they are eligible to apply for an immigrant visa, permanent residence, or another nonimmigrant visa. The Attorney General can grant waivers to overcome this requirement, allowing them to practice primary care medicine in medically underserved rural areas of the United States. In 1994,

USDA became a participant in the program to sponsor J-1 visa waivers, administered by the Department of State. On September 26, 2001, USDA suspended its processing of applications.

From 1996 until 2002, the doctor had fraudulently participated in the USDA J-1 Visa Waiver Program as an employer and had recruited J-1 visa physicians for employment under the program. Applications falsely showed foreign doctors were working in medically underserved areas. The investigation is ongoing.

Food Stamp Traffickers Extradited From Canada

In August 1998, the owner of a Chicago grocery store and his brother were indicted on a number of charges after our investigation determined that, in 1994 and 1995, they conspired to illegally obtain and redeem over \$920,000 in food stamps and over \$30,000 in Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) instruments. The owner fled the country prior to trial and remained a fugitive until he was arrested in Alberta, Canada, on October 12, 2001. Following his extradition in early 2002, he was convicted of conspiracy, and, in September 2002, was sentenced to 42 months in prison, and ordered to pay \$1,036,473 in restitution. The brother had been convicted at trial shortly after the original indictments. In 1999, he had been sentenced to 37 months in prison and 3 years of supervised release, and was ordered to pay \$1,031,873 in restitution to the Food and Nutrition Service (FNS). He was arrested in Canada, along with the storeowner, for parole violations. His arrest led authorities to documents of interest in the September 11, 2001, terrorist attacks when it was learned he had been a flight student at Lewis University in Romeoville, Illinois, in the mid-1990s before dropping out. This information was shared with the appropriate Joint Terrorism Task Force.

Information Technology (IT)

Qualified Opinion of Internal Control Structure at NFC

Our review of the internal control structure at the Office of the Chief Financial Officer (OCFO)/National Finance Center (NFC) for the period October 1, 2000, through June 30, 2002, resulted in a qualified opinion. OCFO/NFC has made significant progress in improving its internal control structure. Most notably, OCFO/NFC has a sustained cash reconciliation process in place, implemented a standard general ledger system, and improved the security over IT systems. We found, however, that OCFO/NFC needs to

- update its network map and list of Internet Protocol (IP) addresses,
- implement system security plans for five major applications,
- improve its monitoring of system accesses in selected applications (including the payroll/personnel systems, the Foundation Financial Information System (FFIS) general ledger system, and an online database utility that allows overall access to OCFO/NFC applications), and
- improve controls over changes made to its applications.

Senior program management needs to continue its involvement in the planning and implementation of overall system security. OCFO/NFC's ability to accomplish its mission could be jeopardized if it does not properly manage and secure its IT infrastructure.

Many of the internal control weaknesses contained in this report have been reported previously, and OCFO/NFC is implementing corrective action plans on our prior recommendations. Our new recommendations addressed the need to ensure that a current network map and IP address list are maintained, and to improve access controls.

Qualified Opinion of Internal Control Structure at NITC

Our audit of the internal control structure at the National Information Technology Center (NITC) for the period October 1, 2001, through September 30, 2002, resulted in a qualified opinion. Our audit disclosed that additional actions were needed to comply with federally mandated security requirements. While NITC has made a concerted effort to complete risk assessments, an important step toward improving security, our review found that NITC had not addressed all security program planning requirements prescribed by Office of Management and Budget (OMB) Circular A-130 (Management of Federal Information Resources) and National Institute of Standards and Technology (NIST) guidance.

NITC had improved controls to protect against unauthorized access to its systems, but additional actions were needed to ensure resource security. These included removing separated employees' remote access accounts, documenting users with special access privileges, documenting that security software access control settings were within an acceptable range, and completing the implementation of secure access to the Internet. Finally, we noted that NITC was not always following its written policies for identifying, selecting, installing, and modifying system software, for both routine and emergency changes. For example, no audit trail supported the approval and testing of system modifications.

We recommended that NITC establish a time-phased plan for ensuring that the requirements outlined in OMB Circular A-130 are met and that access controls conform to OMB, NIST, and departmental requirements. We also recommended that NITC strengthen its access controls, and establish stronger change control procedures that require documented authorizations and testing before changes are implemented. The agency generally agreed with our recommendations and has developed a corrective action plan.

NRCS Employee Sentenced for Possession of Child Pornography

In Montana, a former Natural Resources Conservation Service (NRCS) soil conservationist was sentenced to 12 months of home detention with electronic monitoring, followed by 5 years of probation, after pleading guilty to possession of child pornography. Our investigation disclosed that the employee used his Government computer to access sexually explicit materials, including child pornography. A search warrant was executed by OIG at the employee's residence, where several computers were seized. During the execution of the warrant, the employee made incriminating statements and admitted he had downloaded child pornography. Forensic examination of the seized computers by OIG's computer forensic unit found that the employee had accessed numerous pornographic Web sites using his Government computer while on official duty, as well as accessing pornographic Web sites on his home computer. The employee was terminated from his employment with NRCS.

Food Safety

PROTECTING THE FOOD SUPPLY

FSIS Needs To Continue To Enhance Controls Over Import Inspections

In June 2000, we reported on Phase I of our audits of the Food Safety and Inspection Service (FSIS) imported meat and poultry inspection process, focusing on FSIS's equivalency determinations of foreign country inspection systems. Phase II focused on FSIS's reinspection of imported meat and poultry products in 2000 and 2001, and followed up on recommendations in the June 2000 report that addressed reinspections.

FSIS does not adequately ensure that foreign establishments exporting meat and poultry products to the United States are eligible to do so, a condition also cited in our Phase I report. More than 7.7 million pounds of product entered U.S. commerce from January 1999 to March 2001 from 37 foreign establishments whose eligibility status as recorded in the information system was contradicted by documents made available to us by FSIS. (The system had not been updated to fully reflect the documentation showing eligibility. It showed some as eligible when they were not, and others as not eligible when they were.) Due to FSIS's lack of oversight, the agency was unaware of this until our audit questioned the establishments' eligibility. Some were located in Argentina, Uruguay, the United Kingdom, and Italy, four countries that had outbreaks of Foot and Mouth Disease in 2001. FSIS's evidence supported the eligibility of all but 823,632 pounds.

Unclear lines of responsibility, lack of procedures, and lack of management oversight adversely affected FSIS's ability to correct past deficiencies and manage eligibility data used in the reinspection process. FSIS had made minimal progress toward establishing an effective import reinspection process, even though the agency agreed to do so in response to our June 2000 audit report. FSIS did not implement the corrective actions the agency reported to the Office of the Chief Financial Officer for final action for 11 of 18 recommendations from our prior report. In addition, FSIS's management information system contained inaccuracies about the eligibility status of foreign establishments that export product to the United States, which raised concerns about the safety of imported products.

OIG recommended that FSIS take the appropriate actions on the questionable 823,632 pounds of product (any product found to be ineligible should be destroyed or shipped out of the United States). The agency also needs to implement controls to ensure that the eligibility of foreign establishments is accurately recorded in its information system. Concerning our prior report, FSIS should develop a plan to implement the recommendations to correct deficiencies in the import reinspection program. FSIS generally agreed and is continuing its efforts to enhance import operations by strengthening policies and controls, addressing resource issues, enhancing import training for inspection personnel, and making other system improvements.

Because records concerning imported products entering the United States before 2000 are no longer available, the agency was unable to take meaningful action on 602,698 of the questionable 823,632 pounds of product. For the remaining 220,934 pounds that entered commerce since that time, FSIS provided documentation that 66,299 pounds were ineligible to enter the United States. For the other 154,635 pounds, FSIS provided insufficient documentation to show that they were eligible to enter the United States.

We continue to work with FSIS to reach management decisions on the report's outstanding recommendations.

