UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL

STATEMENT OF THE HONORABLE PHYLLIS K. FONG
INSPECTOR GENERAL

Before the
Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies
Committee on Appropriations
United States House of Representatives

February 28, 2008
Good morning, Chairwoman DeLauro, Ranking Member Kingston, and Members of the Subcommittee. Thank you for inviting me to testify about the work of the Office of Inspector General (OIG) and our Fiscal Year (FY) 2009 Budget Request.

I would like to introduce the members of my senior management team accompanying me today: Deputy Inspector General, Kathleen Tighe; Assistant Inspector General for Audit, Robert Young; Assistant Inspector General for Investigations, Karen Ellis; and Assistant Inspector General for Management, Suzanne Murrin.

I am pleased to be here today to provide the Subcommittee with an overview of our most significant recent activities and the oversight work we have planned and in-process at this time. In FY 2007, OIG issued 61 audit reports containing 255 recommendations to improve and protect USDA programs and operations. Pursuant to the statistical reporting requirements established by Congress in the Inspector General Act of 1978, we determined that OIG audits resulted in a potential monetary impact of $91 million in FY 2007.\(^1\) OIG criminal investigations resulted in over 520 indictments and 440 convictions in FY 2007 and achieved an additional potential monetary impact of over $63 million.\(^2\)

My testimony today will follow the framework of our four Strategic Goals. We organize our audit and investigative work under these Strategic Goals to effectively target OIG resources toward the key programmatic issues and public concerns facing the Department and our Congressional oversight committees. Our four Strategic Goals are (I) Safety, Security, and Public Health; (II) Integrity of USDA Benefits and Entitlement Programs; (III) Management Improvement Initiatives; and (IV) Stewardship of Natural Resources. The final section of my testimony provides information in support of OIG’s FY 2009 Budget Request.

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\(^1\) 5 U.S.C. App. 3 § 5.
I. Safety, Security, and Public Health

OIG Food Safety Reviews

Assessing USDA’s Risk Based Inspection Program for Meat and Poultry Processing Establishments

In February 2007, the Food Safety and Inspection Service (FSIS) announced its plan to implement a pilot risk-based inspection (RBI) program for meat and poultry processing establishments. The agency believed it had comprehensive and reliable data and that “real and immediate” improvements could be made to the effectiveness of inspection operations. Congress and other stakeholders became concerned that FSIS was beginning to implement RBI before it had corrected deficiencies reported in prior OIG audits and that issues regarding the agency’s methodology for determining risk had not been addressed. Members of the House and Senate Agriculture Appropriation Subcommittees were concerned that food safety might be compromised if RBI proceeded at that time.

The Subcommittees included language in the May 2007 emergency appropriations act \(^3\) to prevent FSIS from using funds to implement RBI in any location until OIG studied the program, including the data supporting its development and design. We conducted an assessment of the FSIS processes and methodologies used to design and develop its proposed RBI program, as well as FSIS’ infrastructure and management controls that would support a reliable, data-driven RBI program. Our December 2007 report questioned whether FSIS has the systems in place to provide reasonable assurance that risk can be properly assessed, especially since the agency

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2 Components of the monetary impact figure include fines, recoveries/collections, restitutions, claims established, cost avoidance, questioned costs, and administrative penalties achieved in OIG criminal investigative cases.

lacks current and comprehensive assessments of food safety systems at meat and poultry processing facilities.

Throughout the course of OIG’s review, we discussed our concerns and provided recommendations to FSIS so that the agency could act to immediately address the weaknesses we identified. OIG’s concerns related to FSIS’ (1) assessments of establishments’ food safety systems, (2) security over information technology (IT) resources and application controls, and (3) management control structure, among other issues. OIG reached agreement with FSIS on the agency actions necessary to implement each of the 35 recommendations we presented in our report.

OIG recommended that FSIS complete its plan for improving the use of food safety assessment-related data and determine how the assessment results will be used in determining risk. As the agency moves forward with the development and implementation of an RBI program, FSIS should ensure that its risk analysis and assessments are thoroughly documented and any data limitations are mitigated, and the decisions made in its inspections process are published and transparent to all stakeholders. FSIS also needs to implement appropriate oversight for the development of critical IT systems needed to support RBI. We made numerous additional recommendations to improve FSIS’ management controls, data collection and analyses processes, and staff training.

FSIS has responded substantively to OIG’s findings and recommendations. During the course of our audit, FSIS began a critical, in-depth examination of the data used as the components of its RBI assessment with a view to refining and expanding the data used in future versions of RBI. As of September 2007, FSIS awarded a contract to build the agency’s new Public Health Information System (PHIS) to better integrate its numerous IT systems that are used to manage inspector activities. The primary goal of PHIS is to improve the timeliness of collecting/analyzing inspection data, and thereby enhance the agency’s capability to address food safety hazards.
Strengthening USDA’s E. coli Testing Program

In response to a large recall involving contaminated ground beef product, the then-Acting Secretary requested in October 2007 that OIG determine whether improvements could be made to FSIS’ sampling and testing procedures for *Escherichia coli* O157:H7 (*E. coli*) and identify relative costs and benefits associated with these improvements. OIG promptly initiated a review of the actions FSIS already had in process to improve its *E. coli* sampling and testing program. As part of our review, we solicited feedback from a broad array of stakeholders actively involved in this issue, such as representatives from other USDA and Federal entities with similar sampling and testing programs, meat industry representatives, academic institutions that perform *E. coli* research, and the quick-service restaurant industry.

OIG provided a memorandum report to USDA officials at the end of January 2008 containing our observations and suggestions. We concluded that while the actions FSIS has in process will improve its testing program, we believe that strengthening the adequacy, timeliness, and effectiveness of other aspects of the agency’s Hazard Analysis and Critical Control Point (HACCP) verification activities would provide stronger assurance that federally-inspected establishments are properly identifying and controlling their food safety hazard risks. FSIS generally concurred with our findings and conclusions.

Improving Safety Inspections for Egg Products

Since 1995, FSIS has administered USDA’s responsibilities under the Egg Products Inspection Act. FSIS inspects egg products to ensure they are wholesome, processed under sanitary conditions, and properly packaged and labeled to protect consumers. OIG evaluated FSIS’ monitoring and inspection of egg processing plants to assess the agency’s performance in meeting these responsibilities.
OIG found that FSIS has not yet integrated egg product inspections into its overall management control structure, including the science-based HACCP program and the automated Performance-Based Inspection System (PBIS). FSIS increasingly depends on PBIS and other automated systems to provide safeguards and oversight of its meat and poultry inspection operations. However, these automated systems cannot be extended to egg processing inspections until a system of electronic records is created to record inspection data for this area. This delay raises concerns about potential adulteration of processed products.

FSIS is developing a rule that would require egg product processing plants to develop and implement HACCP systems. In response to OIG’s recommendations, FSIS agreed to develop a new IT system to track domestic inspection activities, including egg products processing, thereby replacing PBIS. FSIS also agreed to conduct trend analyses to identify and correct serious or widespread deficiencies at egg products processing plants.

