



United States Department of Agriculture
Office of Inspector General



Office of Inspector General

Semiannual Report to Congress

FY 2008 - 2nd Half

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KEY OIG ACCOMPLISHMENTS IN THIS REPORTING PERIOD

RESULTS IN KEY CATEGORIES

SUMMARY OF AUDIT ACTIVITIES

Reports Issued

Number of Reports	34
Number of Recommendations	142

Management Decisions Made

Number of Reports	25
Number of Recommendations	153

Total Dollar Impact (Millions) of Management-Decided Reports \$118.6

Questioned/Unsupported Costs \$0.7

Funds To Be Put to Better Use \$117.9

SUMMARY OF INVESTIGATIVE ACTIVITIES

Reports Issued 129

Impact of Investigations

Indictments	359
Convictions	358
Arrests	994

Total Dollar Impact (Millions) \$40.0

Administrative Sanctions 78

OIG MAJOR USDA MANAGEMENT CHALLENGES (August 2008)

1) Interagency Communications, Coordination, and Program Integration Need Improvement

Related material can be found on pages 8 and 16-17.

2) Implementation of Strong, Integrated Internal Control Systems Still Needed

Related material can be found on pages 3, 7-11, 15-18, and 23-24.

3) Continuing Improvements Needed in Information Technology (IT) Security

Related material can be found on pages 17-18.

4) Departmental Efforts and Initiatives in Homeland Security Need To Be Maintained

Related material can be found on pages 4 and 39.

5) Material Weaknesses Continue To Persist in Civil Rights Control Structure and Environment

Related material can be found on pages 21.

6) USDA Needs To Develop a Proactive, Integrated Strategy To Assist American Producers To Meet the Global Trade Challenge

Related material can be found on page 16.

7) Better Forest Service Management and Community Action Needed To Improve the Health of the National Forests and Reduce the Cost of Fighting Fires *Related material can be found on pages 3-4.*

8) Improved Controls Needed for Food Safety Inspection Systems

Related material can be found on pages 1-2.

9) Implementation of Renewable Energy Programs at USDA

Related material can be found on pages 13-15.

Message From the Inspector General

I am pleased to provide the Semiannual Report to Congress for the Office of Inspector General (OIG), U.S. Department of Agriculture (USDA), for the 6-month period that ended September 30, 2008. This report summarizes the most significant OIG activities during the period, organized according to the goals set forth in the OIG Strategic Plan for FY 2007-2012, as shown below.

- **Safety, Security, and Public Health** – Prompted by a Congressional request, OIG determined that the Food Safety and Inspection Service (FSIS) needs to strengthen controls for reinspecting meat and poultry products at U.S. ports of entry. We also responded to then Acting Secretary Conner’s request and found that FSIS should collect and analyze a more representative sample during outbreak investigations related to recalls for adulterated or contaminated products. Our investigative work resulted in sentencing in cases involving dogfighting and contaminated meat and poultry.
- **Integrity of Benefits** – Our investigative cases involving the Food Stamp Program (FSP, renamed the Supplemental Nutrition Assistance Program, effective October 1, 2008) and other feeding programs, as well as conversion of mortgaged collateral, produced significant prison sentences and court-ordered restitutions and forfeitures totaling millions of dollars. Our audit work found that the Food and Nutrition Service should strengthen its processes for approving retailers in FSP, the Farm Service Agency (FSA) was limited in its ability to enforce collection of tobacco assessments to fund the Tobacco Transition Payment Program, and FSA did not have effective controls to ensure interest rates charged by lenders met requirements of FSA’s guaranteed farm loan programs.
- **Management Improvement Initiatives** – Our audits found that USDA’s implementation of renewable energy activities needs improvement, FSA did not effectively determine eligibility for the Emergency Forestry Conservation Reserve Program, and improper reimbursement requirements and ill-defined missions directed by the Federal Emergency Management Agency increased costs and may have hindered Forest Service operations. In addition, the National Finance Center received its first unqualified opinion on its general control environment. After our investigation, a former USDA employee was convicted of computer fraud.
- **Stewardship Over Natural Resources** – Our audit work found that the Natural Resources Conservation Service improperly obligated Wetlands Reserve Program funds and inadequately monitored easements, but it improved the status review process to evaluate producer compliance with highly erodible land conservation and wetland conservation provisions.

During this reporting period, we conducted successful investigations and audits that led to 994 arrests, 358 convictions, \$40.0 million in recoveries and restitutions, 138 program improvement recommendations, and \$118.6 million in financial recommendations. In response to some of our program improvement recommendations, FSA agreed to revise its examination procedures and forms to provide comprehensive procedural guidance for warehouse examiners at port facilities, and the Department agreed to develop and implement a renewable energy strategy that includes program goals for agency managers.

These program improvements and monetary results would not have been possible without the continuing interest and support of the Congress, Secretary Schafer, and Deputy Secretary Conner. Their strong commitment is vital to our mutual success in improving USDA programs and operations. The excellence of OIG staff work has been recognized by the Secretary, the President, and the President’s Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency (see page 27).



Phyllis K. Fong
Inspector General

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Safety, Security, and Public Health

OIG Strategic Goal 1:

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

To help USDA and the American people meet critical challenges in safety, security, and public health, OIG provides independent and professional audits and investigations in these areas. Our work addresses such issues as the ongoing challenges of agricultural inspection activities, safety of the food supply, and homeland security.

In the second half of fiscal year (FY) 2008, we devoted 21 percent of our total direct resources to Goal 1, with 99.6 percent of these resources assigned to critical/high-impact work. A total of 92.3 percent of our audit recommendations under Goal 1 resulted in management decision within 1 year, and 98.5 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued 4 audit reports under Goal 1 during this reporting period and a total of 10 during the full fiscal year. OIG's investigations under Goal 1 yielded 91 indictments, 172 convictions, and about \$7.1 million in monetary results during this reporting period and a total of 113 indictments, 449 convictions, and about \$8.9 million in monetary results during the full fiscal year.

Management Challenges Addressed UNDER GOAL 1

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 2, 3, and 4)
- Continuing Improvements Needed in Information Technology (IT) Security (also under Goal 3)
- Departmental Efforts and Initiatives in Homeland Security Need To Be Maintained
- USDA Needs To Develop a Proactive, Integrated Strategy To Assist American Producers To Meet the Global Trade Challenge (also under Goal 3)
- Better Forest Service Management and Community Action Needed To Improve the Health of the National Forests and Reduce the Cost of Fighting Fires (also under Goals 3 and 4)
- Improved Controls Needed for Food Safety Inspection Systems

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 1

Food Safety and Inspection Service (FSIS) Needs To Strengthen Inspection Processes for Meat and Poultry Imports

In response to a Congressional request, we conducted an audit to evaluate FSIS inspection processes for meat and poultry imports to ensure the integrity of the U.S. food supply. We determined that FSIS needs to strengthen controls for reinspecting meat and poultry products at U.S. ports of entry. FSIS should determine the number of "intensified inspections" (which are called for after physical or laboratory failures to meet U.S. requirements) that would provide the appropriate level of protection to ensure the safety and wholesomeness of imported products. FSIS also needs to strengthen procedures

for specifying the priority of performing reinspection activities, verifying production dates, analyzing data in its information system, and managing noncompliance records.

We also found that FSIS had adequately implemented the corrective actions reported for 49 of 51 previous recommendations. However, FSIS had not documented the protocols implemented in the agency's management controls. FSIS needs to document controls for assessing the equivalence of foreign countries' food safety systems, specifically the controls concerning the methodology used to select foreign establishments for review. FSIS also should document its policy to perform onsite audits before receiving product from a new or suspended country. FSIS agreed with our recommendations and has begun corrective action. (Audit Report No. 24601-08-Hy, Followup Review of Controls Over Imported Meat and Poultry Products)

FSIS Should Collect and Analyze a More Representative Sample During Outbreak Investigations

In September 2007, FSIS announced that a New Jersey establishment was expanding a voluntary recall to more than 21 million pounds of frozen ground beef products possibly contaminated with *E. coli* O157:H7. In response to the Deputy Secretary's (then Acting Secretary) request in October 2007, we assessed whether improvements could be made to protocols for handling recalls to ensure that accurate information is rapidly obtained and conveyed to the appropriate decision makers and whether FSIS is taking full advantage of its statutory authorities to address recalls.

We found that FSIS has taken strides to strengthen its investigative and recall procedures and has taken full advantage of its recall authority. However, FSIS needs a protocol to collect a more representative sample from establishments for laboratory analysis during an outbreak investigation. Due to lack of guidance, FSIS collected from the company the only available package that had the identical labeling and production date as the non-intact (opened) product from a case patient's home. (FSIS later became aware of additional product at the company.) The product collected from the company tested negative for *E. coli* O157:H7. As a result, FSIS could not conclude that contamination had occurred at the establishment, and the lack of additional product testing potentially delayed the agency's ability to recommend a recall. In addition, FSIS has not finalized and implemented its draft directive for investigating foodborne illnesses and its revised directive for handling recalls. FSIS agreed with our recommendations. (Audit Report No. 24601-09-Hy, FSIS' Recall Procedures for Adulterated or Contaminated Product)

New Jersey Man Convicted in Federal Court for Contaminating Meat

In June 2008, a co-owner of a Jersey City, New Jersey, meat distributing company was sentenced to serve 24 months of probation and fined \$1,000 after pleading guilty in Federal court to holding adulterated meat products for sale. The co-owner had stored approximately 9,000 pounds of goat and beef carcasses in a manner that led to the product becoming adulterated with rodent infestation. The product was destroyed by FSIS before any adulterated meat could reach consumers.

This case was worked jointly with FSIS' Office of Program Evaluation, Enforcement and Review.

Plant Employee Contaminates Poultry To Get Day Off From Work

In April 2008, an employee of a poultry plant was ordered to pay the company \$199,587 in restitution after he contaminated poultry to get a day off from work. In November 2007, the employee pled guilty and was sentenced in Circuit Court, Johnson County, Arkansas, to serve 60 months of probation and was ordered to pay a \$1,000 fine and perform 40 hours of community service for felony criminal mischief. The employee was seen on company surveillance cameras throwing ink into a chiller, adulterating the poultry inside. The employee confessed to the crime and stated that he just wanted a day off from work. This case was worked jointly with the Clarksville, Arkansas, Police Department.