Supermarket Employee Poisons Meat

A Federal grand jury indicted a meat cutter at a supermarket in Michigan on February 13, 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 the supermarket in early January 2003. Ninety-two people who consumed 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 Company Officials Sentenced in False Labeling Scheme

In a case previously reported, the president and comptroller of a wholesale meat company have been sentenced for their roles in a scheme involving false inventory claims made to secure a \$12 million line of credit. Our joint investigation with the FBI and FSIS compliance staff found that more than 480,000 pounds of beef trimmings, fat, and other by-products were relabeled to create the impression that the boxes contained premium-valued meat. The president was sentenced to 30 months in prison followed by 3 years of supervised release. He was also ordered to pay restitution of \$4.2 million and a \$5,000 fine. The comptroller was sentenced to 5 years of probation, \$6,000 in restitution, and 200 hours of community service. Two other company employees and the former owner of another federally inspected meat-processing facility pled guilty in Federal court to charges of tampering with consumer products through the relabeling scheme. All were sentenced to 3 years of probation and ordered to pay restitution ranging from \$3,600 to \$14,400, plus fines of between \$500 and \$2,500 each.

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. During the past 6 months, public corruption investigations resulted in 11 convictions of current or former USDA employees and 24 personnel actions. Descriptions of some recent investigations follow.

Forestry Technician Imprisoned for Setting Colorado Wildfire

As a followup to a matter reported previously, an FS forestry technician was sentenced in Colorado State Court to 12 years in prison, to run concurrently with the 6-year sentence she received in U.S. District Court for setting the Hayman Fire, the largest forest fire in Colorado history. The Hayman Fire burned more than 137,000 acres—about 2 percent of the entire State of Colorado. It caused more than \$23 million in timber losses to FS, as well as more than \$29 million in losses to the State of Colorado and to private individuals, including 133 homes, 1 commercial property, 466 outbuildings, agricultural land, utility services, vehicles, and animals. The District Attorney has asked for \$29.9

million in restitution based on property damage claims that have already been filed, and the judge ordered a 90-day deadline for restitution claims to be filed. An appeal is pending which could affect the sentencing.

Contractor and FSA Employees Conspire To Defraud USDA of \$429,000

Our investigation of three Farm Service Agency (FSA) employees and a contractor revealed that, from 1999 through mid-2001, the group stole USDA furniture from a warehouse in Chantilly, Virginia, and sold it to private parties. The employees and contractor conspired to generate fraudulent payments from NFC to two fictitious companies created for the sole purpose of defrauding USDA. The employees also wrote fraudulent credit card convenience checks to the fictitious companies in return for “kickbacks” from the contractor. The total amount of fraud involved was \$429,000. One employee committed suicide after OIG searched his residence. The other two employees and the contractor have pled guilty in Federal court to conspiracy charges. One employee has been sentenced to 21 months in prison and \$214,000 in restitution. The other employee was sentenced to 5 years of probation and \$17,000 in restitution. Both have resigned. The contractor was sentenced to 6 months in prison and \$429,000 in restitution.

Feeding Programs

FOOD STAMP PROGRAM (FSP)

Tennessee Improperly Managed the Food Stamp E&T Program

The Welfare Reform Act of 1996 limited the participation of able-bodied adults without dependents (ABAWD) in FSP to no more than 3 out of every 36 months. Each State must implement an employment and training (E&T) program to ensure that ABAWDs are involved in activities that eventually will lead to paid employment and decreased dependency on assistance programs. To assist States with their E&T efforts, FNS provides Federal grants that have no matching funds. Our audits done in prior years of the E&T program in Wisconsin, Ohio, and Georgia found that State agencies did not always ensure that costs were allowable and properly allocable to FSP.

Our review of Tennessee's compliance with E&T requirements disclosed significant fiscal and program management issues. In FY 2000, Tennessee claimed reimbursement for program expenses in excess of the actual costs of operating the program, and did not maintain adequate documentation to support costs. In addition, the State overreported the number of ABAWDs served in FY 1999 by improperly claiming over 76,000 "call-in letters" as job-related activities when, in fact, the letters only established appointments. Internal reports showed that only 5,575 job-related assessments were performed for ABAWDs. These practices resulted in excessive costs of \$3.15 million claimed for a 2-year period.

Tennessee also had not developed workfare contracts or agreements to ensure that every ABAWD had a bona fide work opportunity and a means of maintaining food stamp benefits. Instead, the State focused on job search activities that cost the State less and required less staff involvement than workfare, training, and educational activities. For FY 2000, the State claimed that job search activity was tied to workfare and reported 23,234 offered and 3,677 filled workfare positions, but only 57 ABAWDs were actually placed in workfare.

We made recommendations to recover the excessive claims paid to the State and to improve the State's fiscal and administrative controls. While FNS agreed with a number of our recommendations, it disagreed with our assessment that ABAWDs did not have a creditable

work opportunity because a workfare contract was not in place at the time the E&T efforts were initiated. FNS would allow just over \$614,000 of the \$3.5 million questioned by OIG. OIG and FNS will pursue this issue with USDA's Office of the General Counsel (OGC).

New Mexico State Agency Incurred Unauthorized Expenses for IT Project

The New Mexico State Agency responsible for FSP did not follow established FNS and USDA procedures, including Federal procurement guidelines, to fund a new computer system to administer FSP and other Federal assistance programs. Despite repeated warnings from FNS, the State agency continued to incur costs without the required approval from FNS. We began our audit in March 2002 and found that, as of June 2002, the State agency incurred unauthorized expenses of over \$17 million, of which over \$8 million was allocable to FSP.

FNS concurred with our recommendations to determine unauthorized project costs and to disallow any claim for reimbursement of these costs. FNS has disallowed all noncontractor costs incurred for the project prior to receipt of the official approval document. In addition, FNS has disallowed all contractor costs obtained without prior FNS approval.

Stronger Controls Over Access to FSP Participants' SSNs Needed

This audit was based on a U.S. General Accounting Office (GAO) study to determine whether and to what extent Federal, State, and local government agencies use individuals' Social Security numbers (SSN) and whether they safeguard records and documents containing SSNs. The audit was performed in conjunction with the President's Council on Integrity and Efficiency. Generally, FNS's controls over access, disclosure, and use of SSNs were adequate and functioning. However, we found several instances at the county level where weaknesses in controls over computer access and physical access left SSNs susceptible to theft and unauthorized use. FNS agreed with our recommendations to issue guidance to ensure that access to confidential information in FSP databases is appropriate to the users' duties and to follow through with the State offices to ensure that county offices comply with State security requirements over SSNs used in FSP.

Multimillion-Dollar Food Stamp Cases Yield Assets, Restitution, Prison Time

- During a 3-year investigation in Philadelphia, Pennsylvania, OIG agents uncovered an elaborate scheme involving over \$2.6 million of food stamp trafficking and money laundering. An owner of two bogus grocery stores hired individuals to purchase food stamps for cash from local recipients. The bogus grocery stores were open for only a few months and then closed their doors to avoid detection. The storeowner continued to redeem trafficked food stamps illegally through the two closed grocery stores from 1994 through 1998. The storeowner and four co-conspirators were indicted on Federal charges. The storeowner is cooperating with Federal authorities and has agreed to forfeit to the Government three structures, including an apartment complex, altogether valued at about \$450,000, which were purchased with the food stamp proceeds. Sentencing and additional legal proceedings are pending.
- The owner of a grocery store in Brooklyn, New York, was sentenced to 18 months in prison, followed by 3 years of probation, and ordered to pay more than \$1.5 million in restitution to USDA following her guilty plea to charges of food stamp trafficking and tax evasion. The investigation disclosed that the owner used her bank account to launder food stamps that were illegally obtained by an unauthorized wholesaler.
- Two more sentences have been handed down in a previously reported Cleveland, Ohio, case involving an estimated \$15 million in food stamp and WIC fraud since 1995. A third participant in this scheme has been sentenced to 41 months of imprisonment, and a fourth individual, who had been a fugitive, was recently sentenced to 18 months of imprisonment.