OIG Investigations: Food Safety

Investigating Allegations of Adulterated Beef Entering the Food Supply

As Members of the Subcommittee are aware, USDA’s investigation into recent allegations, made by the Humane Society, of inhumane treatment of cattle at a Chino, California, slaughter/processing facility has identified potentially adulterated beef entering the food supply. This has led to the biggest food recall in U.S. history. At the request of the Secretary, OIG is leading the Department’s investigation into potential violations of the Federal Meat Inspection Act. Our investigation is

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4 FSIS has not implemented HACCP at the egg processing plants and it needs to accomplish this first before egg inspection results can be included in PBIS. Once egg inspection results, non-compliance records and other data are in PBIS, FSIS will have information in an electronic format that can be analyzed.

ongoing, and we are working cooperatively with FSIS and other law enforcement agencies. We are coordinating our efforts with the U.S. Department of Justice (DOJ). At the conclusion of our investigation, we will report on our findings to the appropriate USDA officials.

**Investigating Fraud in the BSE Surveillance Program**

OIG investigated allegations of fraud on the part of an Arizona facility that housed both pet food slaughter and meat processing operations and that participated in the Department’s Bovine Spongiform Encephalopathy (BSE) Surveillance Program. Our agents revealed that the corporation’s owner used various schemes to increase the number of brain stem samples submitted for testing, thereby increasing the amount of USDA payments he received. Some of the samples the company submitted were from healthy, USDA inspected cattle. The owner was convicted of theft, mail/wire fraud, and aiding and abetting. A Federal court sentenced him to 8 months of imprisonment and 36 months’ supervised release and ordered him to pay a total of $490,000 in fines/restitution.

**Fraudulent Conduct Involving Contaminated Food Products**

A joint OIG-Food and Drug Administration (FDA) food safety investigation in the past year disclosed that a Florida food processing company was the source of poultry and seafood products that were contaminated with *Listeria monocytogenes*, a potentially fatal pathogenic bacterium that can be found in ready-to-eat food products. The company did not initiate a recall of the product after learning that it tested positive for *Listeria monocytogenes*. The product was misbranded and shipped to several locations throughout the U.S. and Canada. The company president was charged with a scheme to defraud through the sale of adulterated foods and a scheme to introduce misbranded food into interstate commerce. He was sentenced to 15 months’ imprisonment and 36 months’ supervised release. Additionally, he received a fine of $5,000 and was ordered to pay $200,000 in restitution to the University of Florida to support its food safety programs.
OIG assisted in a multi-agency food safety investigation into the egregious conduct of a man who had made several allegations that his two young children were harmed by eating contaminated soup. The younger child, an 18-month old, had to be airlifted to an Atlanta hospital for critical care. A sample of the soup submitted to an FDA laboratory for analysis tested positive for Prozac and other anti-depressants. The investigation revealed that the father was responsible for contaminating the soup. He was charged in Federal court with food tampering and ultimately sentenced to 60 months’ imprisonment and 36 months’ supervised release.

**Food Safety Oversight Work for FY 2008: Planned and In Process**

*Follow-up Review on Meat and Poultry Import Inspections*

We are currently conducting a follow-up audit of the Federal inspection system for meat and poultry imports. We will evaluate the adequacy of FSIS’ foreign inspection processes concerning the equivalency of foreign food safety systems to U.S. standards; the agency’s periodic, in-country reviews that assess whether foreign systems remain equivalent; and FSIS’ re-inspection of imported products at U.S. ports of entry. We anticipate releasing our report in late April 2008.

*FSIS Recall Procedures for Adulterated or Contaminated Product*

As part of a request from the former Acting Secretary, OIG is evaluating issues regarding FSIS recall procedures for adulterated or contaminated product that have already entered the food distribution chain. We will identify whether improvements can be made to FSIS processes for handling recalls to ensure that appropriate information is rapidly conveyed to the appropriate agency decisionmakers. We plan to also evaluate whether FSIS is taking full advantage of its statutory authority to address recall situations. We anticipate releasing this report in late May 2008.

*Oversight of the National Organic Program*

America’s organic foods industry is growing rapidly. Without effective oversight, non-
organic products could be marketed as organic and sold for significant profit. To ensure producer compliance with USDA’s National Organic Program, OIG plans to conduct an audit to evaluate the oversight provided by the Agricultural Marketing Service (AMS) and State and private certifying agents. As will be discussed below (Section V), the start of this audit has been delayed but we anticipate beginning work in August 2008.

**OIG Investigations into Animal Cruelty and Dog Fighting**

OIG is devoting increased attention to animal cruelty cases. During FY 2007 and the first four months of FY 2008, OIG criminal investigators opened 21 cases and helped achieve 132 convictions related to animal cruelty investigations.

**Shutting Down Dog Fighting**

OIG dog fighting investigations in 2007 resulted in two of the most significant cases we have pursued in recent years with respect to the number of convictions gained and the extensive public attention received. Foremost was our investigation into a dog fighting ring in Smithfield, Virginia, involving a professional athlete and his associates. This dog fighting ring operated from 2001-2007, until it was shut down as the result of OIG’s investigation. The primary defendant’s property contained structures specifically designed for dog breeding, housing, and fighting. A total of 66 dogs (52 pit bulls and 14 other breeds) were seized by State and local authorities in the execution of a search warrant on the property. OIG’s Emergency Response Team (ERT) assisted in this investigation by recovering and transporting evidence located on the grounds. Pursuant to a court order, the 47 pit bulls forfeited to the U.S. Government were eventually transferred to a Utah animal sanctuary or seven other animal rescue organizations for foster and/or lifetime care of the dogs.

The five subjects of the dog fighting ring pled guilty in Federal court to conspiracy to travel in interstate commerce in aid of unlawful activities and to sponsoring a dog in
an animal-fighting venture. The primary defendant was sentenced to 23 months’ incarceration and was ordered to pay $928,073 in restitution to fund the lifetime care of the dogs rescued from his property. The four other subjects received varying sentences ranging from 2 to 21 months’ incarceration.

Our second major animal fighting investigation in 2007 was “Operation Bite Back,” an investigation conducted jointly with the Ohio Organized Crime Investigations Commission into a multi-state dog fighting and gambling enterprise operating in Ohio, Kentucky, and Michigan. This investigation resulted in more convictions than any other single OIG investigation into dogfighting. During surveillance of various dog fighting events, we observed food stamp (Electronic Benefits Transfer, EBT) fraud, illegal wagering, the sale and use of narcotics, and felons illegally carrying firearms. Agents from OIG and other agencies seized pit bulls, U.S. currency, marijuana, cocaine, firearms, a bulletproof vest with a ski mask, and a warehouse full of dog fighting equipment and blood-stained fighting pits.

Operation Bite Back resulted in charges against 55 individuals, including violations of Federal and State laws prohibiting dog fighting, possession of firearms, gambling, food stamp trafficking, and interstate transportation of stolen vehicles. Guilty pleas were entered by 46 of the accused. OIG’s National Computer Forensics Division provided digital analysis of three seized computers for the Dayton, Ohio, Police Department. Federal and State prosecution activity in this case is ongoing.
Homeland Security Oversight

Evaluating USDA Controls on the Importation of Biohazardous Materials

In order to protect our Nation’s animal and plant resources from diseases and pests—and preserve the marketability of U.S. agricultural products—USDA’s APHIS requires permits for entities seeking to import or move certain animals, animal products, pathogens, plant pests, and specified agricultural products. OIG evaluated APHIS’ controls over its permit system regarding the importation of biohazardous and other regulated materials and assessed the effectiveness of APHIS’ corrective actions in response to our 2003 audit report.