Tennessee Man Sentenced to Prison for Communicating False Information That a Consumer Product Was Tainted

In September 2008, a Tennessee man was sentenced in Federal court to serve 12 months and 1 day in prison, followed by 36 months of probation upon release, and was ordered to pay restitution of \$471,712 for communicating false information that a consumer product had been tainted. In September 2007, a food processing facility received a telephone call from an anonymous source who advised that their food product was contaminated with pesticide. The investigation disclosed the man as a potential subject, and the Food and Drug Administration (FDA) administered a polygraph examination. The man subsequently admitted to making the telephone call but denied contaminating any food product. This misinformation caused the food processing facility to experience a temporary interruption of service while awaiting the return of laboratory results. All product samples tested negative for pesticide residue. This case was worked jointly with FDA's Office of Criminal Investigations.

Joint Investigation Uncovers Dogfighting Ring

In June 2008, a man was sentenced in State Court, Hamilton County, Ohio, to 162 months in prison for dogfighting and both possession of and trafficking in marijuana. The 14-month undercover investigation disclosed that the man was a principal

organizer of a dogfighting ring and gambling organization in the Dayton and Cincinnati metropolitan areas and other parts of Ohio, Kentucky, and Michigan. Judicial action is pending against numerous other defendants charged with similar offenses. This case is being worked jointly with various Federal, State, and local law enforcement entities as part of the Ohio Organized Crime Investigations Commission Taskforce. OIG's National Computer Forensic Division (NCFD) provided computer forensics assistance in this case.

Incident Commander (IC) in Thirtymile Fire Is Sentenced

In August 2008, the IC for the Thirtymile Fire was sentenced to 90 days of incarceration, followed by 36 months of probation, and assessed a \$50 penalty. He was also required to submit to a complete mental health, alcohol, and substance abuse evaluation. He must abstain from alcohol during his probationary period and submit to alcohol testing as required. In addition, he is prohibited from seeking firefighter qualifications or engaging in firefighting or fire-line activities. In April 2008, in the Eastern District of Washington, the IC had pled guilty to two counts of making false statements. On July 10, 2001, four Forest Service (FS) firefighters died after they became entrapped and their fire shelter deployment site was burned over by the Thirtymile Fire in the Chewuch River Canyon, 30 miles north of Winthrop, Washington. The investigation disclosed that the IC failed to order the firefighters off a rock slope where the firefighters had deployed their emergency fire shelters; he subsequently provided false statements to investigators. This fire led to the passage of Public Law 107-203, which was signed into law on July 24, 2002, requiring OIG to conduct an independent investigation into the death of any FS employee resulting from a burnover or entrapment in a wildland fire.

Inspections of Port Facilities Do Not Guarantee Quality of USDA Food Exports

The Farm Service Agency (FSA) facilitates the sale, donation, and transfer of Commodity Credit Corporation (CCC)-owned commodities by arranging for their export as part of various food aid programs. We found that FSA's port examination process, initiated in 1999 to improve storage conditions for food awaiting shipment, was not sufficient to guarantee the quality of food exports. FSA had developed and maintained a list of "approved" port facilities but does not have a statutory basis for discontinuing relationships with substandard facilities. Rather than promulgate regulations for approving and removing a port from its list of approved ports, FSA relied on its procurement regulations (which provide that the adequacy of the port be considered before final selection) to conduct the examinations since it had to determine whether a port or transloading facility was able to perform. However, there is no binding contractual agreement between FSA and the port or transloading facility. Moreover, port examinations were inconsistent because FSA's examination procedures did not contain precise and comprehensive guidance for warehouse examiners to determine the significance of violations. FSA also failed to adequately follow up on deficiencies.

In response, FSA reported that it plans to create, under the authority of the U.S. Warehouse Act (USWA), a license for port facilities and require during the procurement process that only USWA-licensed facilities handle Government food assistance commodities. This would allow FSA to use current licensing program policies and procedures, written standards for approval, and due process for approving and disapproving facilities under USWA, as well as current procedures to track and follow up on adverse examination reports and to suspend and revoke licenses. FSA also plans to revise its examination procedures and forms to provide comprehensive procedural guidance for examiners. (Audit Report No. 03099-198-KC, Inspection of Temporary Domestic Storage Sites for Foreign Food Assistance)

GOVERNMENTWIDE ACTIVITIES – GOAL 1

Participation on Committees, Working Groups, and Task Forces

- An OIG Special Agent is assigned full time to the Federal Bureau of Investigation's (FBI) National Joint Terrorism Task Force (NJTTF). The agent attends the NJTTF threat briefings and provides a variety of products related to terrorist intelligence to OIG and other agencies and offices within the Department. OIG Special Agents nationwide are assigned to the FBI's local JTTFs. OIG's participation on the national and local JTTFs has provided an excellent means for sharing critical law enforcement intelligence and has served to help broaden the knowledge of the FBI and other law enforcement agencies about conducting criminal investigations with a connection to the food and agriculture sector.

ONGOING AND PLANNED REVIEWS FOR GOAL 1

Topics that will be covered in ongoing or planned reviews under Goal 1 include:

- oversight of the National Organic Program (Agricultural Marketing Service (AMS)),
- followup on purchase specifications for ground beef (AMS),
- fresh product grading (AMS),
- assessment of USDA controls to ensure compliance with beef export requirements (AMS and FSIS),
- evaluation of management controls over pre-slaughter activities (FSIS),
- oversight of the recall by a California slaughterhouse (FSIS),
- animal care inspections of dealers (Animal and Plant Health Inspection Service (APHIS)),
- oversight of the designated qualified persons enforcing the Horse Protection Act (APHIS),
- controls over animal import centers (APHIS),
- Plant Protection and Quarantine program (APHIS),
- swine and poultry handling and inspection (FSIS),
- national residue program in non-cull cow, swine, and poultry plants (FSIS),
- followup of APHIS licensing of animal exhibitors,
- Food Emergency Response Network (FSIS),
- salmonella verification testing program (FSIS),
- USDA's role in the export of genetically engineered (GE) agricultural commodities (Senior Advisor to the Secretary for International and Homeland Security Affairs and Biotechnology; APHIS; Agricultural Research Service (ARS); Cooperative State Research, Education, and Extension Service (CSREES); Foreign Agricultural Service (FAS); and Grain Inspection, Packers and Stockyards Administration (GIPSA)),
- USDA controls over GE animals and insects research (ARS, CSREES, and APHIS),
- controls over GE food and agriculture imports (APHIS),
- agency controls over the National Plant Diagnostic Network (CSREES and APHIS),
- agency controls over the National Animal Health Laboratory Network (APHIS and CSREES),
- USDA's response to colony collapse disorder (ARS),
- implementation of flood control dams rehabilitation (Natural Resources Conservation Service (NRCS)),
- FS contracted labor crews,
- followup on prior firefighter safety audits (FS),
- FS firefighting succession plans,
- FS replacement plan for firefighting aerial resources,
- FS National Fire Plan Reporting System, and
- FS Fire Program Analysis System.

The findings and recommendations from these efforts will be covered in future Semiannual Reports as the relevant audits and investigations are completed.

Integrity of Benefits

Strategic Goal 2:

Reduce program vulnerabilities and strengthen program integrity in the delivery of benefits to program participants.

OIG conducts audits and investigations to ensure or restore integrity in the various benefit and entitlement programs of USDA, including a variety of programs that provide payments directly and indirectly to individuals or entities. The size of these programs is daunting: the Food Stamp Program (FSP, renamed the Supplemental Nutrition Assistance Program, effective October 1, 2008) alone accounts for approximately \$40 billion in benefits annually, while well over \$20 billion annually is spent on USDA farm programs. Intended beneficiaries of these programs include the working poor, hurricane and other disaster victims, and schoolchildren, as well as farmers and producers. These programs support nutrition, farm production, and rural development.

In the second half of FY 2008, we devoted 39 percent of our total direct resources to Goal 2, with 89.3 percent of these resources assigned to critical/high-impact work. A total of 97.7 percent of our audit recommendations under Goal 2 resulted in management decision within 1 year, and 84.5 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued 16 audit reports under Goal 2 during this reporting period and a total of 26 during the full fiscal year. OIG investigations under Goal 2 yielded 237 indictments, 152 convictions, and about \$29.4 million in monetary results during the reporting period and a total of 335 indictments, 244 convictions, and about \$60.5 million in monetary results during the full fiscal year.

Management Challenges Addressed Under Goal 2

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 1, 3, and 4)
- Implementation of Strong, Integrated Internal Control Systems Still Needed (also under Goal 3)

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 2

Food Stamp Cases and Related Offenses in Several States Yield Substantial Prison Sentences and Millions of Dollars in Restitutions and Forfeitures

- In July 2008, the owner of a Newark, New Jersey, grocery store was sentenced in Federal court to serve 43 months in prison, followed by 36 months of probation upon release, and was ordered to pay restitution of \$1,482,864 to USDA for discounting Electronic Benefits Transfer (EBT) benefits for cash. The owner was arrested in June 2000 and shortly thereafter fled to the Dominican Republic until 2007, when she was extradited to the United States to face the charges. As reported for the first half of FY 2007, in October 2006, three other individuals connected with this case were ordered to pay a total of \$1.1 million in restitution for their role in committing food stamp trafficking via the EBT system by discounting large amounts of EBT benefits for cash. One individual received 21 months in prison, and the other two received probation for a term of 36 months each. This case was worked jointly with the U.S. Secret Service.
- In conjunction with the U.S. Attorney's Office for the Southern District of New York, in the fall of 2006, OIG initiated a large-scale investigation of food stamp trafficking. As a result, in April 2007, two grocery store owners and their employees were charged with violations of Federal law, including food stamp trafficking and theft of Government funds. Also, more than \$1.1 million in cash and property associated with the fraud were seized and forfeited to the Government. In January 2008, the owner of one store pled guilty, and the owner of the other store was found guilty at trial. In June 2008 and July 2008, the grocery store owners received sentences of, respectively, 57 months of imprisonment and restitution of \$442,352, and 37 months of imprisonment and \$1,471,248 in restitution. In addition, their employees pled guilty and received sentences ranging from probation to imprisonment and restitution.
- In May 2008, a former Chicago, Illinois, grocery store owner was sentenced in Federal court to serve 12 months and 1 day in prison, followed by 36 months of probation, and was ordered to pay \$1,082,987 in restitution and a \$200 fine, and forfeit \$698,014 for exchanging EBT benefits for cash. From May 2002 to December 2002, the former grocery store owner redeemed approximately \$794,416 in food stamp benefits despite reported annual

food sales of \$169,840. The former grocery store owner also operated and exchanged EBT benefits for cash at two additional grocery stores. From September 2001 to March 2002, the second store redeemed \$311,285 in food stamp benefits, and from May 2003 to February 2004, the third store redeemed \$177,638 in food stamp benefits. This investigation was conducted jointly with the Internal Revenue Service's Criminal Investigation (IRS CI).