This store was part of a multimillion-dollar food stamp trafficking scheme. OIG photo.

Rural Development

RURAL BUSINESS-COOPERATIVE SERVICE (RBS)

Lender Deficient in Responsibility for Making and Servicing Guaranteed B&I Loan

RBS faces a loss of almost \$3.8 million because a lender did not fulfill its responsibility to ensure that critical conditions for receipt of the RBS guarantees for a Business and Industry (B&I) loan were met. An OIG audit found that the lender did not obtain sufficient security to cover the loan losses and did not account for all security at the time of liquidation.

The borrower received a \$5 million loan to construct a high-speed sawmill. Rural Development (RD) issued an 80-percent guarantee to the lender. However, the lender did not fulfill its responsibilities to ensure the facility was properly designed and built so it could produce the quality and quantity of lumber the application indicated would be needed to generate sufficient revenue, including repayment of the loan. In addition, the lender used a defective appraisal that overvalued the loan collateral, resulting in the loan not being adequately secured. During the liquidation of the loan collateral, the lender did not account for over \$610,000 of assets. The lender also improperly applied \$75,000 of loan funds to an unguaranteed loan it had made to the borrower.

We made a series of recommendations for corrective actions. Key among those recommendations was that RBS recover the almost \$3.8 million loss from the lender. In its response to the draft report, RD agreed with the report's recommendations or proposed alternative solutions.

Exception Authority and Credit Quality Procedures Inappropriately Waived for 467 B&I Guaranteed Loans

In response to RD's request and a whistleblower complaint, we reviewed the procedures used to process a loan involving the Cooperative Stock Purchase Program. Although authorized in the 1996 Farm Bill, specific procedures have not been implemented for the program. RD used the B&I Program regulations to process these guarantees. While this approach worked in the past for smaller cooperatives, it did not work well in this instance because of the large number of guarantees (467).

We determined that RD inappropriately issued waivers eliminating 18 regulatory and administrative requirements to finalize the issuance of loan guarantees to 467 sugar beet farmers. RD did not require the completion of a feasibility study despite serious concerns within RD and the Department about the financial health of the cooperative and the sugar industry. Rather, RD officials relied solely on the lender's certification. Furthermore, RD officials granted other exceptions that allowed the lender to bypass important aspects of the due diligence process, including the proper assessment of the borrowers' financial history, profit projections, and current equity.

This was part of a set of loans for almost \$10.3 million issued under the Cooperative Stock Purchase Program. The misuse of waiver authority has been a recurring problem with RBS's B&I Guaranteed Loan Program. We issued a report in January 2001 that also disclosed abuse of exception authority. As a result of that audit, RD included corrective actions in its instructions. However, these instructions were waived in order to approve these loan guarantees.

RD officials concurred with our recommendations to refrain from improperly using exception authority requirements in the future, and to develop procedures for the Cooperative Stock Purchase Program.

Jail Time in Two Multimillion-Dollar B&I Loan Catfish Schemes

- A Texas businessman, who acted as a paid consultant for both the buyer and seller of a Mississippi catfish farm, was sentenced in Federal District Court for the Northern District of Mississippi to 20 months in prison and 3 years of supervised release, and ordered to pay restitution of \$5,899,055. The businessman conspired with an appraiser and others to falsely inflate the number and value of the live fish inventory that was security for a \$9.5 million loan. Ninety percent of the loan note was guaranteed through the B&I Guaranteed Loan Program. The Mississippi appraiser was also sentenced to 6 months of home confinement, 50 hours of community service, and a \$10,000 fine for his role in the conspiracy.

- A Swainsboro, Georgia, businessman and an equipment broker were sentenced in Federal District Court to serve Federal prison terms of 60 months and 32 months, respectively, for their roles in a fraudulent scheme to obtain a \$5 million B&I loan for building and equipping a catfish processing plant in a rural Georgia community. Both submitted false affidavits to the lender certifying that approximately \$3 million had been transferred into the business account of the broker to purchase catfish processing equipment when, in fact, no money had been transferred and no equipment had been purchased. As a result of the scheme, RBS guaranteed the fraudulently obtained loan. The businessman also pled guilty to his role in a second fraudulent scheme, which he used to obtain more than \$6 million from a government agency in the Kingdom of Swaziland. The businessman was ordered to pay restitution of over \$11 million for his role in both of the fraudulent schemes.

Federal Crop Insurance

RISK MANAGEMENT AGENCY (RMA)

North Dakota Jury Orders \$5.9 Million in Criminal Forfeiture

On November 27, 2002, a Federal jury ordered a prominent North Dakota farmer and insurance broker to forfeit \$5.9 million to the Government after he and his farm business entities were found guilty at trial of 19 criminal charges, including money laundering, conspiracy to defraud Federal agencies, false statements, and filing false tax returns in connection with farm and crop insurance programs that are administered by FSA and RMA. From 1988 through 2000, the farmer and his business entities fraudulently received millions of dollars in crop insurance and Federal farm program payments by submitting false and misleading information. Proceeds from the scheme were used to pay expenses and loans, as well as to provide gifts to co-conspirators, to promote the scheme and conceal the true nature and ownership of the proceeds. Sentencing is scheduled for June 4, 2003. This case was worked jointly with the IRS.

Elevator Manager Found Guilty of \$1.1 Million Conspiracy To Defraud USDA

On February 19, 2003, a Minnesota grain elevator manager was found guilty of conspiracy to defraud RMA and FSA out of approximately \$1.1 million in insurance benefits and disaster payments. The conviction was the result of an 8-day jury trial in the Federal District of Minnesota. In 1999, the manager provided numerous North Dakota producers with fraudulent scale tickets and assembly sheets for durum wheat that reflected damage in excess of 35 percent. The producers received a quality adjustment based on the fraudulent scale tickets under the RMA Crop Revenue Coverage program that reduced their overall production and enabled them to collect approximately \$1.1 million in undeserved insurance and disaster payments. To date, four of the involved producers have pled guilty to submitting false statements. Sentencing is pending the completion of a presentence report.

Program Irregularities and Abuses

NATURAL RESOURCES CONSERVATION SERVICE (NRCS)

EQIP Cost Share Practice Approvals and Specifications in Nebraska

We reviewed an Environmental Quality Incentive Program (EQIP) cost share practice at one field office in Nebraska to assess the merits of a complaint alleging that an NRCS employee approved a practice for cost shares even though the practice did not meet NRCS specifications. The EQIP practice did not meet design specifications; however, the practice was constructed in a manner that was functional, met NRCS technical standards, and was approved by an NRCS civil engineer who had proper approval authority for the practice. We also found that the contractor, not the program participant, requested and received a review of the preliminary technical determination, which gave an appearance that the contractor received favorable treatment. In addition, we found that one field and one district office did not always complete status and quality reviews and did not always identify practices that were not completed as planned.

We recommended that the NRCS State office determine whether its operations have been conducted according to procedure. We also recommended that officials remind staff that reviews of technical determinations may be requested only by the program participants, and that staff must coordinate with the national office on approval authorities needed for reviews. The State office took action to implement our recommendations.

AGRICULTURAL RESEARCH SERVICE (ARS)

Costs of Agreement for Establishment of Science Center Questioned

ARS requested that we review a Specific Cooperative Agreement it had entered into with Florida Agricultural and Mechanical University (FAMU) to provide funding to establish a Science Center at the university. The primary purpose of the center is to develop doctor of philosophy (Ph.D.) graduates in biology and chemistry so they may pursue careers in agricultural research. Funding for this long-term effort is anticipated to be about \$875,000 annually.