OIG determined that APHIS has taken some of the corrective actions recommended in a prior audit, such as restricting the hand-carrying of packages containing regulated materials through ports of entry. Persons authorized to hand-carry must now be named in the permit, and the permit holder must contact APHIS in advance to coordinate the arrival of all hand-carried regulated material. In addition, inspectors at the ports can now access the “ePermits” database system to verify the basic information contained on incoming permit documents.

Our audit found, however, that other key OIG recommendations to strengthen APHIS’ permit systems against vulnerabilities and misuse still needed to be implemented. The agency had not fully implemented the new ePermits monitoring system. Until ePermits is fully operational, APHIS cannot monitor import activity at a nationwide level. Inspectors have not been provided instructions for using ePermits

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6 Examples include private, State, and Federal research laboratories, universities, and vaccine companies.
7 For example, until the ePermits system is fully operational, the agency cannot perform analyses to identify trends in permit activity that could signal possible misuse of the permit system. The ePermits system could not provide officials with information on which permit holders had been inspected or were required to be inspected before permit issuance.
to screen incoming shipments. Although APHIS has made progress in improving its screening procedures for plant inspection stations at ports of entry, APHIS needs to develop controls to ensure that biohazardous materials are routed to those facilities.

The National Strategy for Pandemic Influenza: Reviewing USDA’s Response

In late 2005, the President announced the National Strategy for Pandemic Influenza (National Strategy), a comprehensive approach to addressing the threat of pandemic influenza. The Implementation Plan of the National Strategy included over 300 tasks that were designed to ensure that the Federal Government, along with its State and local partners, continues to prepare for a possible outbreak in the United States. USDA was assigned responsibility for completing 98 of these tasks.

We have previously testified before the Subcommittee about the findings of our review of APHIS oversight of Avian Influenza (AI). We continued our oversight work in this area by evaluating USDA’s progress regarding its responsibilities under the National Strategy. We found that USDA has made significant progress in developing or revising policies and procedures to detect, contain, and eradicate highly pathogenic AI in order to reduce the threat of a pandemic.

USDA took action on each lead task we reviewed, such as helping to develop the interagency response playbook that detailed step-by-step actions that Federal agencies should take in response to an outbreak. Our review found, however, that these new procedures were not tested to ensure they worked as designed.

We also found that APHIS had not implemented all of the recommendations from our 2006 report intended to strengthen the agency’s outbreak response capabilities. One was the recommendation that the agency work closely with State and industry

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8 APHIS–Oversight of Avian Influenza. OIG report number 33099-11-HY. June 2006.
representatives regarding outbreaks affecting live birds, in order to develop necessary response plans and review/certify State plans. These State plans are necessary to address gaps in the Federal response plan, including cleaning and disinfection, humane euthanasia, quarantine, and movement control. As a result, we believe APHIS has reduced assurance that it will be able to timely and effectively respond in the event of an outbreak. APHIS generally agreed with OIG’s findings and recommendations.

**Homeland Security Oversight in FY 2008: Planned and In Process**

**USDA Participation in the Rehabilitation of Flood Control Dams**

The Natural Resource Conservation Service (NRCS) is authorized to assist local organizations with the rehabilitation of aging flood control dams. Many NRCS-assisted dams in the United States are near or at the end of their 50-year design life and warrant inspection and potential rehabilitation. A dam failure in Hawaii and a “near bursting” dam in Massachusetts demonstrate the need to determine the conditions of NRCS-financed dams. OIG initiated an audit to review the adequacy of NRCS’ controls for the rehabilitation of agency-assisted flood control dams. We anticipate releasing this report in mid-2008.

**II. Protecting the Integrity of USDA Benefit and Entitlement Programs**

**USDA’s Response to Hurricanes Katrina and Rita: Preventing Waste and Abuses**

Since my last appearance before the Subcommittee, OIG has concluded several of the primary audits we initiated in response to the devastating 2005 hurricane season. Members of Congress urged Federal OIGs to work in concert to ensure that the massive Federal funds allocated for multi-agency disaster relief efforts in 2005 were expended efficiently and not subject to waste and abuse. In a series of audits, OIG
found areas where improved agency controls were necessary to avoid further waste and fraud, and we identified USDA “best practices” that could also benefit other Federal entities. I would like to highlight several of our more significant reviews for the Subcommittee.

- At the onset of the hurricanes, OIG quickly deployed audit teams to the Food and Nutrition Service’s (FNS) food stamp distribution centers in the Gulf region. Our personnel reviewed and observed the operation of FNS disaster food stamp programs as State and local personnel disbursed benefits to families affected by the disasters. Our audit teams were able to provide feedback to FNS and State personnel on whether program controls were sufficient to prevent abuses such as duplicate payments, dual participation, and employee fraud. OIG concluded that FNS and participating State agencies quickly and effectively provided over $800 million in disaster food stamp benefits to millions of disaster victims. However, we did note that improvements could be made to ensure that State agencies are adequately prepared in disaster situations. States did not always include required components in their disaster plans, such as fraud prevention procedures. Some application processing systems used by States did not track denied applications or account for all family members—two factors that can result in fraudulent benefits. Based on OIG recommendations, FNS agreed to specify in regulations the State agency responsibilities for developing and implementing disaster assistance programs.

- Focusing primarily on loan and grant funds being disbursed to repair hurricane damage in the Single Family Housing Program (SFH), OIG audit staff found

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9 Under a disaster food stamp program, FNS can waive requirements of the regular program in order to provide benefits quickly to disaster victims. Some items that were waived during the hurricanes included income requirements, eligibility tests, and identity tests. Benefits are provided at many different locations. Because of the reduced eligibility requirements, duplicate participation and other types of fraud can readily occur.
that USDA’s Rural Housing Service (RHS) and other Federal agencies had not coordinated activities to prevent duplicate housing assistance payments to hurricane victims. RHS had not required recipients to provide information about reimbursements and assistance they received from insurance companies and charitable organizations. This resulted in some recipients receiving duplicative financial assistance from RHS and other sources for a single damage claim. We also found that RHS emergency grant funds were awarded for ineligible purposes, such as non-disaster related repairs, improvements and repairs unrelated to health and safety concerns, and use of unlicensed contractors. RHS is taking action to address the majority of our recommendations. We are continuing discussions with agency officials to reach management decision on the propriety of using hurricane disaster funding for non-hurricane related repairs.