- In August 2008, a co-owner of a Flint, Michigan, grocery store was sentenced in Federal court to serve 27 months in prison and 24 months of supervised release, and was ordered to pay restitution of \$916,888 for trafficking in EBT benefits and Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) coupons. The remaining store owner was sentenced in Federal court on the same day to serve 4 months in prison, 2 months of home confinement, and 24 months of supervised release and was ordered to pay restitution of \$44,547 for fraud in connection with various Federal welfare programs. The investigation disclosed that, from 2001 to 2003, the co-owners fraudulently redeemed approximately \$322,000 in food stamp benefits and \$594,000 in WIC coupons. This was a joint investigation with the U.S. Department of Health and Human Services OIG and the State of Michigan's Department of Human Services OIG.
- As reported previously, from January 2002 to January 2004, an Ohio furniture store owner led a nationwide network that trafficked in stolen merchandise and food stamps through inner-city markets near Dayton, Ohio. Stolen merchandise transported to several other States included infant formula, diabetic blood glucose test strips, over-the-counter medications, and health and beauty aids valued at approximately \$448,656. Much of the stolen infant formula was transported interstate to WIC-authorized stores. In January 2004, the store owner and 19 others were charged with food stamp trafficking, receipt and interstate transportation of stolen property, conspiracy, and money laundering. Nineteen, including the store owner, have pled guilty or been convicted. Sixteen received sentences ranging from 8 to 28 months of incarceration with 12 to 36 months of probation, total fines of \$6,950, and total restitution of \$87,552. In March 2006, the store owner was sentenced to 11 years in prison, 5 years of supervised release, and more than \$2.6 million in restitution. In May and June 2008, the last two individuals were sentenced to serve 30 and 15 months, respectively, in Federal prison

for their participation in this scheme. OIG's NCFD provided computer forensics assistance in this case.

- In April 2008, the owner of a San Antonio, Texas, grocery store was sentenced in Federal court to serve 36 months of probation and was ordered to pay \$458,995 in restitution for WIC and EBT trafficking. In July 2007, and September 2007, a former WIC employee for the city and two co-conspirators received sentences ranging from 24 months of probation to 15 months in prison and were ordered to pay \$57,472 in restitution. A third co-conspirator remains a fugitive. The OIG investigation disclosed that, between January 2001 and October 2001, the WIC employee and three others conspired to embezzle and create approximately 691 fictitious WIC vouchers totaling \$49,290 from the Metropolitan Health District, WIC Division. The grocery store owner was aware of the WIC fraud scheme and subsequently purchased the WIC vouchers and also exchanged EBT benefits for cash. A financial analysis revealed that, from January 1999 to May 2003, the grocery store owner redeemed approximately \$458,000 in WIC and food stamp benefits that were not supported by legitimate sales.

Long Prison Sentences and Restitutions Ordered for Fraud in Feeding Programs

- In May 2008, a Texas church pastor was sentenced in Federal court for fraudulently participating in the Summer Food Service Program (SFSP). The OIG investigation disclosed that, from April 2003 to April 2006, the church pastor illegally obtained \$586,347 in SFSP benefits, formed five corporations and one business entity that he used to launder the illegally obtained benefits, and used a portion of the illegal gains to purchase a residence and two vehicles. The pastor was sentenced to serve 235 months in prison, followed by 36 months of supervised release, and was ordered to pay \$544,649 in restitution, jointly and severally with the business interests. The court also ordered forfeiture of the pastor's residence and two vehicles. This investigation was conducted jointly with the Department of Homeland Security's (DHS) U.S. Immigration and Customs Enforcement (ICE) and IRS CI.
- In July 2008, the executive director of a sponsoring organization in North Carolina and her daughter were sentenced in Federal court for defrauding the Child and Adult Care Food Program (CACFP) and IRS. The investigation disclosed that, between October 2002 and March 2005, the sponsoring organization

falsified documents to illegally obtain \$777,902 in CACFP reimbursements. In addition, the executive director and her daughter failed to pay taxes on the illegally obtained funds deposited into their personal bank accounts. The executive director was sentenced to serve 57 months in prison, followed by 36 months of supervised release, and was ordered to pay \$1,191,749 in restitution to the North Carolina Health and Human Services and IRS. Her daughter was sentenced to 90 days of home confinement, 5 years of probation, and 200 hours of community service, and was ordered to pay a \$3,000 fine and \$49,134 in restitution to IRS. This investigation was conducted jointly with IRS CI.

Food and Nutrition Service (FNS) Should Strengthen Its Processes for Approving Retailers for Participation in the Food Stamp Program (FSP)

FSP is carried out in cooperation with private retailers. We found that, generally, FNS had controls in place to ensure proper retailer authorizations. However, we identified two areas where FNS could strengthen its processes for approving retailers for participation in FSP, and thus strengthen program integrity. FNS does not verify FSP applicant retailers' criminal records prior to approval and therefore cannot comply with its own requirement to deny authorization to any retailer with a criminal conviction that reflects on the business integrity of the owner. Instead, FNS relies on applicant retailers to certify to the accuracy of information provided relative to their criminal record at the point of application. Also, FNS field offices are no longer required to hold face-to-face meetings with applicants to provide training and explain compliance with FSP regulations and the different types of violations (i.e., trafficking), which could impair the successful prosecution of FSP violators. We recommended that FNS require retailers to undergo a criminal record background check before acceptance into FSP. In response to FNS concerns about the difficulty of obtaining these records and the necessity of implementing a regulatory change that may not be cost beneficial, we advised that FNS should continue to seek other options to better ensure the integrity of retailers applying to participate in the program. FNS agreed to consult with the Department of Justice (DOJ) to ensure that the retailer authorization process is sufficient for successful prosecution of retailers who are trafficking food stamp benefits. (Audit Report No. 27601-15-At, FSP Retailer Authorizations and Store Visits)

New Jersey Needs To Strengthen Controls for Allocating Administrative Costs to FSP

We concluded that the New Jersey State agency needs to improve its controls over how FSP administrative costs are allocated to the program. Each county welfare agency in New Jersey has staff assigned to different work units that provide assistance to applicants for welfare programs, including FSP. Administrative costs are allocated for each unit based on an approved method—one being a statistically selected random moment time study—or distributed based on employee personnel activity reports that should reflect actual activity for each employee.

The three counties in our review did not ensure that employees' salaries were charged to the correct work units, and two counties did not ensure that all employees were included in the sample universe before making sample selections for the random moment time studies. For one, county staff misunderstood instructions from the State agency relating to requirements for the random moment time studies. The State agency also had not ensured allocations were in compliance with procedures because it relied on Office of Management and Budget (OMB) guidance on Single Audits that suggests, but does not require, testing of a State agency's cost allocation plan. Therefore, there is no assurance that payroll cost allocations were reviewed as part of the Single Audit process. FNS and the State agency agreed with our recommendations to implement a corrective action plan to ensure that costs are properly allocated to benefiting programs and to train staff on proper cost allocation. (Audit Report No. 27002-25-Hy, FSP Administrative Costs in New Jersey)

Colorado Needs To Significantly Improve Management of FSP Through Its EBT System

In 2006, FNS officials in Denver, Colorado, informed us of multimillion-dollar discrepancies and unexplained over-issuances caused by the failure of its new computerized FSP eligibility system to operate properly. As a result, we initiated an audit as part of a multi-year plan to provide a comprehensive assessment of the adequacy of the established controls over food stamp EBT on a national basis and to evaluate the effectiveness of FNS' oversight efforts. Although the audit did not disclose any deficiencies with the EBT system itself, the Colorado State Agency's management of FSP through its EBT system needs

significant improvement. The State agency needs to improve controls for issuing FSP benefits and establishing claims through its computerized system. In addition, we identified deficiencies in controls that the State agency established to oversee and secure its EBT system. For example, the State agency did not use available EBT management reports to monitor program operations for improper activity. It also did not establish units to assist in the prosecution of trafficking by food stamp recipients. We also noted deficiencies in issuing benefits and EBT system security.

FNS agreed to require the State agency to ensure that errors in the FSP eligibility system are corrected and claims properly established, perform system data analysis for FY 2007 if a similar FY 2006 data analysis discloses significant over-issuances, pursue for collection any over-issuances identified in their analysis, and improve oversight of its EBT system and strengthen controls over system security to prevent misuse of FSP funds. (Audit Report No. 27099-68-Hy, EBT System in Colorado)

FSA Was Limited in Its Ability To Enforce Collection of Tobacco Assessments To Fund the Tobacco Transition Payment Program (TTPP)

TTPP, administered by FSA for tobacco quota holders and producers of tobacco, is funded by assessments levied and collected by FSA from tobacco manufacturers and importers of tobacco products and based on volumes of domestic tobacco sales as reported to FSA by the manufacturers and importers. We concluded that FSA controls were, overall, adequate to ensure that FSA levied and collected the vast majority of assessments. However, 90 entities that filed required reports with FSA did not pay their \$58.3 million in levied assessments for FYs 2005 and 2006. CCC funded these non-paying entities' shares of the TTPP payments, and FSA has referred a number of them to DOJ for debt collection. Moreover, although the Department of the Treasury's Alcohol and Tobacco Tax and Trade Bureau (TTB) provides data to FSA to identify companies for assessment, the Internal Revenue Code of 1986 limits the use of such tax data, and FSA has been unable to pursue collection of assessments against an additional 62 manufacturers and importers that have not reported their volumes of domestic sales to FSA.