From February 1, 2000, through November 30, 2001, FAMU charged more than \$930,000 to the agreement, of which over \$560,000 went to ineligible and unsupported costs as a result of inadequate administrative control procedures. We questioned charges for personnel and equipment costs associated with ineligible research projects, instructors' salaries that did not increase FAMU's teaching capacity, prohibited and erroneous administrative costs, and equipment purchases not approved by ARS.

FAMU had never worked with ARS to develop a strategic plan and an implementation plan. FAMU had allocated no funding to the primary objective, the Ph.D. programs. As a result, ARS could not determine that FAMU's level of effort toward accomplishing the agreement's objective was commensurate with funding.

Based on our audit, we made a series of recommendations for FAMU to improve its administrative controls over the program and recommended that ARS (1) recover, disallow, and/or evaluate post justifications, as appropriate, for the questioned expenses; and (2) work with FAMU to develop a formal plan for implementing the agreement's objectives. ARS is working with OGC to resolve these issues with FAMU.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE

Illegal Bronx Cockfighting Ring Raided

On January 18, 2003, special agents from OIG's New York office and law enforcement officers from the New York City Police Department and 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 a vehicle and \$40,000 were seized. Officers confiscated 38 roosters to be tested for exotic diseases.

Financial Management and Accountability

For the first time since Congress passed the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994, the Department received an unqualified audit opinion on its FY 2002 financial statements. An unqualified opinion means the financial statements fairly present an entity's financial position. In FY 2001, and in prior fiscal years, we issued a disclaimer of opinion due to weaknesses in the Department's and some of the standalone agencies' financial systems and the Department's inability to provide auditable financial statements within timeframes established by OMB.

The achievement of an unqualified opinion is a major accomplishment reflecting the Secretary's leadership and the commitment and hard work of the Chief Financial Officers of the Department and all its agencies. There is still work to be done, however, because that achievement did not entirely result from improvements in underlying financial management systems. Enhancements and improvements to USDA's financial systems are needed so that Department managers have access to timely financial information to allow them to make better management decisions. The Department recognizes this continuing need, and the Secretary, in the news release announcing the unqualified opinion, has emphasized that USDA will continue its work to improve financial management accountability in the Department.

FINANCIAL STATEMENT AUDITS FOR FY 2002

USDA's Consolidated Financial Statements Achieve First-Ever Unqualified Opinion

The Department achieved the following major accomplishments in improving its overall financial management during FY 2002:

- OCFO/NFC made significant progress in performing Fund Balance with Treasury (FBWT) reconciliations for its serviced agencies, increasing the reliability of the FBWT line item. However, further work is needed to ensure FBWT is reconciled as of fiscal yearend.
- As of FY 2003, all USDA agencies have been converted to FFIS, mitigating the financial management problems reported in the legacy Central Accounting System.
- Significant improvements were made by USDA's agencies in correcting longstanding real and personal property accounting deficiencies. Additional improvement is needed by FS.

In addition, other major initiatives are planned to (1) renovate corporate administrative systems, (2) design departmentwide cost accounting standards, (3) improve the processes and procedures for accounting for real and personal property, and (4) enhance overall management accountability and control.

In our Report on the Internal Control Structure, we reported on USDA's financial system of records, which OIG and GAO have characterized as high risk. OCFO has taken action to address the longstanding and material problems to strengthen the system, which processes transactions for, and generates reports of, more than \$123 billion in assets and \$72 billion in program costs. We also noted that improvements are needed in the Department's IT security. Many of our recommendations remain outstanding from prior periods, but we added recommendations this fiscal year, such as the need to ensure quality control reviews over the financial statement preparation process.

FS—Unqualified Opinion (First Ever)

FS received an unqualified opinion on its financial statements for the first time ever. However, the independent auditor's report noted that improved controls are needed over the following: the reconciliation and accountability of FBWT (an adjustment of over \$100 million was needed to bring the agency's general ledger into agreement with Treasury's records), the recording of property transactions, selected automated programs, payroll processing, and yearend accruals. The agency also failed to comply with the Federal Financial Management Improvement Act (FFMIA). The unqualified opinion largely was due to a 2-year effort by OCFO, the agency, OIG, and the independent accounting firm that performed the audit, rather than improvements in the underlying financial management systems. Ending FY 2002 financial statement balances, though fairly presented, resulted from audit projections and not agency-generated data. The auditors, for example, recommended that the agency adjust its beginning property balances by nearly \$1 billion.

The report recommended that FS fully document the process for reconciling its records with FBWT and develop service-level agreements with NFC. The service agreements should include specific responsibilities, roles, clearing timelines, and procedures for resolution of noncompliance with agreement terms. Additionally, FS should analyze and resolve amounts in budget clearing accounts. For property transactions, the report recommended that FS train personnel to accurately record transactions and require supervisory approval that verifies the initial recording of asset acquisition cost, in-service date, and the proper useful life. FS concurred with the audit findings and recommendations.

Rural Telephone Bank (RTB)—*Unqualified Opinion*

RTB again received an unqualified opinion on its financial statements. A material internal control weakness was found with IT controls. RTB's financial management system is not in substantial compliance with applicable Federal financial management system requirements, and accordingly, RTB does not comply with FFMIA. RTB agreed with our findings.

Federal Crop Insurance Corporation (FCIC)/RMA—*Unqualified Opinion*

FCIC/RMA again received an unqualified opinion on its financial statements. However, the report recommended that FCIC/RMA improve its policies and procedures over its FBWT reconciliation, oversight of reinsured organizations, financial reporting process, and compliance with applicable laws and regulations. The agency agreed to take corrective action. We are working with the agency to reach management decision.

CCC—*Unqualified Opinion*

The Commodity Credit Corporation (CCC) also received an unqualified opinion on its financial statements. The independent accounting firm that performed the audit noted several material internal control weaknesses. CCC needs to

- strengthen information security controls affecting the FSA/CCC financial systems environment,
- achieve compliance with FFMIA requirements and OMB Circular A-127 (Financial Management Systems) policy guidance,

- implement an automated, integrated system to track the status of certain obligations and administrative limitations,
- establish financial accounting and reporting policies and procedures to preclude the continued need to make numerous material adjustments to the consolidated financial statements after the general ledger was closed, and
- develop procedures to ensure accurate, complete, and timely budgetary accounting entries and accuracy in the yearend status of budgetary resources.

Rural Development (RD)—*Unqualified Opinion*

RD again received an unqualified opinion on its financial statements. Our report discusses three material internal control weaknesses and a matter of noncompliance with laws and regulations. The following highlights the significant issues presented:

- RD's initial draft financial statements were not always adequately supported and contained some errors requiring material adjustments.
- Due to weaknesses in IT controls, RD was highly vulnerable to intrusion, and its computer system, data, and programs were at risk for misuse.
- Internal reviews were not always being performed in a timely manner.
- Initial Multi-Family Housing credit reform reestimates were inaccurate, requiring material adjustments.
- In our report on compliance, we noted that RD's Rural Utilities Service legacy systems are not in compliance with OMB Circular A-127, and not all financial management systems have been certified in accordance with OMB Circular A-130.

We recommended that RD (1) improve its financial statement compilation procedures, including quality control reviews, and (2) conduct timely Financial Management Division reviews. RD officials generally agreed with the issues and recommendations.

DEPARTMENTAL ADMINISTRATION

Planning and Reporting on USDA's Energy Conservation Management Efforts Need Improvement

OIG found that the Department needs to improve its management of energy use. Agency actions to address conservation requirements were limited, and the Departmental Administration's Office of Procurement and Property Management (OPPM), the coordinating organization, needed to strengthen its monitoring and reporting on the Department's energy efficiency improvement efforts.