- Disruptions resulting from Hurricanes Katrina and Rita temporarily impacted commodity prices received by farmers. Afterwards, USDA developed initiatives to alleviate transportation congestion on the Mississippi River, such as providing grants to move damaged corn from New Orleans and move agricultural commodities through other regions. The Farm Service Agency (FSA) implemented the initiatives and provided monetary assistance through the Commodity Credit Corporation (CCC). OIG conducted an audit that determined USDA needed an improved response and recovery plan to relieve future, serious disruptions in the movement of commodities along the Mississippi River. Due to the urgent situation brought about by the hurricanes, USDA had initially used ad hoc procedures to award noncompetitive agreements that resulted in higher costs compared to competitively-secured agreements. FSA acted upon OIG audit recommendations to coordinate with USDA entities, industry stakeholders, and other Federal agencies to formalize a response/recovery plan for disruptions to the grain transportation/storage system.
OIG also conducted numerous criminal investigations into allegations of fraudulent activity resulting from Federal hurricane relief efforts. To date, our investigations have achieved 61 indictments and 18 convictions involving the Food Stamp Program. We continue to work closely with DOJ Fraud Task Forces in Louisiana and Mississippi to ensure that allegations of fraud are investigated.

While the aforementioned audit and investigative work represent OIG’s most recent contributions to USDA’s disaster relief activities, this year we will assess the efficiency of other USDA programs that assist citizens and communities during emergencies. In FY 2008, we expect to issue reports on the Hurricane Indemnity Program, Livestock and Feed Indemnity Programs, Emergency Forestry Conservation Reserve Program, and Emergency Conservation Program, among others.

**Review of Misreported Nonfat Dry Milk Pricing Data**

Each week, the National Agricultural Statistics Service (NASS) collects data from plants that commercially produce in excess of one million pounds of dairy products, which are then used to determine current market prices. In brief, the nonfat dry milk prices NASS publishes are used by AMS to help set the minimum prices paid to milk producers in the Federal milk marketing order system.

In a review done by OIG’s Office of Inspections and Research, OIG determined that a large dairy firm misreported nonfat dry milk volume and price information when submitting its weekly reports to NASS beginning in 2002. The incorrect data, once aggregated with other firms’ data, were then factored into the Federal milk marketing order formula, resulting in a $50 million underpayment to milk producers.

We offered recommendations to NASS centering on the need for the agency to verify the information previously received from dairy plants which will allow the calculation
of a more precise Federal milk marketing order price for milk producers. We also recommended measures to ensure improvement in NASS’ data collection process. NASS agreed with each of our recommendations and has taken steps to improve its data collection and review processes.

**Identifying Improper Payments: Conservation Programs**

The Natural Resources Conservation Service (NRCS) administers conservation easement programs that restore lands to their natural state (i.e., wetlands and grasslands) by purchasing conservation easements from landowners. Participating landowners agree to limit use of their land to activity that both enhances and protects the purposes for which the easements were acquired. Land under conservation easements may be ineligible for farm assistance payments from FSA. NRCS field offices are required to notify FSA whenever land is placed under a conservation easement, so that FSA does not make payments to landowners with conservation easements on farm land. In a previous audit, OIG found situations where FSA made improper farm assistance payments to landowners for land under conservation easements. To determine the extent of such ineligible payments in one major agricultural State, we conducted an audit in 2007 to expand our previous work in California.

OIG’s review found additional examples demonstrating the need for better interagency communication, coordination, and program integration between NRCS and FSA. In 49 of the 53 Wetland Reserve Program and Emergency Watershed Protection Program easements we reviewed, NRCS did not notify FSA when the easements were recorded. This occurred because the local NRCS field offices mistakenly expected the relevant NRCS State office to fully inform FSA of the

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10 If a landowner with NRCS conservation easements participates in FSA farm assistance programs, he or she is required to inform FSA about the easements so the agency can appropriately reduce the landowner’s crop bases and calculate their assistance payments.
easements. Without the necessary easement information, FSA made improper farm assistance payments on 33 easements, totaling $1,290,147. During our fieldwork, we recommended that NRCS immediately provide a list of easements in California to FSA. Our report recommended that NRCS provide training for field staff in California regarding their responsibility to notify FSA about recorded easements. NRCS and FSA responded that each agency has taken appropriate corrective action to remedy the specific concerns noted in OIG’s report and established a protocol to ensure better interagency communications.

**Assessing USDA’s Efforts to Promote U.S. Farm Exports**

In response to a Congressional request, OIG reviewed the extent to which the Foreign Agricultural Service’s (FAS) market development programs foster expanded trade activities in the exporting of U.S. agricultural products. OIG was asked to review concerns regarding U.S. trade practices, promotion efforts, and financing operations, and to identify areas for USDA to achieve greater results with improvements such as enhanced inter-department coordination.

OIG found that FAS does not formally track its efforts to expand exports or its outreach to U.S. exporters and thereby had no assurance that outreach efforts were effective in expanding U.S. agricultural exports. OIG issued recommendations intended to allow USDA to more effectively measure its accomplishments and thereby prioritize limited resources to better promote U.S. exports. FAS generally concurred with OIG’s recommendations and has agreed to take corrective action on each.
Reviewing the Tobacco Transition Payment Program

Legislation enacted in 2004 ended the Depression-era tobacco quota program and established the 10-year, $10.14 billion Tobacco Transition Payment Program (TTPP) to provide annual transitional payments to eligible tobacco quota holders and producers. Payments began in FY 2005 and are funded through assessments on tobacco product manufacturers and importers. CCC estimates that payments made over the 10-year period will approximate $6.7 billion to quota holders and $2.9 billion to tobacco producers. OIG is conducting a three-phase review of TTPP. The first phase has now been completed; we examined FSA’s controls on payments to quota holders and concluded that they were generally adequate to ensure that TTPP payments were issued to eligible quota holders. The second phase (audit of TTPP assessments) is ongoing and the final phase (audit of payments to producers) is planned for later this fiscal year.

OIG Investigations: Farm Programs and Crop Insurance Fraud

In FY 2007, OIG criminal investigators helped obtain 35 convictions in cases involving criminal activity related to FSA and Risk Management Agency operations. Our investigative work related to these two agencies achieved approximately $21.6 million in monetary results during FY 2007.

Uncovering Fraud Related to the Tobacco Program

OIG conducted a joint investigation that resulted in two North Carolina men being ordered to forfeit $4.5 million for their conspiracy to structure financial transactions to avoid filing currency transaction reports. The men used an extensive network of accomplices, family members, and friends to conduct over $4.5 million of transactions in increments under $10,000 to avoid filing the required reports. OIG agents determined that both men intentionally engaged in fraudulent actions
regarding the proper identification of tobacco grown under FSA’s Burley Tobacco Marketing Program. The IRS, FBI, and Tennessee Bureau of Investigation participated in this investigation.

**Uncovering Fraud in the Crop Insurance Program**

OIG agents revealed a crop insurance scheme in Virginia wherein an insurance company supervisor and a claims adjuster colluded to misrepresent a tomato farmer’s production records. The supervisor backdated forms to enable the producer to meet planting dates approved by RMA and falsified production totals to ensure the producer would realize a loss. The adjuster made false statements by verifying that he visited the producer’s fields; in fact, no such visits were made. The producer was unaware of the actions taken by the supervisor and the adjuster. OIG determined that the misrepresentations resulted in the producer receiving a $308,000 Federal crop insurance indemnity payment for purported tomato losses. The supervisor and the adjuster were sentenced in 2007; the supervisor was sentenced to 5 months’ imprisonment and additional home detention; and the adjuster received a sentence of 24 months’ probation. Both men were ordered to pay $240,031 in restitution and were debarred by RMA from participation in the crop insurance program for 3 years.