FSA agreed to work with USDA's Office of the General Counsel (OGC) to take legal action, as necessary, to enforce

collection of assessments and penalties from non-paying and non-reporting entities. In addition, FSA is working with TTB to achieve an official Memorandum of Understanding that will allow FSA to use TTB's data to calculate and levy assessments against non-reporting entities. FSA also agreed, generally, to develop and implement regulations and procedures authorizing onsite compliance reviews and documenting the process for calculating assessments. (Audit Report No. 03601-15-At, TTPP – Tobacco Assessments)

FSA Needs To Strengthen Controls Over Guaranteed Farm Loan Interest Rates

We found FSA did not have effective controls to ensure that interest rates charged by lenders met program requirements. For FSA's portfolio of 56,000 guaranteed farm loans valued at \$12.1 billion, Federal regulations require that lenders' interest rates on guaranteed loans not exceed the rate lenders charge their "average agricultural loan customers" ("average rate"). Neither FSA personnel nor any of the five lenders we reviewed could clearly articulate a methodology that demonstrated such compliance. Using lenders' self-described rate-setting methodologies, we calculated that, for 28 of the 71 guaranteed loans reviewed, lenders charged interest rates up to 2.25 percent above their average rate. Our review was limited because we did not have access to the lenders' private (non-guaranteed) agricultural loan information to validate the average rates. We estimated the 28 borrowers could have saved approximately \$277,000 over the life of the loans, had the lenders limited the guaranteed loan interest rates to the OIG-calculated average rates. Also, FSA's oversight review process did not include procedures to evaluate interest rates charged by lenders. FSA officials acknowledged that controls over interest rates were not adequate and that additional controls were needed.

In response to the audit, FSA generally agreed to simplify and clarify its interest rate requirements, issue guidance to its loan-approving officials for assessing compliance with such requirements, issue instructions to lenders to clarify their responsibilities for adhering to interest rate requirements, and require lenders to provide evidence that interest rates meet program requirements. FSA further agreed to seek legal advice to determine what actions could be taken in those cases where the lenders potentially charged higher interest rates to borrowers than allowed by regulations. FSA also decided to develop an automated system to help evaluate and monitor

interest rates. FSA will outline a specific interest rate review process, use the system to identify trends, and take appropriate actions to correct any identified deficiencies. (Audit Report No. 03601-17-Ch, Controls Over Guaranteed Farm Loan Interest Rates and Interest Assistance)

Pulse Crop Production Increases After 2002 Farm Bill Enacts New Pulse Crop Loan Programs

The 2002 Farm Bill created new Marketing Assistance Loan and Loan Deficiency Payment (LDP) programs for pulse crops (dry peas, lentils, etc.) and established national loan rates for such crops for the first time. We initiated this audit in response to a hotline complaint alleging that FSA was using incorrect posted county prices (PCP) to determine loan repayment rates for dry peas, resulting in excessive payments to pea growers and dramatic increases in planted acres of dry peas. (Generally, the loan repayment rate is the market price for the crop, often referred to as the PCP. When the loan rate is greater than the repayment rate, producers may receive a marketing loan gain when they repay the loan or, if the producer agrees to forego a loan, the producer may receive an LDP based on the amount by which the applicable loan rate exceeds the loan repayment rate.)

We found the dry pea loan rate established by the 2002 Farm Bill was significantly higher than the PCPs for feed peas. FSA had concluded the loan rates set by Congress under the 2002 Farm Bill reflected food quality (U.S. No. 1 grade) dry peas and lentils, rather than feed grade dry peas and U.S. No. 3 grade lentils. Therefore, for lower quality 2002 crop dry peas and lentils, FSA applied discounts to the established loan rates. Subsequently, in the 2003 Consolidated Appropriations Resolution, Congress mandated that pulse crop loan rates (specific rates prescribed by law) and loan repayment rates be based on feed grade dry peas and U.S. No. 3 grade lentils, effectively terminating FSA's loan discount schedule.

Since Congress passed the 2003 Consolidated Appropriations Resolution, FSA's rates have adhered to the legislation. However, planted acres; production; and numbers and amounts of loans, marketing loan gains, and LDPs increased substantially since inception of the program. This occurred, in part, because the established loan rate for feed peas is significantly higher than the PCPs for feed peas. This disparity allows producers to receive benefits greater than if the loan rates were adjusted for the quality of the commodity actually

produced. When FSA's discount schedule was in place for crop year 2002, the differences between the (discounted) loan rates and repayment rates were such that there were no marketing loan gains or LDPs on dry peas. After the 2003 Consolidated Appropriations Resolution ended the discount schedule, outlays to dry pea producers totaled approximately \$14 million for crop year 2003. We concluded that Congress achieved its goal of making pulse crops an attractive production option for producers. The 2008 Farm Bill has since set lower loan rates for pulse crops for crop years 2009 through 2012. We therefore did not make any recommendations. (Audit Report No. 03601-26-KC, Methodology for Establishing National/Regional Loan Rates for USDA's Pulse Crop Loan Program)

Ohio Producer Sentenced to Prison for Conversion of Collateral Mortgaged to CCC

In April 2008, a producer from Mount Sterling, Ohio, was sentenced in Federal court to serve 6 months in prison, followed by 36 months of supervised release, and was ordered to pay \$630,270 in restitution for converting collateral. The producer obtained two CCC farm-stored loans totaling \$630,270, and pledged 72,000 bushels of soybeans and 125,000 bushels of corn as collateral for the loans. The producer was also appointed as an attorney-in-fact for two brothers in connection with their \$61,920 FSA/CCC loan, which was secured by an additional 12,000 bushels of soybeans. The OIG investigation disclosed that the producer converted all of the soybeans and corn and used the funds to purchase a lakefront vacation home, two race cars, and a race boat.

Producer Sentenced for Converting Loan Collateral

In May 2008, a producer from Albert City, Iowa, was sentenced in Federal court to serve 71 months in prison, followed by 36 months of probation, and ordered to pay \$1.2 million in restitution. The investigation disclosed that, in 2001, the producer, who was a convicted felon, pledged 62,000 bushels of grain as collateral for a CCC loan, even though much of the grain belonged to other producers. The producer subsequently sold some of the mortgaged grain and failed to remit sales proceeds to FSA. In 2003, the producer made false statements to a local bank to obtain a loan for \$2.5 million and, in 2004, committed bankruptcy fraud by failing to disclose his assets, incomes, and debt structure to a Bankruptcy Trustee. In July 2008, the producer, who was scheduled to surrender to the U.S. Marshals to begin his prison term, committed suicide.

Risk Management Agency (RMA) Claims for Aflatoxin-Infected Corn

RMA insures corn producers against economic losses due to aflatoxin (a toxic fungus byproduct) infecting their harvests. Of the 2,453 claims for crop year 2005 for aflatoxin-infected corn in Texas, totaling \$17.5 million, we identified 2,033 claims where the value established for infected corn was extremely low—\$.25 or less per bushel. In 394 of 397 claims selected for more detailed review, we found that the approved insurance providers (AIP) accepted extremely low values (from \$.08 to \$.25) for infected corn but that producers later sold this infected corn for prices ranging from \$.80 to \$2.30 per bushel—5 to 28 times the value used to calculate the indemnity. Because the AIPs failed to ensure that their adjusters were using reasonable values for the producers' corn, the AIPs paid Texas producers indemnities of \$15.9 million.

We recommended that RMA issue administrative findings to recover the portion of improper payments resulting from the cited \$15.9 million in claims; revise the current Loss Adjustment Manual (LAM) procedures to require that AIPs use the proposed graduated discount factors to compute a preliminary settlement for losses due to aflatoxin contamination and adjust the preliminary settlement based on the final sales price or market values determined for the crop upon final disposition, withholding final settlement of claims until the date of final disposition; and notify all AIPs that the current LAM procedures require that claims with aflatoxin levels exceeding levels set by the Federal or State Government or any other regulatory body cannot be finalized until the final disposition of the crop. RMA agreed to pursue the overpayments but did not agree with having to track them. In addition, RMA agreed that the LAM procedures need to be strengthened but did not agree that claims should remain open until final disposition. (Audit Report No. 05601-15-Te, Crop Loss and Quality Adjustments for Aflatoxin-Infected Corn)

Delta Regional Authority (DRA) Appropriately Accounted for Funds

We found that DRA is accounting for appropriated funds and tracking grantee adherence to Federal regulations and DRA policy. Our review of DRA's operations for FYs 2005-2007 disclosed no substantial matters of concern. DRA, a Federal-State partnership, helps economically distressed communities

in eight States develop infrastructure, improve transportation, encourage business, and train workers. (Audit Report No. 62099-02-Te, Controls Over Issuance of Appropriated Funds by DRA – FYs 2005-2007)

Payment Limitation Provisions Were Violated, Allowing Two Partnerships To Improperly Receive More Than \$1.4 Million in Program Payments

We found that two partnerships in Louisiana were not separate and distinct for payment limitation purposes and, hence, had applied for and received more than \$1.4 million in improper farm program payments. They were operating as one farming operation to conceal the true interest of one individual, a medical doctor. Each partnership was composed of 3 individual partners and 3 corporate partners, resulting in 12 separate payment limitations for the 2 partnerships. The six individuals were related and constituted the stockholders in the six corporations.

The partnerships did not maintain funds and accounts separate from each other, and the members did not exercise separate responsibility for their interests. The same equipment (mostly owned by the doctor) was shared by the partnerships for farming operations, funds were shifted between the partnerships and the doctor, and some operating expenses were not paid timely to individuals or entities with direct or indirect interests in the partnerships' farming operations or were not proportionately shared between the partnerships.