The Annual Energy Implementation Plan and the Annual Report on Energy Management Activities met the Department of Energy's reporting requirements, but they were insufficient in providing consistently meaningful and accurate data. Some information in the annual report was unsupported, incorrect, and/or incomplete. Support for USDA's expenditures for energy efficiency improvements was unavailable, in part, because these expenditures did not appear as a separate line item in the Department's budget.

We recommended that OPPM identify goals and, if the goals are not achieved, that the Department explain why not and formulate a remediation plan. The implementation plans and energy reports should contain information that meets USDA's needs, as well as the required content. We also recommended the Department issue a departmental regulation assigning OPPM responsibility for the complete and accurate preparation of the annual report, incorporating sufficient management controls, while requiring timely and accurate supporting information from USDA agencies. We further recommended that the Department establish and fund a separate budget line item for energy efficiency improvements.

OPPM agreed to take steps to strengthen the program but did not agree to assume a proactive role in the control process. We are working with agency officials to achieve management decision.

Summary of Audit Activities

Reports Issued			31
Audits Performed by OIG	28		
Evaluations Performed by OIG	0		
Audits Performed Under the Single Audit Act	0		
Audits Performed by Others	3		
Management Decisions Made			
Number of Reports			26
Number of Recommendations			168
Total Dollar Impact (Millions)			\$32.9
Questioned/Unsupported Costs		\$2.9 ^{a,b}	
Recommended for Recovery	\$2.3		
Not Recommended for Recovery	\$0.6		
Funds To Be Put to Better Use		\$30.0	

^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

Reports Issued			193
Cases Opened			226
Cases Closed			203
Cases Referred for Prosecution			186
Impact of Investigations			
Indictments			247
Convictions			212 ^a
Searches			46
Arrests			687
Total Dollar Impact (Millions)			\$44.4
Recoveries/Collections		\$16.1 ^b	
Restitutions		\$27.3 ^c	
Fines		\$ 0.1 ^d	
Claims Established		\$ 0.7 ^e	
Cost Avoidance		\$ 0.2 ^f	
Administrative Sanctions			
Employees			24
Businesses/Persons			258

^a Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 212 convictions do not necessarily relate to the 247 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.

Statistical Data

AUDITS WITHOUT MANAGEMENT DECISION

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

New Since Last Reporting Period

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
APHIS	08/08/02	1. APHIS Citrus Canker Monitoring Efforts – South Florida (33099-2-At)	1,699,472	1,699,472
CSREES	08/06/02	2. Grants to NCRI (13099-2-Te)	1,246,161	1,246,161
FNS	04/23/02	3. Analysis of Large CACFP Sponsors (27010-7-KC)	0	0
	07/03/02	4. FSP – Administrative Costs in California (27099-18-SF)	9,096,855	8,511,670
	09/30/02	5. NSLP Operations in New York City (27010-28-Hy)	1,088,403	1,088,403
FS	07/17/02	6. OMNI Development Corporation – Contract (08017-11-KC)	2,049,653	2,049,653
FSA	09/30/02	7. Assessments on Imported Tobacco (03099-164-At)	4,583,797	4,583,797
FSIS	09/30/02	8. Overtime Controls (24099-4-At)	0	0
Multiagency	09/09/02	9. Management of USDA Hazardous Waste Management Funds (50801-12-At)	1,813,809	1,813,809
	09/10/02	10. FY 2002 USDA GISRA Report (50099-50-FM)	0	0
RBS	09/27/02	11. B&I Direct Loan Program – Arkansas (34601-14-Te)	472,202	0

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
RD	08/05/02	12. Security of IT Resources – RD (85099-2-FM)	0	0
RHS	08/08/02	13. RRH Program Servicing of Insurance Expenses (04601-5-KC)	15,693,699	193,699
RMA	09/30/02	14. Viability of 1999 Fall Watermelon Crop Insurance in Texas (05601-8-Te)	21,100,000	21,100,000
	09/30/02	15. Review of Large Insurance Claim for Watermelons (05601-9-Te)	6,998,779	6,998,779

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.

CCC	02/26/02	16. FY 2001 CCC Financial Statements (06401-4-KC)	0	0
Office of Civil Rights (CR)	09/30/98	17. Evaluation of CR Efforts To Reduce Complaints Backlog (60801-1-Hq)	0	0
	03/24/99	18. Evaluation of CR Management of Settlement Agreements (60801-2-Hq)	0	0
	03/10/00	19. Office of CR Management of Employment Complaints (60801-3-Hq)	0	0
	03/10/00	20. Status of Implementation of Recommendations Made in Prior Evaluations of Program Complaints (60801-4-Hq)	0	0
CSREES	03/27/97	21. Use of 4-H Program Funds – University of Illinois (13011-1-Ch)	5,633	0

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
FNS	03/22/00	22. CACFP – National Initiative To Identify Problem Sponsors - Wildwood (27010-3-KC)	319,279	0
	05/11/01	23. NSLP – Food Service Management Companies (27601-12-KC)*	3,572,137	3,572,137
	09/10/01	24. NSLP – Food Service Management Companies (27601-24-Ch)*	3,537,912	3,198,926
	11/21/01	25. CACFP – Wildwood, Inc., Phase II (27010-6-KC)	36,895,611	36,895,611
	03/29/02	26. NSLP – Food Service SMC Companies Management Company (27601-13-KC)*	307,711	307,711
FS	03/31/97	27. Research Cooperative and Cost Reimbursable Agreements (08601-18-SF)	468,547	468,547
	05/29/01	28. Northeastern Research Station Accounting for Timber Sales (08007-1-At)	2,388,107	0
	11/14/01	29. MATCOM – Contract Audit (08017-10-KC)	66,899	66,899
FSA	09/28/95	30. Disaster Assistance Payments, Lauderdale, TN (03006-4-At)	1,805,828	1,672,929
	03/30/99	31. Payment Limitation – Mitchell County, GA (03006-20-At)	881,924	881,924
	08/22/00	32. LeFlore County FSA Office Disaster Programs (03006-20-Te)*	228,764	228,764
	05/24/01	33. FSA Payment Limitations Majority Stockholders of Corporations (03099-27-Te)	0	0

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	07/30/01	34. 1999 Crop Disaster Program (03099-42-KC)	950,891	950,891
FSIS	06/21/00	35. Implementation of the Hazard Analysis and Critical Control Point System (24001-3-At)	0	0
	06/21/00	36. Imported Meat and Poultry Inspection Process (24099-3-Hy)	0	0
Multiagency	09/30/98	37. CSREES Managing Facilities Construction Grants (50601-5-At)	3,824,211	74,366
	03/31/99	38. Private Voluntary Organization Accountability (50801-6-At)	18,629,558	18,501,064
	09/28/00	39. Crop Loss Disaster Assistance Program (50801-3-KC)	10,728,872	149,178
	03/29/02	40. Controls Over Accidental and Clandestine Release of Biohazards (50099-13-At)	0	0
OCIO	03/30/01	41. Security Over USDA IT Resources Needs Improvement (50099-27-FM)	0	0
RBS	10/01/99	42. B&I Loan – Indiana Farmers (34099-3-Ch)*	595,511	595,511
	09/12/01	43. Lender Servicing of B&I Loan, State of Arizona, Lender B (34601-4-SF)	2,365,060	2,365,060
	01/28/02	44. Lender Servicing of B&I Guaranteed Loans – Florida (34601-3-At)	1,536,060	1,536,060
RHS	01/08/99	45. RRH Program – Dujardin Property Management, Inc., Everett, WA (04801-5-SF)*	195,694	195,694