A second crop insurance case investigated by OIG determined that producers in Georgia conspired to use a third producer as a “front.” The scheme involved using the front’s name as the producer because he had a higher production yield for tobacco. The two producers thereby received larger crop insurance payments during several years from 2000 to 2004 and paid cash to the front for his participation. OIG’s investigation resulted in the two producers paying a combined restitution of $739,000 to USDA prior to their sentencing for misprision (concealment) of a felony. The producers were each sentenced in August 2007 to 48 months’ probation and fined $80,000 in addition to the restitution. The front producer cooperated in the

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TTPP quota holders are the landowners of farms to which a tobacco quota was assigned.
investigation and received pretrial diversion.

**OIG Investigations: RD Programs—Fraud by Company Financial Officer Results in Sentence and Restitution**

OIG conducted an investigation into an Oklahoma manufacturing company’s former chief financial officer who used falsified documents to obtain RD loans. Our investigation disclosed that the individual fraudulently obtained $4.9 million in financial assistance from USDA and an Oklahoma bank, and another loan of $275,000 from a local lender. USDA ultimately paid the lender $1.8 million as a result of the loans going into default. The investigation resulted in the former financial officer being sentenced to 40 months’ imprisonment and 60 months’ supervised release. He was also ordered to pay $3.8 million in restitution.

**OIG Oversight of the Crop Insurance Program in FY 2008: Planned and In Process**

*Reviewing RMA Compliance Activities*

RMA administers the Federal crop insurance program in a partnership with approved, private sector insurance providers (AIP). RMA is mandated to ensure integrity in the program; its actions include monitoring AIP performance and conducting various compliance activities. We are in the latter stages of our review of the effectiveness of the agency’s compliance activities and expect to issue our report in mid-2008.

*Implementing an Effective Quality Control System for Crop Insurance*

We previously reported that RMA must have an effective quality control system in place to fully implement the Agricultural Risk Protection Act of 2000 and thereby strengthen the program’s integrity and improve participant compliance. To date, we still have not reached management decision on three of the four recommendations in OIG’s 2002 report. OIG recently initiated a review of the corrective actions planned and/or implemented by RMA. We will assess the agency’s oversight activities
concerning AIP program delivery and examine whether AIPs have implemented the controls required to prevent/detect program abuses, waste, and improper payments.

**Evaluating Crop Losses and Indemnity Payments Due to Aflatoxin-Infected Corn**

RMA issued indemnity payments totaling $27 million nationwide for the 2005 crop year due to Aflatoxin-infected corn.⁰¹² Agency concerns about the market price data used to calculate the resulting indemnity payments led RMA to request OIG’s assistance. We therefore initiated an audit to evaluate (1) whether RMA had sufficient management controls regarding those payments, (2) whether indemnity payments were properly determined, and (3) whether payments were based on reasonable reductions in market value, among other issues.

**OIG Oversight of Rural Development Programs in FY2008: Planned and In Process**

**Rural Business Cooperative Service: Reviewing Economic Development Loans to Intermediaries**

RBS’ Intermediary Relending Program (IRP) seeks to increase economic activity and employment in rural communities and alleviate poverty by providing loans to local organizations that utilize the funds to make direct, smaller loans to eligible businesses and projects in the community. In FY 2007, the IRP had over 400 borrowers and a loan portfolio of $687 million. Congress has appropriated approximately $33 million for the IRP for each of the past 3 fiscal years. OIG is examining RBS’ internal controls to determine if they are sufficient to ensure that IRP loan funds are properly spent. OIG will examine whether these loans are made to eligible borrowers for eligible purposes, the liens are appropriately used to secure the

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¹² Aflatoxin, produced by the fungus Aspergillus flavus, is a potent carcinogen. Its presence in corn reduces marketability.
loans, and RBS’ servicing actions are effectively managing collections, delinquencies, and defaults.

**Rural Rental Housing: Concerns About Owner Financial Data and Maintenance**

OIG has previously found theft of project funds by owners and management companies, totaling $4.2 million.\(^\text{13}\) The thefts contributed to deteriorated Rural Rental Housing (RRH) projects that threatened the health and safety of rural residents nationwide. We are planning a new review to determine whether there is adequate accounting for the financial data submitted by owners, whether the RRH project’s operating expenses are reasonable and documented, and whether Rural Development’s (RD) inspection procedures effectively resolve RRH maintenance and repair issues.

During FY 2008, OIG also plans to audit the Rural Housing Service’s (RHS) management controls to determine if they are sufficient to limit delinquencies in the SFH Direct Loan Program.

**Rural Utilities Service: Broadband Loan Programs and Water and Waste Programs**

Based upon the findings of OIG’s September 2005 audit, the House Agriculture Appropriations Subcommittee expressed concern that the Rural Utilities Service (RUS) had not taken sufficient corrective actions regarding its Broadband Loan Program. OIG reported that of the $599 million in broadband funds reviewed, over $340 million (67 percent) was expended for questionable purposes. We plan to conduct a comprehensive follow-up audit to determine RUS’ progress in managing its broadband programs and address the specific concerns raised by the Subcommittee in 2007.
In FY 2007, RUS’ Water and Waste Programs provided over 1.3 million rural subscribers with new or improved service facilities at a cost of approximately $1.6 billion. These programs are limited to communities that have populations of 10,000 or less, with low median household income levels, and cannot obtain credit elsewhere. OIG plans to evaluate management controls in the agency’s Southeast region to determine whether water and waste funding is being allocated only to communities meeting these criteria.

**Improving USDA Nutrition Programs: Oversight of Governmental and Private Entities**

In addition to our disaster food stamp program work, we also issued several other nutrition assistance program audits in 2007. We audited nonprofit sponsors in California and Nevada participating in the agency’s Summer Food Service Program. We found several deficiencies in three sponsors’ administration of the program, including unsafe food handling and storage. The sponsors also submitted reimbursement claims for unsupported and questionable costs. Our review of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) in Puerto Rico determined that FNS had not ensured that the Commonwealth’s agency resolved deficiencies noted in prior FNS reviews, including inadequate oversight of WIC vendors. Commonwealth WIC officials compromised the vendor bidding process by releasing information that allowed vendors to calculate bid prices in ways that increased food costs to the program and violated regulations by permitting in-store credits. These credits resulted in reimbursement to vendors for products that were not delivered to WIC participants.

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In 2007, OIG also assessed the EBT system controls of the company that is the program’s largest EBT processor. In FY 2008, we will continue our oversight in this field by reviewing elements of the EBT systems in Colorado and California.

**OIG Investigations: Targeting Fraud and Theft in USDA Nutrition Programs**

In FY 2007, OIG investigators helped obtain 77 convictions in cases involving criminal activity related to food stamp program/EBT fraud and achieved $25.4 million in monetary results.\(^{14}\) For criminal activity related to the WIC program in FY 2007, OIG investigators helped obtain 10 convictions and $507,884 in monetary results. The following cases provide examples of the type of criminal activity and schemes our agents uncover.