The Louisiana State FSA Committee agreed with our findings and, in response to our recommendations, determined that the members of the partnerships did not meet the procedural requirements to be recognized for separate payment limitations and that the members of the partnerships adopted and participated in a scheme or device designed to evade payment limitation and payment eligibility provisions for the years 2000 through 2002. FSA began collection on resultant overpayments of about \$1.4 million. (Audit Report No. 03099-181-Te, Payment Limitation Review in Louisiana)

Grantee Failed To Comply With Federal Regulations and Rural Utilities Service (RUS) Grant Agreements

We conducted a closeout audit of seven RUS broadband grants to determine whether the grantee incurred any allowable expenditures between the date of the last RUS compliance review, March 18, 2005, and the suspension date of the grants,

September 30, 2005, or whether there were any other costs incurred that RUS should credit. We found that the Texas grantee failed to abide by the terms of the grant agreements and did not comply with Federal regulations. We determined that the grantee's request for funding far exceeded the immediate need for reimbursement. The grantee requested and received approximately \$1.9 million of the \$2.7 million authorized for the seven grants. Specifically, the grantee requested the entire amount budgeted for line items as reimbursement for expenses incurred even though it had not expended that amount almost 2 years later. Also, in many instances, the grantee claimed reimbursement for expenses that were not allowable according to Federal regulations or were not properly supported by adequate documentation. RUS agreed to require the grantee to refund \$429,159 in Federal grant funds received. (Audit Report No. 09601-6-Te, Texas Community Connect Grantee Close-Out Audit)

GOVERNMENTWIDE ACTIVITIES – GOAL 2

Review of Legislation, Regulations, Directives, and Memoranda

- In connection with our audit of FSA's TTPP assessments, OIG provided comments and feedback to FSA on a draft revision to TTPP regulations. FSA included the term "third parties" to describe those to whom FSA would release the market share data of tobacco manufacturers and importers. OIG commented that FSA could be in violation of the Internal Revenue Code of 1986 (26 U.S.C. 6103) if FSA disclosed any information about a company that was not provided to FSA directly from the manufacturers and importers. The final rule dated April 29, 2008, states that, in future assessment notices, FSA will release to reporting manufacturers and importers the qualifying market share of other manufacturers and importers, based solely on information supplied by the reporting manufacturer or importer to FSA. This is a deviation from the language in the original draft we reviewed, as FSA is no longer including the term "third party" to describe who will be receiving the market share information.

Participation on Committees, Working Groups, and Task Forces

- Since November 2005, OIG Special Agents have been working on Hurricanes Katrina/Rita Task Force investigations in Mississippi and Louisiana. To date, OIG has conducted 75 cases in which FNS, FSA, and Rural Development (RD) have been defrauded by individuals who have submitted false claims or provided false statements to obtain Federal benefits. From June 2006 to date, 103 individuals have been indicted, 50 have been convicted and sentenced, and fines and restitution thus far have totaled \$26,725 and \$691,568, respectively. The judicial process continues with 53 additional subjects that have pled guilty or are awaiting trial. The task force is expected to continue through FY 2009.
- An OIG Special Agent has been working with the FBI's Safe Streets Task Force in Indianapolis, Indiana, since 2000. The mission of the task force is to deter street gang and drug-related violence, as

well as seek the most significant fugitives wanted for crimes of violence through long-term, proactive, and coordinated teams of Federal, State, and local law enforcement officers and prosecutors.

- OIG Special Agents are participating on a Bridge Card Enforcement Team (BCET) task force to investigate criminal violations of the Food Stamp Program and WIC. Members include the Michigan State Police and IRS CI. The FBI, Social Security Administration OIG, and ICE have provided assistance during warrant operations. The initiative, which has been operational since June 2007, has resulted in 64 arrests and 73 search warrants served in the Detroit metropolitan area. Criminal prosecutions are being pursued through the U.S. Attorney's Office for the Eastern District of Michigan and the Michigan Attorney General's Office. To date, work in this area has resulted in 27 guilty pleas, and sentences that include incarceration, fines, and restitution. Forfeiture actions of \$1.6 million have also been initiated by the U.S. Attorney's Office. The task force is expected to continue through FY 2009.

ONGOING AND PLANNED REVIEWS FOR GOAL 2

Topics that will be covered in ongoing or planned reviews under Goal 2 include:

- Child and Adult Care Food Program (FNS),
- WIC vendor monitoring (FNS),
- continued monitoring of EBT implementation (FNS),
- 2008 Farm Bill changes to payment limitation (FSA),
- adjusted gross income limitation (NRCS and FSA),
- price discovery efforts for various crops reported nationwide (National Agricultural Statistics Service (NASS)),
- implementation of the Average Crop Revenue Election (ACRE) Program (FSA),
- implementation of the Supplemental Agricultural Disaster Assistance Programs (FSA),

- management controls over research agreements (ARS),
- management controls over the Market Access Program (FAS),
- Pasture, Rangeland, and Forage Programs (RMA),
- citrus indemnity payments resulting from 2005 Florida hurricanes (RMA),
- implementation of AIPs' appendix IV/ quality control reviews (RMA),
- Catastrophic Risk Protection Program (RMA),
- Farm and Ranch Lands Protection Program, review of non-governmental organizations (NRCS),
- FSA and NRCS methods to assess integrity of programs,
- Conservation Loan and Loan Guarantee Program (NRCS and FSA),
- Midwest disaster assistance programs (FSA, NRCS, and RD),
- FS administration of grants,
- Rural Business-Cooperative Service's (RBS) Intermediary Relending Program,
- effectiveness and enforcement of debarment and suspension regulations throughout USDA,
- controls over lender activities in the Single Family Housing (SFH) Guaranteed Loan Program (Rural Housing Service (RHS)),
- Rural Rental Housing maintenance costs and inspection procedures (RHS), and
- distance learning and telemedicine grants and loans (RD).

The findings and recommendations from these efforts will be covered in future Semiannual Reports as the relevant audits and investigations are completed.

Management Improvement Initiatives

OIG Strategic Goal 3:

Support USDA in implementing its management improvement initiatives.

OIG conducts audits and investigations that focus on such areas as improved financial management and accountability, IT security and management, research, real property management, employee corruption, and the Government Performance and Results Act. Our work in this area is vital because the Department is entrusted with \$128 billion in public resources annually. The effectiveness and efficiency with which USDA manages its assets are critical. USDA depends on IT to efficiently and effectively deliver its programs and provide meaningful and reliable financial reporting. One of the more significant dangers USDA faces is a cyberattack on its IT infrastructure, whether by terrorists seeking to destroy unique databases or criminals seeking economic gains.

In the second half of FY 2008, we devoted 37 percent of our total direct resources to Goal 3, with 98.2 percent of these resources assigned to critical/high-impact work. A total of 97.6 percent of our audit recommendations under Goal 3 resulted in management decision within 1 year, and 87.6 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued 11 audit reports under Goal 3 during this reporting period and a total of 25 during the full fiscal year. OIG investigations under Goal 3 yielded 30 indictments, 34 convictions, and \$3.5 million in monetary results during the reporting period and a total of 32 indictments, 34 convictions, and about \$4 million in monetary results during the full fiscal year.

Management Challenges Addressed UNDER GOAL 3

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 1, 2, and 4)
- Implementation of Strong, Integrated Internal Control Systems Still Needed (also under Goal 2)
- Continuing Improvements Needed in IT Security (also under Goal 1)
- Material Weaknesses Continue To Persist in Civil Rights Control Structure and Environment
- USDA Needs To Develop a Proactive, Integrated Strategy To Assist American Producers To Meet the Global Trade Challenge (also under Goal 1)
- Better FS Management and Community Action Needed To Improve the Health of the National Forests and Reduce the Cost of Fighting Fires (also under Goals 1 and 4)
- Implementation of Renewable Energy Programs at USDA

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 3

USDA's Implementation of Renewable Energy Activities Needs Improvement

We reviewed renewable energy activities in USDA at the Department level and at seven agencies (ARS, CSREES, FSA, FS, NRCS, RBS, and RUS). We found that USDA does not have a renewable energy strategy covering all agencies and programs within the Department. Consequently, agency managers for programs that did not receive funds

appropriated for renewable energy did not place sufficient emphasis on renewable energy, including analyzing proposed projects to identify those that would provide the greatest benefit for the funds expended. We found that no agency within the Department analyzed the results of completed commercialization projects to compare expected and actual renewable energy results. In the research area, the Department was not always performing work in high-priority areas. We also found that the Department had not established controls to prevent or detect duplicate funding to recipients of loans and grants for renewable energy projects. In addition, in

FY 2006, the Department understated renewable energy activities reported to OMB by up to \$97 million.

The Department agreed to develop and implement a renewable energy strategy that includes program goals for agency managers, a detailed course of action to accomplish those goals, and measures to evaluate performance; develop and implement controls for agencies to check for duplicate funding of renewable energy projects; and revise the renewable energy reporting format to ensure that all renewable energy funding is reported. (Audit Report No. 50601-13-Ch, Implementation of Renewable Programs in USDA)

ARS Needs a Process To Evaluate the Continued Relevance of Its Renewable Energy Research Projects and To Report Renewable Energy Research Activities Accurately

We generally did not find problems with ARS' administration of renewable energy research, but we did note that in some cases the agency's efforts were directed toward areas of questionable benefit. Since the inception of the Bioenergy and Energy Alternatives National Program in April 1999, ARS has followed a 5-year cycle for its research projects. Although the agency reviews its ongoing research projects annually, this review does not evaluate the continued importance or relevance of ongoing research in terms of outside factors such as changing economic conditions. In addition, research projects that continue for 5 years without being re-evaluated may not address new priorities set by the Administration or by Congress. Specifically, our review of 7 of 29 ARS biofuels research projects disclosed that 3 were targeted toward either process improvements or the identification of saleable co-products to benefit the corn ethanol industry. These projects began from 2000 to 2004, but outside economic factors allowed the corn ethanol industry to expand and mature even without the benefits of this ongoing research. This conclusion was also reached by an independent panel of experts performing a retrospective review of ARS' Bioenergy and Energy Alternatives National Program in 2007. While highly supportive of ARS' biofuels research program overall, the reviewers noted that because corn ethanol was now viable on its own, little or no public funding for research was justified. ARS generally agreed with our findings and recommendations. (Audit Report No. 02601-2-Ch, Implementation of Renewable Energy Programs at ARS)

CSREES Needs To Strengthen Oversight of Funding Grant Projects and Ensure Consistent Information Is Reported on Renewable Energy

Our review of the National Research Initiative Competitive Grants Program (NRICGP) found that while CSREES implemented processes for evaluating, prioritizing, and funding grant proposals, it did not develop written guidance on how to use its research information system as an oversight tool to check for duplicate funding or monitor work performed. As a result, CSREES had reduced assurance that grant funds were used for intended purposes. We also found that CSREES had not fully reported all renewable energy activity to the Department. This occurred because CSREES' program staff did not follow the Office of Budget and Program Analysis (OBPA) guidance, which lists everything that should be included to determine the activity to report. CSREES agreed to document policies and procedures to review the information system for duplicate research and will incorporate guidance to determine the renewable activity to report to the Department. (Audit Report No. 13601-01-Hy, NRICGP)

FS Needs To Implement a National Strategy for and Establish Controls To Track Its Renewable Energy Resources

Our review of FS' Renewable Energy Program concluded that FS has made strides toward increasing renewable energy production—especially in using woody biomass—but still needs to develop a national strategy with annual performance measures for renewable energy resources in national forests. Further, FS needs to more effectively track its renewable energy resources (wind, solar, hydropower, geothermal, and woody biomass) to ensure they meet the goals of the National Energy Policy and the President's Advanced Energy Initiative. Otherwise, FS lacks a proactive plan to increase the use of renewable energy resources and cannot measure its success in increasing production.