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
	04/20/99	46. RRH Program, Owner/ Manager, Olympia, WA (04801-6-SF)*	346,685	346,685
	05/25/00	47. RRH Nationwide Initiative, in Missouri, St. Louis, MO (04801-2-KC)	4,922,879	4,919,579
	12/18/00	48. RRH Program Insurance Expenses, Washington, DC (04801-6-KC)	924,751	753,456
	09/28/01	49. RRH, Insurance Expense, Phase II (04601-4-KC)	596,665	500,667
RMA	09/30/97	50. Crop Insurance on Fresh Market Tomatoes (05099-1-At)	15,082,744	0
	02/28/01	51. FY 2000 FCIC Financial Statements (05401-1-Hq)	0	0
	03/12/01	52. RMA/FCIC FY 2000 Financial Statements Report on Management Issues (05401-2-Hq)	0	0
	03/14/01	53. Crop Insurance for Specialty Crops (05601-4-At)	2,254,014	2,254,014
	05/21/01	54. Review of Written Agreements (05002-1-Te)	1,565,730	1,565,730
	08/17/01	55. RMA Watermelon Claims in South Texas (05601-7-Te)	1,506,620	1,506,620
	03/15/02	56. Monitoring of RMA's Implementation of Manual 14 Reviews/Quality Control Review System (05099-14-KC)	0	0

Audits Without Management Decision - Narrative for New Entries

1. APHIS Citrus Canker Monitoring Effort – South Florida (33099-2-At), Issued August 8, 2002

The report had five recommendations, all of which are still open. We are evaluating the APHIS followup review report and additional information on the specific actions to be taken by the Florida Department of Agriculture and Consumer Services.

2. Grants to National Center for Resources Innovation (NCRI) (13099-2-Te), Issued August 6, 2002

NCRI received \$7.4 million between 1990 and 1998 to develop a geographic information system (GIS) database and disseminate GIS technology to local communities. A subgrantee spent about \$37,000 to lobby Congress and had no records to support the appropriate expenditure of about \$1 million, because the NCRI board of directors did not adequately monitor the subgrantee. We recommended that the agency work with OGC to determine whether criminal or civil actions should be brought against the subgrantee official for approving lobbying activities in violation of the law. Also, we recommended the agency recover all unsupported fund expenditures. Agency officials are working with NCRI's board of directors to obtain sufficient information to reach management decision.

3. Analysis of Large CACFP Sponsors (27010-7-KC), Issued April 23, 2002

One of the five recommendations remains open. FNS needs to provide a corrective action plan to ensure sponsoring organizations comply with State agency policy and specific timeframes for implementation of corrective actions.

4. FSP Administrative Costs in California (27099-18-SF), Issued July 3, 2002

We have not reached management decision on one recommendation. FNS needs to provide support that expenditures California claimed in FY 2000 were properly reassigned to prior fiscal years (if the funds are available) or documentation that the State was billed for the amounts.

5. National School Lunch Program Operations in New York City (27010-28-Hy), Issued September 30, 2002

FNS has not finalized management decisions because the completion dates for corrective action have not been established by the State agency and school food authority. Also, FNS is still reviewing documents relating to recommended recoveries and, therefore, has not determined the final recovery amounts.

6. OMNI Development Corporation – Contract (08017-11-KC), Issued July 17, 2002

The Department of Defense Contract Audit Agency (DCAA) audited OMNI Development Corporation at our request to examine a \$2,049,653 claim for alleged lost rental income and present value of a building to determine if the claimed costs were acceptable as a basis for settlement. The one open recommendation requires the contracting officer to coordinate with OGC and use the conditions reported in negotiating the payment to the contractor. The case is being processed by OGC, and a hearing is scheduled for Spring 2003. We issued a memorandum to FS on January 22, 2003, requesting that it advise us of any decision on payment to the contractor and provide periodic progress reports.

7. Assessments on Imported Tobacco (03099-164-At), Issued September 30, 2002

This audit follows up on our 1997 audit of the Tobacco Importers Assessment Program, which showed FSA had inadequate controls to ensure collections of marketing penalties and late payment interest charges for untimely remittance of imported tobacco assessment fees for calendar years 1994 through 1996. The current audit of 1997 through 2001 assessments showed FSA had not yet issued a directive to assess and collect marketing penalties and late payment interest charges. About \$952,811 in imported tobacco assessment fees was not paid within prescribed timeframes, and claims were not made by FSA against nine importers for about \$4.6 million in potential marketing penalties and late payment interest charges for late remittance fees. FSA agreed to issue a permanent directive, as discussed

above, and to assess the importers with liabilities of about \$4.6 million. We are working with FSA to obtain documentation of planned corrective actions.

8. Overtime Controls (24099-4-At), Issued September 30, 2002

We recommended that FSIS strengthen its procedures for monitoring, reporting, and collecting for overtime services. Four of the ten recommendations remain open. We need more detailed information on how controls will be implemented over the time and attendance certification process, and an estimated completion date of the investigation and administrative actions if warranted. In addition, we need to know what enforcement actions will be implemented to ensure that all forms have been signed by plant management and how plant management can verify the accuracy of overtime charges.

9. Management of USDA Hazardous Waste Management Funds (50801-12-At), Issued September 9, 2002

We made seven recommendations to the Hazardous Materials Policy Council (HMPC) to strengthen its monitoring system to ensure that agencies maintain program fund accountability. We have not reached management decision on two recommendations. One calls for the Department to assign technically qualified staff to monitor program reviews and amend procedures. The other is for CCC to complete a review of its longstanding contract with a private laboratory that provides environmental site assessment to ensure that continued use of the contractor is in the best interest of the Government.

10. FY 2002 USDA Government Information Security Reform Act (50099-50-FM), Issued September 10, 2002

We await a response from the Office of the Chief Information Officer to the final audit report. Seven recommendations remain open pending agreement as to the appropriateness of, and timeframes for, the planned corrective actions, which address various areas in which the Department's security over IT resources needs to be improved to comply with the Government Information Security Reform Act.

11. B&I Direct Loan Program – Arkansas (34601-14-Te), Issued, September 27, 2002

OIG recommended that the servicing office obtain clear, definite, and documented liens on all collateral securing its loans to borrowers. RBS must identify the chattel property, including model and or/serial numbers of equipment

12. Security of IT Resources – Rural Development (85099-2-FM), Issued August 5, 2002

Management decisions have not been reached on nine recommendations. RD has provided two responses to the audit report; discussions concern various aspects of the IT Security process.

13. Rural Rental Housing Program, Servicing of Insurance Expenses (04601-5-KC), Issued August 8, 2002

OIG recommended that RHS recover unallowable costs billed to projects by their management companies for workers' compensation insurance, duplicate insurance, and payroll taxes.

14. Viability of 1999 Fall Watermelon Crop Insurance In Texas (05601-8-Te), Issued September 30, 2002

RMA approved coverage of fall watermelons in its 1999 watermelon crop insurance pilot program despite evidence that this crop was not suitable to South Texas and was unlikely to produce a harvestable fruit. RMA managers did not ensure that the development package for the pilot program was complete, accurate, and specific as to the level of actuarial risk associated with each crop. As a result, we questioned the entire value of fall watermelon insurance claims in Texas for the 1999 crop year, \$21,100,000. We recommended that RMA review the decisions made in approving the pilot program and determine if any personnel actions should be initiated. RMA agreed that the Administrator would do so within 6 months.

15. Review of Large Insurance Claim for Watermelons (05601-9-Te), Issued September 30, 2002

A large watermelon producer in Texas misrepresented his share in a fall 1999 watermelon crop. The producer entered into written cash leases and custom farming agreements with 19 Hidalgo County landlords, based on which the producer received 100 percent of over \$5.5 million in insurance proceeds when the fall watermelon crops failed. However, the farming arrangement, in reality, constituted a crop share lease, making the producer ineligible for 100 percent of the crop insurance indemnity. Also, the co-owner of the insurance agency that sold the producer his watermelon insurance had leased the producer 802.7 acres of his farmland, which would constitute a potential conflict of interest.