**Vendor Fraud in the Food Stamp Program**

A repeat offender of the food stamp program received an extended sentence after a joint investigation OIG conducted with Internal Revenue Service (IRS) and the Syracuse Police Department. The individual was a “straw owner” of a grocery store that redeemed over $1 million in illegal food stamp benefits during 2005 and 2006. Seeking to hide his prior conviction on food stamp fraud, the individual had another person act as the store owner and obtain the FNS license necessary to redeem food stamp benefits. The straw owner purchased food stamp benefits for below face-value from recipients and was then reimbursed by the food stamp program for their full value. The OIG/joint investigation resulted in the former store owner being sentenced in June 2007 to 30 months in prison, 36 months’ probation, and restitution of $330,074 to USDA. The sentence will run consecutively with the 33-month sentence (currently being served) he received for money laundering in an earlier food stamp fraud case prosecuted in the Northern District of Ohio.

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\(^{14}\) Each of the monetary result statistics contained in this testimony statement were determined as required by the Inspector General Act of 1978, 5 U.S.C. App. 3 § 5.
OIG conducted an investigation with U.S. Immigration and Customs Enforcement (ICE) into the former owners of two Chicago grocery stores engaged in EBT trafficking. The owners redeemed approximately $1.2 million in EBT benefits and over a year’s time withdrew more than $100,000 without reporting the financial transactions to IRS. The two were found guilty of wire fraud, aiding and abetting, money laundering, and conspiracy to avoid currency regulations. In September 2007, the first owner was sentenced to 90 months of imprisonment, to be followed by deportation and was ordered to pay $1.1 million in restitution. The second owner was sentenced to 12 months’ imprisonment and ordered to pay approximately $61,000 in restitution.

Investigations to Safeguard the Women, Infants, and Children Program

A major OIG case involved an interstate conspiracy in which extremely large amounts of infant formula that were shoplifted in the Atlanta metro area were transported to New York in rental trucks. A covert search during the investigation revealed that the baby formula was stored in an infested, non-refrigerated storage unit during extreme heat conditions, causing the formula to become adulterated. The value of the stolen goods for the two organized crime organizations involved was approximately $6.48 million. In December 2007, five members of the two organizations received sentences ranging from 27 to 60 months in Federal prison for conspiracy and 42 to 65 months for interstate transportation of stolen property. The five members each received an additional 36 months of supervised release. OIG investigated this case with FDA and the Organized Crime Unit of the Atlanta Police Department. Prosecutorial activity is ongoing.

We are currently awaiting sentencing in a case in which OIG agents determined that the husband and wife owners of a Michigan grocery store had fraudulently redeemed approximately $917,000 in WIC coupons and food stamp benefits. In July 2007, the husband pled guilty to food stamp trafficking and agreed not to contest the forfeiture of approximately $108,000 (including WIC vouchers) seized from his business and
residential properties. The woman was enrolled in Medicaid and childcare subsidy programs; she did not disclose her part-ownership in the store and provided false information regarding her family income, thereby improperly receiving over $22,000 in Government subsidies. The wife pled guilty to false statements related to her welfare fraud. OIG worked this case jointly with the State of Michigan's Human Services Department.

OIG agents worked with Federal and local law enforcement agencies to reveal that an FNS authorized convenience store operator in North Carolina was involved with other individuals in a stolen infant formula theft ring and counterfeit pharmaceutical scheme. A Virginia man involved in the conspiracy had devised a scheme to illegally transport stolen “WIC approved” infant formula from the North Carolina convenience store to Virginia and New York. Two suspects paid undercover agents approximately $100,000 for “stolen” infant formula that had a retail value in excess of $700,000. The store operator was sentenced in June 2007 to 37 months in prison and 36 months’ supervised probation; a deportation hearing will be held upon release. The individual responsible for transporting and trafficking the infant formula had previously pled guilty in Federal court. The FDA, FBI, and the Wilson, North Carolina, Police Department participated in the investigation.

### III. Improving USDA Management

**USDA’s FY 2007 and 2006 Consolidated Financial Statement Audits**

Pursuant to the Chief Financial Officers Act of 1990 and Office of Management and Budget (OMB) guidance, Federal OIGs are responsible for annual audits of Departmental and agency financial statements to obtain reasonable assurance that the financial statements are free of material misstatements. For FY 2007, OIG issued a qualified opinion on the USDA Consolidated Financial Statements and the RD Financial Statements. The qualified opinions were the result of significant revisions
made to RD's credit reform processes related to the Single Family Housing Program cash flow model and subsidy re-estimates. We were unable to obtain sufficient evidence to support USDA's or Rural Development's financial statement amounts as of the end of FY07 for estimated allowances for subsidy costs.

The Commodity Credit Corporation, Forest Service (FS), FNS, and Federal Crop Insurance Corporation/RMA received unqualified opinions on their FY 2007 financial statements. However, OIG noted that the Department needs to continue improving its overall financial management, information technology security and controls, and certain financial management processes. The Office of the Chief Financial Officer (OCFO) has immediate and long-term plans to substantially improve these financial and IT material weaknesses.

**Oversight of USDA's Information Technology Security**

Last fall, we issued our annual review of the Department's Federal Information Security Management Act (FISMA) efforts for FY 2007. Our review determined that the Department has improved its IT security oversight in several areas during the fiscal year. For example, the inventory of agency systems had significantly improved. In other areas, such as the certification and accreditation (C&A) process, improvements were noted, but additional work is still needed. However, a continuing material IT control weakness exists within the Department due to the lack of an effective, Departmentwide IT security plan. In our view, an effective plan would measurably improve USDA's ability to correct IT issues that affect its agencies and the Department as a whole. If the Department and its agencies effectively identify and prioritize the IT risks that exist and work collaboratively to resolve them, they can implement a time-phased plan to systematically mitigate them. Increased agency emphasis will facilitate improvements in compliance with required standards,
plan of action and milestones reporting, risk level characterization, C&A of key IT processes, Privacy Act implementation and encryption, and configuration management.

The Department concurred with OIG findings and recommendations and is taking steps to implement corrective actions. USDA officials advise that these IT control weaknesses are complex, affect most agencies within the Department, and will take time to fully resolve.

**Processing USDA Employee Civil Rights Complaints**

In response to a Congressional request, we followed up on an earlier OIG review and evaluated USDA’s performance in tracking and processing equal employment opportunity (EEO) complaints from USDA employees and job applicants.\(^\text{16}\) We found that the Office of Civil Rights (CR, now known as the Office of Adjudication and Compliance) had significantly reduced the time required to complete an average case by approximately 50% from 1997 through 2006. The agency also began implementation of its Civil Rights Enterprise System (CRES) a web-based application that enables USDA agencies and CR to use a single, improved automated system for processing/tracking EEO complaints. Previously, USDA agencies all maintained separate systems that were not reconciled. However, our audit also found that CR could not track EEO complaints effectively or process them on time and material weaknesses persisted in CR’s management control structure and environment. Consequently, CR continued to miss Equal Employment Opportunity Commission (EEOC) required timeframes. While the implementation of CRES was a positive step,

\(^{15}\) An unqualified opinion means USDA and standalone agencies’ financial statements fairly presented their financial position and related reporting.