We also determined that FS lacks controls to ensure that the reimbursements to Woody Commercial Biomass Utilization Program grant recipients match the expenses incurred by them. Finally, FS does not have formal procedures to ensure that its research projects do not duplicate other USDA research projects. FS relies on information recorded in the Current Research Information System (CRIS) to prevent research from

being duplicated. However, the agency has not developed guidance on when its research units should enter their research projects into CRIS or use CRIS to check for duplicative research.

FS generally concurred with our findings, agreed to take corrective actions to implement the recommendations, and stated its belief that the corrective actions would benefit the overall renewable energy program. (Audit Report No. 08601-52-SF, FS's Renewable Energy Program)

RBS Could Improve Its Renewable Energy Activities

We found that RBS funded many worthwhile renewable energy projects that have had a positive impact, including ethanol and bio-diesel production facilities, wind and solar power generation projects, and landfill recovery systems. However, we found that more emphasis could have been placed on renewable energy projects in the five programs where funds were not appropriated for that purpose, in part, because field staff were not using selection criteria developed by the national office that benefited applications involving renewable energy projects. RBS also had not identified the projects that would provide the highest energy output per amount funded on the project. Further, agency officials had not analyzed the results of completed projects to compare expected and actual renewable energy outcomes.

In addition, the agency had not developed effective and formal internal controls to prevent applicants from receiving duplicate funding from RBS' six programs with renewable energy activity or even to detect duplication when it did occur. Moreover, RBS underreported renewable energy activities to OBPA by more than \$38 million for FY 2006 because agency officials misunderstood reporting requirements but did not contact OBPA for guidance.

We found no instances where funds spent on renewable energy projects were provided to ineligible applicants and no instances where funds specifically appropriated for renewable energy activities were diverted to other purposes. RBS generally agreed with the findings and recommendations. (Audit Report No. 34600-5-Ch, Implementation of Renewable Energy Programs in RBS)

FSA Did Not Correctly and Consistently Determine Eligibility for the Emergency Forestry Conservation Reserve Program (EFCRP)

Our review of 55 EFCRP offers identified potential overpayments of \$814,430 for 11 offers, of which FSA corrected \$655,520 during our fieldwork. The purpose of EFCRP is to provide assistance to owners and operators of private non-industrial forestland who suffered at least 35 percent losses of merchantable timber as a result of the 2005 Hurricanes Dennis, Katrina, Ophelia, Rita, and Wilma. Some errors occurred because the agency's procedures did not provide clear guidelines for determining the eligibility of offers. For example, we found three offers that were considered eligible for EFCRP although all or part of the offered acres had been clear-cut before the qualifying hurricanes. In other cases, FSA employees and technical service providers did not determine eligibility in accordance with procedure. We also found that Alabama, Mississippi, and Texas used different methodologies to determine the value of damaged trees, which caused differences in applicants' calculated loss percentages and eligibility.



This is part of 54.1 acres that were clear-cut on a tract of land before Hurricane Katrina. OIG photo.

FSA agreed to clarify guidelines and terminology that had been subject to interpretation by the agency's State and county employees and State forest agency personnel, require second-party or other reviews to ensure offers are eligible before accepting contracts, and review all questionable EFCRP offers not corrected during our audit and take appropriate corrective

action. The audit was conducted as part of the President's Council on Integrity and Efficiency (PCIE) examination of the Federal Government's relief efforts after Hurricanes Katrina and Rita. (Audit Report No. 03601-24-KC, Hurricane Relief Initiatives: EFCRP)

FAS Needs To Strengthen Certain Aspects of the Export Credit Guarantee Program

Our review generally found that FAS had developed, implemented, and demonstrated a commitment to the necessary internal controls for the General Sales Manager (GSM) 102 program, which provide guarantees for commercial financing by U.S. private banking institutions of U.S. agricultural exports. Our audit did note areas where improvements could be made to the program's internal controls and where formalizing the controls is needed.

In September 2004, the World Trade Organization ruled that this export credit guarantee program included a subsidy that was in violation of the trade agreement. Unless the subsidy matters were resolved by July 1, 2005, a \$4 billion trade sanction would be imposed on the United States. In response, FAS implemented a country risk-based premium structure for the GSM-102 program in July 2005 to reduce the subsidy. We found, however, that the risk associated with the soundness of the foreign bank was not considered in the premium structure. FAS agreed to develop a new guarantee fee structure that includes the financial risk of both the foreign country and the foreign bank itself.

FAS also needs to develop and implement controls for safeguarding GSM-102 claim files. In September 2005, the control of claim files was divided between FAS (for foreign privately owned banks) and FSA (for foreign government-sponsored banks). We identified that the claim files for privately owned banks located in three countries had not been transferred to FAS at the time of our fieldwork and could not be readily produced. FAS officials were later able to provide these records for our review. Subsequent to our audit fieldwork, control and possession of all claim files were transferred to FAS. (Audit Report No. 07601-2-Hy, Export Credit Guarantee Program)

Management Controls Need To Be Strengthened Over RMA's Oversight of Agricultural Risk Protection Act of 2000 (ARPA) Contracts and Partnership Agreements

ARPA provided RMA with the authority to enter into research and development contracts and partnerships for new or expanded crop insurance products. Our audit did not find any improprieties when we examined whether RMA effectively implemented and properly monitored ARPA contracts and partnership agreements awarded during FYs 2004 through 2006. However, we determined that RMA should strengthen its management controls over documenting, monitoring, and administering ARPA research and development contracts and partnership agreements and over the training of officials responsible for administering these contracts and partnership agreements. The weaknesses we identified could potentially reduce the assurance that ARPA contract and partnerships provisions were being met.

We recommended that RMA officials establish and implement formal policies and procedures on sufficient documentation and proper administration and monitoring of ARPA contracts and partnerships. We also recommended RMA officials establish and implement a formal training plan, including completing training needs assessments and internally tracking continuous learning received by program officials responsible for administering and monitoring ARPA contracts and partnerships. RMA officials generally agreed and stated that they planned to issue formal policies and procedures after reviewing the recommendations. (Audit Report No. 05099-112-KC, Contracting for Services Under ARPA)

Improper Reimbursement Requirements and Ill-Defined Missions Increase Costs and May Hinder FS Operations

In a national disaster, FS can be directed by the Federal Emergency Management Agency (FEMA) to help respond to the emergency. FS recoups its expenses from Federal disaster relief funds, subject to FEMA's approval. Our audit found that FEMA did not follow directions contained in the National Response Plan (NRP) on reimbursements to Federal agencies. NRP directs FEMA to rely on agencies' internal controls to ensure expenses are accurate and allowed, while FEMA required FS to provide expensive and unnecessary documentation to justify every expense. FEMA denied reimbursements for

63 percent (\$117 million) of the \$186 million FS spent. This reduced critical firefighting funds and left FS responsible for expenses incurred supporting FEMA's disaster relief. A subsequent audit by DHS OIG (coordinated with USDA OIG) demonstrated that FS had an error rate of only 0.003 percent, or \$490.63 out of \$15 million in sampled transactions. Our audit also found that FS had accepted mission assignments from FEMA that were poorly defined and ill-suited to FS' training and expertise, wasting resources and endangering personnel.

FS agreed to elevate the reimbursement issues to the Undersecretary of DHS; continue its efforts in meeting with FEMA to establish the appropriate "reverse" chargeback amount upon receipt of the DHS OIG audit results; create a formal Memorandum of Understanding (MOU) between FS and FEMA to establish agreed-upon procedures for reimbursement, property, and missions; and use the dispute resolution process to resolve any future conflicts with FEMA. (Audit Report No. 08601-51-SF, FS Controls Over Documenting and Reporting Its Hurricane Relief Expenditures to FEMA)

National Finance Center (NFC) Receives First Unqualified Opinion on Its General Controls

USDA's NFC received its first unqualified opinion on its general control environment. Our review disclosed that NFC's description of controls presented fairly, in all material respects, the relevant aspects of NFC controls that had been placed in operation as of June 30, 2008. Also, in our opinion, the controls included in the description were suitably designed and operating with sufficient effectiveness to provide reasonable assurance that associated control objectives would be achieved. (Audit Report No. 11401-28-FM, Statement on Auditing Standards No. 70 Report on the NFC General Controls – FY 2008)

Retirement, Health, and Life Insurance Withholdings/Contributions Were Reasonable

As required annually by OMB, we assisted the Office of Personnel Management (OPM) in assessing the reasonableness of retirement, health, and life insurance withholdings/contributions and employee data submitted by the Office of the Chief Financial Officer (OCFO)/NFC. We found that no differences exceeded the allowable OPM thresholds. (Audit

Report No. 11401-29-FM, FY 2008 Agreed-Upon Procedures: Retirement, Health Benefits, and Life Insurance Withholdings/Contributions and Supplemental Semiannual Headcount Report Submitted to OPM)

Rural Telephone Bank (RTB) Final Liquidation and Dissolution Activities Met Standards

We performed a limited scope closeout audit of RTB to evaluate whether the dissolution and liquidation activities of RTB subsequent to the final RTB financial statement audit as of September 30, 2006, were conducted according to prescribed accounting principles relating to disbursements. RTB had approximately \$40 million available for final distribution as of September 30, 2006, which was subsequently paid to the bank's stockholders. The distribution payment calculations for each shareholder were based on Section 411 of the Rural Electrification Act. We concluded that RD and RTB conducted the final dissolution and liquidation activities according to prescribed accounting principles relating to disbursements. (Audit Report No. 15401-08-FM, RTB Closeout Audit)

Operation Talon Update—1,910 Arrests in 7 States During This Reporting Period

OIG began Operation Talon in 1997 to locate and apprehend fugitives, many of them violent offenders, who are current or former food stamp recipients. As of September 30, 2008, Operation Talon had resulted in 13,905 arrests of fugitive felons during joint OIG-State and local law enforcement operations. During this reporting period, OIG agents conducted Talon operations in 7 States, making a total of 1,910 arrests. OIG combined forces with Federal, State, and local law enforcement agencies to arrest 937 fugitives in Ohio, 507 in Tennessee, 401 in Massachusetts, 35 in California, 16 in Maryland, 8 in Oregon, and 6 in Arizona for offenses including homicide, arson, assault, burglary, motor vehicle theft, assorted drug charges, robbery, fraud, forgery, driving under the influence, extortion and blackmail, rape, sex offenses, offenses against family and children, larceny, stolen property, weapons violations, and other offenses.