We recommended that RMA seek an OGC opinion to determine if the producer misrepresented his share in the insured watermelon crop. If so, the contract should be considered void, and RMA should collect the \$6,998,779 that was paid to the producer for crop year 1999 losses. We also recommended that RMA determine whether the co-owner of the insurance agency and producer engaged in a conflict of interest. If so, RMA should take appropriate action against the producer, the insurance agent, the agent's son, and the insurance agency. RMA has requested the applicable OGC opinions and is reviewing the insurance claim documents and the business relationship with the insurance agent. RMA has also issued a proposed rule to enhance the conflict of interest definition.

Indictments and Convictions

Between October 1, 2002, and March 31, 2003, OIG completed 203 investigations. We referred 186 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 247 indictments and 212 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 212 convictions do not necessarily relate to the 247 indictments. Fines, recoveries/collections, restitutions, claims established, cost avoidance, and administrative penalties resulting from our investigations totaled about \$44.4 million.

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

Indictments and Convictions October 1, 2002 - March 31, 2003

Agency	Indictments	Convictions*
AMS	0	2
APHIS	10	4
ARS	1	2
FAS	0	1
FNS	173	129
FS	6	3
FSA	20	47
FSIS	6	5
GIPSA	2	0
NRCS	2	1
OCIO	1	1
OIG	3	2
RBS	0	5
RHS	13	5
RMA	10	5
Totals	<u>247</u>	<u>212</u>

*This category includes pretrial diversions.

Office of Inspector General Hotline

The OIG Hotline serves as a national receiving point for reports from both employees and the general public of suspected incidents of fraud, waste, mismanagement, and abuse in USDA programs and operations. During this reporting period, the OIG Hotline received 994 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

October 1, 2002 to March 31, 2003
(Total = 994)

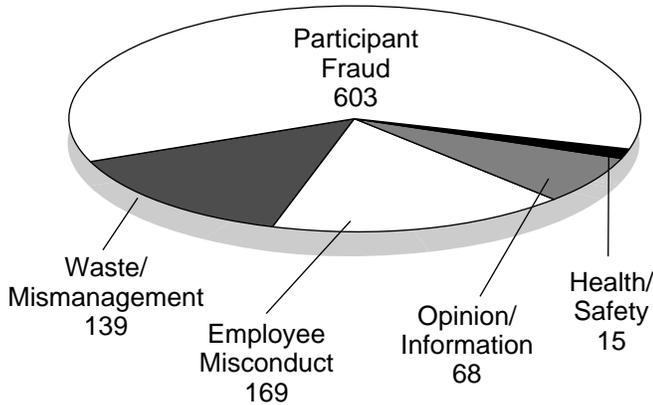
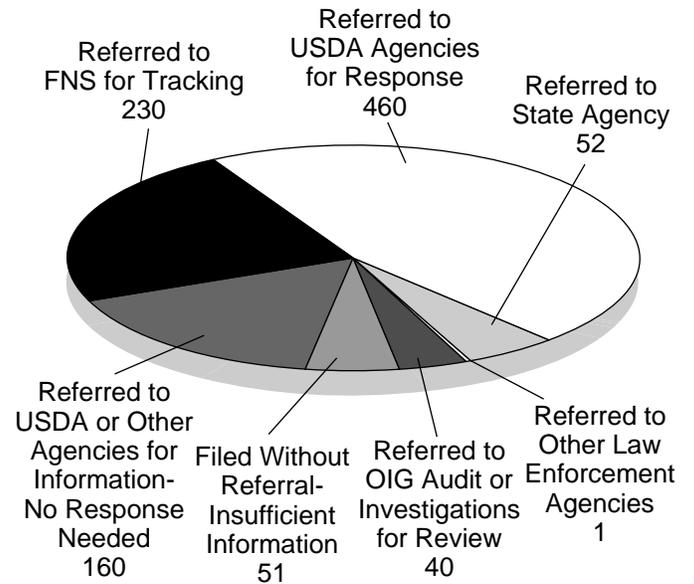


Figure 2

Disposition of Complaints

October 1, 2002 to March 31, 2003



Freedom of Information Act (FOIA) and Privacy Act (PA) Requests for the Period October 1, 2002, to March 31, 2003

Number of FOIA/PA Requests Received 164

Number of FOIA/PA Requests Processed: 129

Number Granted 33
 Number Partially Granted 23
 Number Nondisclosed 73

Reasons for Denial:

No Records Available 14
 Referred to Other Agencies 34
 Denied in Full (Exemption 7A) 4
 Request Withdrawn 2
 Fee-Related 2
 Not a Proper FOIA Request 4
 Not an Agency Record 3
 Duplicate Request 4
 Other 6

Requests for OIG Reports From Congress and Other Government Agencies

Received 45
 Processed 50

Appeals Processed 1

Appeals Completely Upheld 0
 Appeals Partially Reversed 1
 Appeals Completely Reversed 0

Number of OIG Reports/Documents Released in Response to Requests 70

NOTE: A request may involve more than one report.

During this 6-month period, 25 audit reports were published on the Internet at the OIG Web site: www.usda.gov/oig.

Appendix I

**INVENTORY OF AUDIT REPORTS ISSUED
WITH QUESTIONED COSTS AND LOANS
BETWEEN OCTOBER 1, 2002, AND MARCH 31, 2003**

DOLLAR VALUES

	<u>NUMBER</u>	<u>QUESTIONED COSTS AND LOANS</u>	<u>UNSUPPORTED^a COSTS AND LOANS</u>
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 2002	43	\$152,367,976	\$84,046,464
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	4	7,539,963	753,207
TOTALS	<u>47</u>	<u>\$159,907,939</u>	<u>\$84,799,671</u>
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	8		
(1) DOLLAR VALUE OF DISALLOWED COSTS			
RECOMMENDED FOR RECOVERY		\$2,287,836	
NOT RECOMMENDED FOR RECOVERY		623,964	\$27,484
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		4,070,955	
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	39	153,124,840	84,772,187
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	36	145,644,830	84,018,980

^aUnsupported values are included in questioned values.

Appendix II

**INVENTORY OF AUDIT REPORTS ISSUED
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE
BETWEEN OCTOBER 1, 2002, AND MARCH 31, 2003**

	<u>NUMBER</u>	<u>DOLLAR VALUE</u>
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 2002	16	\$60,544,370
B. WHICH WERE ISSUED DURING THE REPORTING PERIOD	2	14,007,418
TOTALS	<u>18</u>	<u>\$74,551,788</u>
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	3	
(1) DOLLAR VALUE OF DISALLOWED COSTS		\$30,023,610
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	15	44,528,178
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	14	44,520,760

Appendix III

SUMMARY OF AUDIT REPORTS RELEASED BETWEEN OCTOBER 1, 2002, AND MARCH 31, 2003

DURING THE 6-MONTH PERIOD BETWEEN OCTOBER 1, 2002, AND MARCH 31, 2003, THE OFFICE OF INSPECTOR GENERAL ISSUED 31 AUDIT REPORTS, INCLUDING 3 PERFORMED BY OTHERS.