CR did not establish sufficient protocols in the system to ensure the accuracy and sufficiency of complaint data.

In response to OIG’s recommendations, CR agreed to a series of corrective measures. These include developing a detailed formal plan to process EEO complaints timely and effectively, fully test and implement improved CRES protocols and validate the accuracy of its complaint information, and implement procedures to control and monitor case file documentation and organization.

**OIG Investigations Involving USDA Employees**

In addition to OIG’s law enforcement activities regarding external parties and individuals who violate Federal laws pertaining to USDA programs and operations, we are responsible for examining and investigating allegations that USDA employees have engaged in serious misconduct or criminal activity related to their employment. Following are two examples of such cases from 2007.

An OIG investigation involving a former RD Community Development Technician with 25 years of Federal service revealed that the individual had created fictitious loan files and grant applications. The former employee wrote checks from an agency supervised account regarding fictitious loan applications and stole the funds for her personal use. The former employee was sentenced to serve 24 months in prison, followed by 36 months’ supervised release, and ordered to pay $160,484 in restitution for embezzlement.

Following a joint OIG-FBI investigation, an Illinois man was arrested by the Cairo, Illinois, Police Department and found to possess hundreds of counterfeit identification cards, including two APHIS Veterinary Service photo identification (ID) cards. The police also found an identification-making machine and related paraphernalia. The individual utilized the false ID cards to cash fabricated checks at
grocery stores throughout the Midwest. He was sentenced in Federal court in May 2007 to 60 months in prison, 60 months of supervised release, and ordered to pay $26,129 in restitution for the manufacture/possession of counterfeit USDA identification documents.

Oversight Work Regarding USDA Management in FY 2008: Planned and In Process

The Use of Suspension and Debarment in USDA.
OIG is conducting an audit to assess the use of suspension and debarment procedures by USDA agencies. We will determine the extent to which USDA personnel are effectively using and enforcing existing authorities, so that individuals and entities found to have previously abused Federal programs do not cause further injury or loss to the Government.

IV. The Stewardship of USDA’s Natural Resources

Implementation of Renewable Energy Programs in USDA

In 2006, the President developed the Advanced Energy Initiative to reduce the Nation’s dependence on foreign energy sources as a matter of economic and national security. USDA established an Energy Council to coordinate and guide renewable energy activities within the Department and with other Federal departments. USDA uses its renewable energy funding to conduct research and to provide loans and grants to build facilities for ethanol, cellulosic, wind, and solar renewable energy projects.

OIG has an audit ongoing to evaluate the Department’s efforts to promote renewable energy projects, as it was directed by the 2002 Farm Bill, the 2005 Energy Policy Act, and the Advanced Energy Initiative. Our review includes an assessment of the
agencies’ internal controls regarding recipient eligibility, the issuance of renewable energy funds, and the coordination of renewable energy research within USDA. Our audit work is focusing on renewable energy activities at the Departmental level and within the following agencies: RBS; RUS; Agricultural Research Service; Cooperative State Research, Education, and Extension Service; and FS. We anticipate releasing this report in April 2008.

**Natural Resources Oversight Work for FY 2008: Planned and In Process**

**Conservation: Wetlands Reserve Program - Restoration Costs and Oversight**

The Wetlands Reserve Program (WRP) assists private landowners by providing financial and technical assistance to restore, enhance, and protect wetlands in a cost-effective manner through long-term easements and cost-share agreements. WRP focuses on enrolling marginal lands that have a history of crop failure or low yields and restoring and protecting degraded wetlands. OIG is examining WRP restoration costs and NRCS' monitoring of restoration efforts on these lands.

**Farm and Ranch Lands Protection Program - Review of Non-Governmental Organizations**

The Farm and Ranch Lands Protection Program provides matching funds to purchase development rights to keep productive farm and ranch lands in agricultural use. NRCS uses cooperative agreements to partner with State, tribal, or local governments and non-governmental organizations (NGO) to acquire conservation easements or other interests in land from landowners. Due to our 2006 audit findings that an NGO circumvented NRCS policies, we initiated a nationwide audit to evaluate the adequacy of NRCS’ controls regarding NGOs and the appraisals used in conservation easement purchases.
Effectiveness of NRCS’ Reviews Regarding Producer Compliance with Conservation Requirements

In order to maintain their eligibility for USDA program benefits, producers are required to apply conservation systems to control soil loss or preserve wetlands on highly erodible lands and wetlands. NRCS implemented a status review process to assess producer compliance with its conservation requirements and thereby determine (with FSA) producers’ continued eligibility for farm program benefits. Due to problems disclosed in prior OIG and Government Accountability Office audits, OIG is reviewing actions taken by NRCS to address our prior findings and recommendations and evaluating the agency’s current status review operations.

OIG Oversight of Forest Service Programs and Operations

While I recognize that the Subcommittee does not appropriate funds for FS, I would like to briefly discuss OIG’s oversight work related to FS because it is an important area of oversight responsibility for us. Due to FS’ vast size—a budget of $4.4 billion and approximately 30,000 FTEs in FY 2008—and its vital mission to manage America’s national forests and grasslands, OIG devotes considerable resources to FS oversight activities.

To address concerns about the airworthiness of firefighting aircraft, we audited the FS Air Safety Program to determine whether it minimizes the risk of accidents and contributes to the effective use of aerial resources. We concluded that FS has made strides in improving its air safety program, but believe the agency still needs to implement an airworthiness assessment and maintenance program for all of its aircraft that is targeted towards the demands that a firefighting flight environment imposes on aircraft.

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In 2007 and 2008, OIG provided testimony on three occasions to House and Senate committees regarding our work assessing the increasing, large fire suppression costs borne by USDA/FS, and the over-accumulation of hazardous fuels in the national forests that is contributing to these larger and more destructive fires. We advised that the majority of FS’ large fire suppression costs (50% to 95%) are directly linked to protecting private property in the Wildland Urban Interface. At the time of our audit, FS did not have the ability to ensure that the highest priority fuels reduction projects were funded first. The financial burdens on FS due to wildland firefighting are likely to continue to rise because of current public expectations and uncertainties about Federal, State, and local responsibilities.

**OIG Investigations: FS Operations and Personnel**

As part of our FS oversight responsibilities, OIG has a statutory duty to conduct an independent investigation into the death of an officer or an employee of the Forest Service that is caused by wildfire entrapment or burnover and to provide the results of our investigation to the Secretary and Congress. With the support of this Subcommittee, we therefore established our Wildland Fire Investigation Team (WFIT) to ensure that select OIG criminal investigators receive extensive training in the highly specialized field of wildland fire fighting. We currently have two investigations ongoing related to FS firefighter fatalities. The first pertains to the Thirtymile Fire that occurred in July 2001 in the Chewuch River Canyon area north of Winthrop, Washington. The second ongoing investigation pertains to the FS fatalities that occurred during the Esperanza Fire that occurred in October 2006 in Riverside County, California.