Former USDA Employee Sentenced for Computer Fraud

In May 2008, a former FSA employee in Missouri was sentenced in Federal court to serve 60 months of probation and was ordered to pay \$35,207 in restitution and a \$100

special assessment. The former employee used her Government computer to embezzle approximately \$35,207 in FSA program payments over 18 months by issuing FSA payments in the names of inactive or deceased producers. The woman then deposited the funds electronically into her personal bank account. OIG's NCFD provided computer forensics assistance in this case.

Stronger Controls Needed To Protect USDA Data When Using Wireless Connections

We evaluated security controls in place over the use of wireless technology connected to USDA networks and the controls that Office of the Chief Information Officer (OCIO) and selected agencies had over wireless devices. We found that controls over wireless connections were inadequate and that stronger oversight was needed by OCIO. OCIO concurred with our recommendations and has proposed additional corrective actions. (Audit Report No. 50501-09-FM, Management and Security Over USDA Wireless Connections)

Information Technology (IT) Improvements Have Been Made, but More Are Needed for an Effective Department Security Plan

Our review determined that the Department has improved its IT security oversight in several areas during FY 2008. For example, oversight of the certification and accreditation process has significantly improved. However, a continuing material IT control weakness exists within the Department because of the lack of an effective Departmentwide plan. Although improvements were noted, weaknesses still remain in updating software, finding and fixing vulnerabilities, and using standard security settings. With such a large and diverse Department, ensuring that all agencies comply with standards will take time and resources. OCIO is working diligently toward this goal. (Audit Report No. 50501-13-FM, FY 2008 Federal Information Security Management Act Report)

OCIO/National Information Technology Center's (NITC) Controls Were Suitably Designed and Operating Effectively

Our review of OCIO/NITC internal controls as of June 30, 2008, disclosed that the documentation of control objectives and techniques provided by OCIO/NITC presented fairly, in all material aspects, the relevant aspects of OCIO/NITC's controls taken as a whole and those controls had been placed

in operation. Also, in our opinion, the policies and procedures were suitably designed to provide reasonable assurance that control objectives would be achieved and operate effectively. (Audit Report No. 88501-12-FM, FY 2008 Statement on Auditing Standards No. 70, Report on the NITC General Controls)

OCFO Strengthened Controls for Individually Billed Travel Cards

In June 2003, OIG issued a report finding inadequacies in USDA's internal controls over the individually billed travel card program (Audit Report No. 50601-05-HQ). In a new report, we determined that our prior recommendations had been implemented and that internal controls for the program had been strengthened. For example, in response to our recommendation, OCFO restricted travel card use at vendors that offered services and/or products that are non-travel related. In addition, OCFO instituted analytical procedures to monitor the use of travel cards. Finally, we noted that OCFO is implementing OMB requirements for credit checks and training for program participants. Based on our testing, we did not find the level of misuse that had been evident in our prior audit. We found USDA and its agencies taking an active role in monitoring the use of the individually billed cards. Based on data from OCFO, the delinquency rates for the agencies we reviewed had declined. As such, our new report made no recommendations. (Audit Report No. 50601-04-Hy, Adequacy of Internal Controls Over Travel Card Expenditures Followup)

APHIS Is Performing Transfers in Accordance With Appropriations Language

We audited APHIS' Veterinary Services (VS), at the request of a Member of Congress, to determine whether APHIS VS was inappropriately transferring program funds. We found that the questioned transfers are between fund accounts of programs within APHIS VS; therefore, APHIS is performing transfers in accordance with appropriations language and agency guidelines. We also determined that APHIS is accurately tracking time and attendance information as submitted by its employees. Based on our testing, we did not find that APHIS was mischarging expenses. (Audit Report No. 33601-03-Hy, APHIS' Transfer Authority of Program Funding)

GOVERNMENTWIDE ACTIVITIES – GOAL 3

Review of Legislation, Regulations, Directives, and Memoranda

- *Federal Information Infrastructure Response Act of 2008.* OIG reviewed this draft Senate bill, which proposed to amend 44 U.S.C. § 2545(a)(1), requiring the PCIE to annually review, update, and accept information security standards. OIG commented that, because the PCIE does not have separate appropriations and relies upon staff from member OIGs to perform its various functions, this new requirement would take away resources from various Inspectors General (IG) that could otherwise be used to address waste, fraud, and abuse in their respective agencies. Additionally, OIG suggested that the drafters of the bill clarify the role of the PCIE, to include who would initially develop information security standards. If the PCIE were to develop such standards, it might conflict with the IG Act's prohibition on an IG playing an operational or policy-making role. Lastly, OIG noted that, if the PCIE were to set Governmentwide information security standards, it would create a conflict with the Federal auditing standards issued by the Government Accountability Office (GAO).
- *Strengthening Transparency and Accountability in Federal Spending Act of 2008.* OIG reviewed S. 3077, which would, in part, require OIG to review a statistically representative sample of agency Federal awards every 6 months. Such reviews would be conducted to verify the accuracy of the data and that data standards are being followed. OIG commented that reviewing USDA's payment data is an internal control process that is already a responsibility of the Department, as set forth in current OMB guidance. As such, requiring OIG to conduct such reviews would be potentially duplicative. Furthermore, due to OIG's other Congressionally mandated audits, OIG was concerned that the new requirements would be overly burdensome and potentially limit OIG's ability to fulfill its primary mission of detecting and deterring waste, fraud, and abuse. Therefore, OIG recommended that the section mandating the semiannual reviews be deleted or, in the alternative, revised to call for periodic rather than semiannual reviews, subject to OIG discretion regarding the scope and purpose of such reviews.

- *Government Credit Card Abuse Prevention Act of 2008.* OIG reviewed S. 789, which proposes new safeguards and internal controls for use of Government travel charge cards and purchase cards. OIG recommended that language be added to clarify that an "approving official" charged with approval and disapproval of expenditures of a particular cardholder must not be subject to the supervisory control of such cardholder. OIG also recommended that the provisions regarding referral of suspected employee fraud to the U.S. Attorney's office be strengthened to clarify that such referrals be made for criminal or civil prosecution, as appropriate. Finally, OIG noted that the penalties differed for violation of travel charge card regulations and purchase card regulations, in that the latter were more detailed. Although OIG recognized that there are inherent differences between the two types of cards, OIG felt that certain actions, specifically referral of allegations of fraud to the IG, should be taken regardless of which type of card is involved. Therefore, OIG recommended that such provisions also be added to the section regarding travel charge cards.

Participation on Committees, Working Groups, and Task Forces

- *PCIE Legislation Committee.* The USDA IG continues to serve the Federal IG community as the Chair of the Legislation Committee of the PCIE. During the reporting period, the Legislation Committee held several meetings to discuss pending bills that would amend the IG Act and provided comments as requested to the House Oversight and Government Reform Committee and the Senate Homeland Security and Governmental Affairs Committee (HSGAC). On April 23, 2008, the Senate passed S. 2324, the "Inspector General Reform Act of 2007" (the Senate counterpart to H.R. 928, the "Improving Government Accountability Act"). After conferencing, H.R. 928 was amended and renamed the "Inspector General Reform Act of 2008." The Senate passed H.R. 928 on September 24, 2008, by unanimous consent, and the House passed it on September 27, 2008, by a vote of 414-0. (The President signed the legislation after the end of the reporting period on October 14, 2008.)
- On an ongoing basis, the Legislation Committee monitored and tracked all IG-related legislation that

was introduced in Congress and kept the affected IGs notified of these bills' progress. The committee considered specifically the requirements that would be imposed upon OIGs and their host establishments by several bills. For example, several IGs met with HSGAC staff and GAO officials to discuss concerns with provisions in H.R. 5683, the "Government Accountability Act of 2008," that would authorize GAO to perform additional audit work on an agency's audited financial statements and receive reimbursement. This bill was subsequently amended to address IG community concerns. As amended, H.R. 5683 passed Congress and was signed by the President on September 22, 2008, as P.L. 110-323.

In addition, the committee provided comments to HSGAC expressing IG community concerns on the following bills: (1) S. 2583, the "Improper Payments Elimination and Recovery Act of 2008," which would amend the "Improper Payment Information Act of 2002" and impose additional requirements on OMB, Federal agencies, executive branch IGs, and the PCIE; (2) S. 789, the "Government Credit Card Abuse Prevention Act of 2008," regarding proposals for IGs to make findings regarding an employee's culpability for alleged misuse of a Government credit card and undertake periodic audits and reporting; (3) S. 3077, the "Strengthening Transparency and Accountability in Federal Spending Act of 2008," which would mandate that OIGs conduct audits of data on agency awards (such as financial assistance and procurement) every 6 months, among other provisions; and (4) S. 3474, the "Federal Information Security Management Act of 2008 (FISMA)," which would change the requirements for evaluation or review of the agency's information security systems under the current FISMA to an annual audit.

- The USDA IG is a member of the National Procurement Fraud Task Force, formed by DOJ in October 2006 as a partnership among Federal agencies charged with the investigation and prosecution of illegal acts in connection with Government contracting

and grant activities. The task force has worked to better allocate resources and improve coordination in procurement and grant fraud cases and otherwise to accelerate investigations and prosecutions. During this period, the task force has developed training programs on procurement and forensic auditing. At the regional level, OIG Investigations field offices in the Northeast Region, Great Plains Region, Midwest Region, Southeast Region, and Western Region participate on Procurement Fraud Task Forces initiated by the local U.S. Attorneys' Offices. This task force is expected to continue through FY 2009.