THE FOLLOWING IS A SUMMARY OF THOSE AUDITS BY AGENCY:

AGENCY	AUDITS RELEASED	QUESTIONED COSTS AND LOANS	UNSUPPORTED ^a COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL RESEARCH SERVICE	1	\$560,371	\$138,607	
ANIMAL AND PLANT HEALTH INSPECTION SERVICE	2			
CHIEF INFORMATION OFFICER	1			
COMMODITY CREDIT CORPORATION	1			
FOOD AND NUTRITION SERVICE	5	3,212,684	614,600	\$7,418
FOOD SAFETY AND INSPECTION SERVICE	1			
FOREST SERVICE	4			
MULTIAGENCY	2			
NATURAL RESOURCES CONSERVATION SERVICE	1			
OFFICE OF THE CHIEF FINANCIAL OFFICER	2			
OFFICE OF PROCUREMENT AND PROPERTY MANAGEMENT	1			
RISK MANAGEMENT AGENCY	1			
RURAL BUSINESS-COOPERATIVE SERVICE	5	3,766,908		14,000,000
RURAL DEVELOPMENT	1			
RURAL HOUSING SERVICE	2			
RURAL TELEPHONE BANK	1			
TOTALS	31	\$7,539,963	\$753,207	\$14,007,418
TOTAL COMPLETED:				
SINGLE AGENCY AUDIT	29			
MULTIAGENCY AUDIT	2			
SINGLE AGENCY EVALUATION	0			
MULTIAGENCY EVALUATION	0			
TOTAL RELEASED NATIONWIDE	31			
TOTAL COMPLETED UNDER CONTRACT ^b	3			
TOTAL SINGLE AUDIT ISSUED ^c	0			

^aUnsupported values are included in questioned values

^bIndicates audits performed by others

^cIndicates audits completed as Single Audit

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN OCTOBER 1, 2002, AND MARCH 31, 2003**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL RESEARCH SERVICE				
020070001AT 2003/03/28	FLORIDA A&M UNIVERSITY - SCIENCE CENTER COOPERATIVE AGREEMENT	\$560,371	\$138,607	
TOTAL: AGRICULTURAL RESEARCH SERVICE		1	\$560,371	\$138,607
ANIMAL AND PLANT HEALTH INSPECTION SERVICE				
336010003CH 2003/02/20	SAFEGUARDS TO PREVENT ENTRY OF PROHIBITED PESTS AND DISEASES INTO THE UNITED STATES			
336010004CH 2003/03/31	CONTROLS OVER PERMITS TO IMPORT BIOHAZARDOUS MATERIALS			
TOTAL: ANIMAL AND PLANT HEALTH INSPECTION SERVICE		2		
CHIEF INFORMATION OFFICER				
880990004FM 2002/12/12	FY 2002 NATIONAL INFORMATION TECHNOLOGY CENTER GENERAL CONTROLS REVIEW			
TOTAL: CHIEF INFORMATION OFFICER		1		
COMMODITY CREDIT CORPORATION				
064010015FM 2002/12/26	FY 2002 COMMODITY CREDIT CORPORATION FINANCIAL STATEMENTS			
TOTAL: COMMODITY CREDIT CORPORATION		1		
FOOD AND NUTRITION SERVICE				
270990014TE 2003/02/07	FOOD STAMP PROGRAM ADMINISTRATIVE COSTS			
276010012AT 2003/03/31	FOOD STAMP EMPLOYMENT AND TRAINING PROGRAM - TENNESSEE	\$3,152,731	\$614,600	
276010014KC 2002/12/23	NSLP-CHARTWELLS FSMC-COST REIMBURSABLE CONTRACTS IN MISSOURI			\$7,418
276010028CH 2003/02/27	FOOD STAMP ADMINISTRATIVE COSTS	\$59,953		
276010029CH 2003/02/26	CONTROLS OVER ACCESS, DISCLOSURE AND USE OF SOCIAL SECURITY NUMBERS			
TOTAL: FOOD AND NUTRITION SERVICE		5	\$3,212,684	\$614,600
FOOD SAFETY AND INSPECTION SERVICE				
240990004HY 2003/02/25	IMPORTED MEAT AND POULTRY REINSPECTION PROCESS PHASE II			
TOTAL: FOOD SAFETY AND INSPECTION SERVICE		1		
FOREST SERVICE				
084010001FM 2003/01/09	MONITORING OF THE FY 2002 FOREST SERVICE FINANCIAL STATEMENT AUDIT			
084010002FM 2003/02/28	FY 2002 FOREST SERVICE FINANCIAL STATEMENTS - SUMMARY OF IT FINDINGS			
086010030SF 2003/03/31	REVIEW OF FS SECURITY OVER EXPLOSIVES/MUNITIONS MAGAZINES LOCATED WITHIN NATIONAL FOREST SYSTEM			
086010033SF 2003/01/17	REVIEW OF FS SECURITY OVER U.S. BORDERS ENCOMPASSING NATIONAL FOREST SYSTEM LAND			
TOTAL: FOREST SERVICE		4		
MULTIAGENCY				
504010045FM 2002/11/20	FY 2001 USDA WORKING CAPITAL FUND FINANCIAL STATEMENTS			
504010047FM 2003/01/15	FY 2002 USDA FINANCIAL STATEMENTS			
TOTAL: MULTIAGENCY		2		

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
BETWEEN OCTOBER 1, 2002, AND MARCH 31, 2003**

AUDIT NUMBER RELEASE DATE	TITLE	QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
NATURAL RESOURCES CONSERVATION SERVICE				
100050001KC 2002/11/21	EQIP COST SHARE PRACTICE APPROVALS/ SPECIFICATIONS IN NEBRASKA			
TOTAL: NATURAL RESOURCES CONSERVATION SERVICE		1		
OFFICE OF THE CHIEF FINANCIAL OFFICER				
114010013FM 2002/11/20	REVIEW OF FY 2002 NATIONAL FINANCE CENTER'S INTERNAL CONTROL STRUCTURE			
114010014FM 2002/11/14	AGREED-UPON PROCEDURES: RETIREMENT, HEALTH BENEFITS & LIFE INSURANCE WITHHELD CONTRIBUTIONS SUBMITTED TO OPM			
TOTAL: OFFICE OF THE CHIEF FINANCIAL OFFICER		2		
OFFICE OF PROCUREMENT AND PROPERTY MANAGEMENT				
890990001HQ 2002/10/21	DEPARTMENTAL COMPLIANCE WITH THE NATIONAL ENERGY POLICY ACTS AND EXECUTIVE ORDER 13123			
TOTAL: OFFICE OF PROCUREMENT AND PROPERTY MANAGEMENT		1		
RISK MANAGEMENT AGENCY				
054010011FM 2003/01/09	FY 2002 FCIC FINANCIAL STATEMENTS			
TOTAL: RISK MANAGEMENT AGENCY		1		
RURAL BUSINESS-COOPERATIVE SERVICE				
340990003AT 2003/01/22	RD - AUDIT TERRY MANUFACTURING B&I GUARANTEED LOANS			
340990004CH 2002/12/19	BUSINESS INDUSTRY LOAN – EXCELSIOR - HENDERSON MANUFACTURING COMPANY			
346010003CH 2003/03/11	ROCKY MOUNTAIN SUGAR GROWERS COOPERATIVE			
346010004AT 2003/01/10	LENDER SERVICING OF B&I GUARANTEED LOANS	\$3,766,908		
346010007SF 2002/12/04	RURAL DEVELOPMENT - LIQUIDATION OF B&I GUARANTEED LOAN - WASHINGTON STATE			\$14,000,000
TOTAL: RURAL BUSINESS-COOPERATIVE SERVICE		5	\$3,766,908	\$14,000,000
RURAL DEVELOPMENT				
854010005FM 2003/01/10	FISCAL YEAR 2002 RURAL DEVELOPMENT FINANCIAL STATEMENTS			
TOTAL: RURAL DEVELOPMENT		1		
RURAL HOUSING SERVICE				
040050010SF 2003/03/25	CITRUS MANOR DEVELOPMENT - FINANCIAL STATEMENT AUDIT FOR YEAR ENDED 12/31/2002			
040050011SF 2003/03/25	PARKVIEW PROPERTIES - FINANCIAL STATEMENT AUDIT FOR YEAR ENDED 12/31/2002			
TOTAL: RURAL HOUSING SERVICE		2		
RURAL TELEPHONE BANK				
154010003FM 2002/12/20	FISCAL YEAR 2002 RTB FINANCIAL STATEMENTS			
TOTAL: RURAL TELEPHONE BANK		1		
GRAND TOTAL:		31	\$7,539,963	\$753,207 \$14,007,418