A further OIG investigation of note regarding FS in 2007 was our investigation into the cause of several 2004 wildfires in the Coconino National Forest (Arizona) that

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18 Fire suppression costs for FS averaged $994 million annually from FY98 through FY06. Suppression costs for the 2007 fire season are estimated to exceed $1.3 billion.
consumed 24 acres. OIG agents found evidence that a long-serving, experienced FS fire management officer had intentionally set the fires. The former FS employee eventually confessed to starting two wildfires in the forest and retired during the course of the investigation. He was sentenced in Federal court in June 2007 to 24 months in prison and 36 months of supervised release and ordered to pay a total of $15,390 in fines and restitution.

**FS Oversight Work for FY 2008: Planned and In Process**

We have audit initiatives underway to review FS’ firefighting succession planning (ensuring the agency will have a sufficient number of skilled, well-trained Incident Commanders), the agency’s use of contract labor crews, and its replacement plan for firefighting aerial resources. We also plan to review FS’ acquisition practices for IT hardware and software.

**V. OIG’s FY 2009 Budget Request**

Finally, I would like to provide the Subcommittee with information describing OIG’s budget situation in FY 2008 and the President’s FY 2009 request for OIG. We are very appreciative of the support this Subcommittee has always shown for OIG’s work and your understanding of our need for resources to produce that work. We are providing this information to assist you with your review of the FY 2009 budget request.

**OIG’s Current Budget Situation**

As the chart below demonstrates, OIG’s Congressional appropriation was essentially straight-lined between FYs 2006 and 2007, and actually went down between FYs 2007 and 2008. For FY 2008, the President had requested $83,998,000 in appropriated funds for OIG. OIG received only $79,491,000 (an appropriation of
$80,052,000 minus a recision of $560,364). This does not include funding requested to cover the mandatory pay raise, allow OIG to expand its work on crop insurance issues, or make needed improvements to its IT infrastructure.

In order to live within these budget constraints, meet our mission as best we can, and fund legislatively mandated pay increases, OIG has now reached the point where it has instituted a hiring freeze with the goal of reducing staff levels. By the end of FY 2008, our plan calls for OIG staffing levels to be reduced, through attrition, to 570—which is a reduction of 18 staff from FY 2007, which itself was a reduction of 7 staff over FY 2006.

Unfortunately, these reductions follow an extended period of decline for OIG staffing levels. In the 10 years between FY 1996 and FY 2006, OIG staff declined approximately 22%. With the reductions over the last two years, OIG has lost 26% (or more than a quarter) of its work capacity in just a dozen years.
Staff reductions alone do not tell the full story of operational changes OIG has had to make. For FY 2008, for instance, we have made a series of tough budget decisions to enable us to live within our appropriated funds.

- We postponed equipment purchases for the National Computer Forensics Division (NCFD), which are necessary to keep that unit within compliance with professional equipment and training standards.

- We postponed necessary training and equipment purchases for the Emergency Response Program (ERP).

- We cut a total of $900,000 from our IT budget. Most recently, we concluded that we would have to skip a year in our normal cycle of replacing one third of our laptops each year. We cannot suspend this replenishment cycle another year without finding ourselves in the position of having laptops that will not be compatible with the new operating system USDA is expecting to roll out in
FY 2009 or FY 2010.

- We cut basically all other OIG discretionary spending (contracting, training, and travel) by an average of 8%. The travel cuts were particularly painful as they have a direct effect on the number and scope of the audits and investigations OIG can do. Where previously an audit might have included sufficient sites to support nationwide projections and recommendations, we will likely have to limit a number of our future audits to a regional scope.

**President’s FY 2009 Budget Request for OIG**

The President’s Budget request for OIG for FY 2009 is $85,776,000. The request would enable OIG to:

- Cover the mandatory pay raise costs expected for FY 2009.
- Eliminate the hiring freeze and address critical vacancies.
- Purchase two new Storage Area Networks (SAN) to enable OIG to take advantage of data replication and disaster recovery options not available when OIG’s current SANs (which go out of warranty in FY 2009) were purchased.
- Make the delayed purchases to support our NCFD and ERP.
- Restore funds cut from Audit and Investigations travel, thereby increasing the scope of work we can perform.

If, however, OIG does not receive the staff support and IT costs requested by the President, OIG would have to reduce staff further in FY 2009. We estimate the FY 2009 staff reduction necessary should OIG not receive the requested funding, to
be 21 staff or almost 4% under the already drastically reduced FY 2008 levels. OIG staff would then be down 30% since FY 2006.¹⁹

OIG’s ability to provide services to the Department, Congress, and the public is directly tied to the number of staff it can support through pay and related costs. Over the last 3 fiscal years, management has agreed to over 1,143 OIG recommendations for program improvements and over $1.8 billion in OIG financial recommendations and investigative recoveries. Those numbers—which are really just a statistical barometer of OIG’s impact on Departmental operations—will most likely decrease as our staff continues to decline, as will our ability to do the types of work we summarized for you today in this testimony. We have done all we can to do more with less; we are now at that juncture where, in truth, we can only do less with less.

- In FY 2008 alone, our Audit office will lose approximately 12 work years and $400,000 in travel funds. Several audits (including some identified as high priority) will need to be delayed; the scope of some audits will have to be reduced; and some audits will have to be cancelled outright. The following is a partial list of audits that have already been delayed and may have to be cancelled later.

1) An audit of the National Organic Program, which was scheduled to start in January 2008 will now be delayed until August 2008. Organic food sales have grown between 14 to 21% each year since 1997. Sales of organic foods in 2006 exceeded $16 billion dollars. However, with the staffing and travel

¹⁹ This estimated reduction is based on the following assumptions: OIG would have to absorb a pay cost approximate to the $1.9 million we absorbed this year, the postponed NCFD and ERP enhancements would have to be funded at .3 million, and one-third of OIG laptops would need to be replaced at approximately .4 million. This would equal a total additional cost of $2.6 million that would have to be absorbed at OIG’s current budget level. Estimating $122 thousand per FTE, that would be approximately 21 staff.
requirements for this audit, the work will need to be split between 2 fiscal years to have sufficient resources to conduct the audit.

2) Audits addressing WIC vendor monitoring, new farm programs included in the Farm Bill, acquisition of IT software and hardware, the FSA comprehensive compliance system, and the RMA National Program Operations Review are being delayed, and no estimated start date has been set due to lack of currently available resources. These audits involve billions of dollars in program payments and analyses of agency internal control and compliance systems that help ensure program integrity.

- Should staff, equipment, and travel resources available to our Investigations office continue to diminish, OIG will have to increasingly limit our investigative focus only to those food safety and security issues that directly imperil public health. The resources dedicated to detecting and preventing fraud in USDA programs would have to decline, in order to preserve our ability to work on critical safety and security cases. Unfortunately, this reduced capacity for fraud investigations would likely end in greater cash losses to the Federal Government than are saved by the cuts to OIG.

It is to avoid further limitations on OIG’s ability to provide independent, effective audit and investigations coverage to USDA programs and operations that we are asking for your support of the President’s Budget Request for FY 2009 for OIG.

This concludes my testimony. I want to again thank the Members of the Subcommittee for the opportunity to discuss the work of OIG with you. My senior management team and I will be pleased to address any questions you may have.