- OIG auditors are members of the Interagency Suspension and Debarment Committee (ISDC), created as an OMB committee by Executive Order 12549 to monitor the implementation of the order, which mandates that executive departments and agencies:
 - participate in a Governmentwide system of suspension and debarment,
 - issue regulations with Governmentwide criteria and minimum due process procedures when debarring or suspending participants, and
 - send debarred and suspended participants' identifying information to the General Services Administration for inclusion on the Excluded Parties List System.

The committee also facilitates lead agency coordination; serves as a forum to discuss current issues related to suspension and debarment; assists in developing unified Federal policy; and, when requested by OMB, serves as a regulatory drafting body for revisions to the Governmentwide nonprocurement suspension and debarment common rule.

In addition to participating in the ISDC monthly meetings, OIG is acting as co-chair on the ISDC subcommittee on parallel proceedings. Parallel proceedings are the concurrent use of criminal, civil, and administrative actions (e.g., suspension and debarment) to fully employ all the remedies available to the Federal Government when taking actions against those persons or entities that abuse or harm Federal programs.

- OIG's NCFD is an active participant in the PCIE IT Committee's Investigations Subcommittee and the Working Group on Computer Forensics. The subcommittee is now reviewing Encryption Key Escrow policies within each participating agency to help establish a best-practices document related to key escrow. The subcommittee is expected to continue through FY 2009.
- A forensic analyst from OIG's NCFD participates full time at the FBI's Heart of America Regional Computer Forensic Lab (HARCFL) in Kansas City, Missouri. Participation in HARCFL has been beneficial in obtaining direct access to a Regional Computer Forensics Laboratory, training, sample policies and procedures, and, as needed, FBI assistance in OIG's forensic examinations. OIG work in this area is expected to continue through FY 2009.
- *National Single Audit Sampling Project.* This project is being conducted under the auspices of the PCIE Audit Committee study, Report on National Single Audit Sampling Project, issued to OMB in June 2007, on the quality of audits performed under OMB Circular A-133 and how to improve them. Prompted by the PCIE study, but not under the purview of PCIE, OMB has designated a number of Federal agencies to examine whether the Single Audit process should be changed and, if so, how. USDA OIG continues to participate in one of eight Single Audit Improvement Workgroups, entitled "The New and Improved Single Audit Process." This workgroup is seeking input from the audit community—Federal (including GAO), State, and local governmental auditors, and certified public accountants—as well as the report user community. Since February 2008, the workgroup has been reviewing OMB Circular A-133 to identify changes needed, addressing both the impact on the community and the Single Audit process. Upon completion of the review within OMB, the workgroup will draft a Federal Register Notice to accompany a Notice of Proposed Rulemaking.
- OIG auditors are members of the Financial Statement Audit Network (FSAN), consisting of OIG auditors from numerous Federal agencies who share ideas, knowledge, and experiences in the audit community. In conjunction with an FSAN workgroup, USDA OIG

assisted in the PCIE Peer Review Standards revision process, prompted by changes in the Government Auditing Standards and the Statement of Auditing Standards issued by the American Institute of Certified Public Accountants. OIG staff provided technical assistance in revising Appendix D, which provides guidance for reviewing financial statement audits where an OIG is the primary auditor.

Testimony Delivered

- *IG Testifies Before the House Committee on Oversight and Government Reform's Subcommittee on Government Management, Organization, and Procurement Regarding USDA's Management Actions on Civil Rights Complaints.* On May 14, 2008, IG Phyllis Fong presented testimony describing OIG's oversight work related to civil rights issues at USDA. IG Fong stated that ensuring fair treatment and due consideration for all USDA stakeholders and employees must be a matter of daily emphasis for USDA's agencies and offices. OIG's audit work on civil rights complaint processing at USDA has identified recurring themes such as continual internal reorganization within the Civil Rights office (CR, now the Office of Adjudication and Compliance), turnover of management and staff, and lack of adequate management controls to track and monitor progress in achieving results, among other issues. After discussing OIG's extensive work on management and administrative issues related to civil rights concerns over the past decade, the IG's testimony discussed OIG's most recent oversight work—the May 2007 report evaluating USDA's progress in addressing Equal Employment Opportunity (EEO) complaints, which had three primary findings. First, CR had improved its timeliness in processing complaints but needs to implement additional measures to close them within an acceptable timeframe. Second, CR's automated system for processing and tracking EEO complaints did not have sufficient business rules to ensure the completeness of the complaint data being entered. Finally, OIG found that CR has made progress in properly maintaining case files but had not yet established adequate controls over its file room operations and documentation. IG Fong advised the Subcommittee Members of the recommendations OIG had issued to CR to address each of these concerns.

ONGOING AND PLANNED REVIEWS FOR GOAL 3

Topics that will be covered in ongoing or planned reviews under Goal 3 include:

- annual audits of the Department and standalone agencies' financial statements for FYs 2008 and 2009 (OCFO),
- GIPSA's management and oversight of the Packers and Stockyards Program,
- acquisition of IT software, hardware, and services by OCFO,
- agreed-upon procedures: retirement, health, and life insurance withholdings/contribution and supplemental headcount report submitted to OPM FYs 2008 and 2009 (OCFO),
- accounting for farm loan programs (FSA),
- National School Lunch Program improper payments (FNS),
- controls over property used to secure farm loans (FSA),
- FY 2009 Defense Contract Audit Agency (DCAA) Contract Audit Administration (USDA),
- GovTrip to Foundation Financial Information System Interface (OCFO),
- Controls Over Implementation of Competitive Sourcing Efforts (OCFO),
- Hurricane Relief Initiatives:

- Section 32 disaster programs including the Feed, Hurricane (crop), and Livestock Indemnity Programs (FSA and CCC),

- establishment of average yields (NASS),
- USDA's Joint Subcommittee on Aquaculture's coordination of research (ARS),
- compliance activities (RMA),
- 2005 emergency hurricane relief efforts in Florida (RMA),
- programs for beginning farmers and ranchers (FSA, RMA, NRCS, and RD),
- Livestock Risk Protection Program (RMA),
- monitoring the implementation of the new farm bill provisions and mandates (FSA, NRCS, RMA, and RD),
- FS acquisition of IT software/hardware,
- FS working capital fund,
- FS firefighting cost share agreements with non-Federal entities,
- Federal lands recreation enhancement fund (FS), and
- Electronic Incident Reporting System (FS).
- The findings and recommendations from these efforts will be covered in future Semiannual Reports as the relevant audits and investigations are completed.

Stewardship Over Natural Resources

OIG Strategic Goal 4:

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

OIG's audits and investigations focus on USDA's management and stewardship of natural resources, including soil, water, and recreational settings. Our work in this area is vital because USDA is entrusted with hundreds of billions of dollars in fixed public assets, such as the 192.5 million acres of national forests and wetlands. USDA also provides scientific and technical knowledge for enhancing and protecting the economic productivity and environmental quality of the estimated 1.5 billion acres of forests and associated rangelands in the United States.

In the second half of FY 2008, we devoted 2.8 percent of our total direct resources to Goal 4, with 97.0 percent of these resources assigned to critical/high-impact work. A total of 100 percent of our audit recommendations under Goal 4 resulted in management decision within 1 year, and 56.1 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued three audit reports under Goal 4 during this reporting period and a total of three during the full fiscal year. OIG investigations under Goal 4 yielded one indictment, no convictions, and \$299,076 in monetary results during the reporting period and a total of four indictments, five convictions, and about \$1.6 million in monetary results during the full fiscal year.

Management Challenges Addressed Under Goal 4

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 1, 2, and 3)
- Better FS Management and Community Action Needed To Improve the Health of the National Forests and Reduce the Cost of Fighting Fires (also under Goals 1 and 3)

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 4

NRCS Improperly Obligated Wetlands Reserve Program (WRP) Funds and Inadequately Monitored Easements

During the 2002 Farm Bill period, 38 NRCS State offices improperly incurred new obligations for more than 1,400 contracts with expired WRP funds authorized under the 1996 Farm Bill. In some cases, NRCS deobligated and reobligated the same funds over multiple years—in effect, exceeding its 2002 Farm Bill fiscal authority multiple times using the same 1996 Farm Bill funds. In consultation with OGC, we determined that NRCS violated the appropriation-level prohibition of the Anti-Deficiency Act (ADA). Once notified, NRCS cured this ADA violation by deobligating all open obligations from the 1996 Farm Bill, totaling about \$78 million, except for four contracts with installment payments; and by reimbursing CCC the amount that was already expended, totaling about \$15.8 million.

We also found that 5 of 6 NRCS State offices did not annually monitor 134 of 153 (88 percent) sampled WRP easements. As a result, NRCS did not detect violations on 37 of 92 (40 percent) easements we visited. Furthermore, we found that the Florida and Arkansas NRCS State offices paid more than the 75-percent cap for two 30-year easements, which totaled \$418,598 more than the allowed Federal share. NRCS agreed to develop a monitoring system to prioritize the easements and optimize monitoring resources by implementing, for example, a risk-based system; and to collect the \$418,598 in cost shares from the landowners in Florida and Arkansas. (Audit Report No. 10099-4-SF, NRCS' WRP—Wetlands Restoration and Compliance)

NRCS Improved Status Review Process

The Food Security Act of 1985, as amended, provides disincentives to farmers and ranchers to discourage them from producing annually tilled agricultural commodity crops on highly erodible cropland without adequate erosion protection. NRCS designed the status review process to evaluate producer compliance with these highly erodible land conservation (HELC) and wetland conservation (WC) provisions. Our review confirmed that NRCS has made considerable improvements to the status review sample selection and

data collection processes, addressing major areas of concern included in previous OIG audit reports. In response to earlier criticisms that tracts subject to sample selection included those not subject to the HELC or WC provisions, NRCS discussed with FSA ways to identify alternatives for establishing a more applicable universe of eligible tracts. NRCS refined the data selection criteria to provide better assurance that the universe of land tracts from which a random sample is selected includes tracts that are subject to the HELC and WC provisions, thus decreasing the time and effort associated with identifying substitute tracts and providing for more reasonable estimates of producer compliance and noncompliance.

NRCS also implemented policy that calls for the sample selection process to be completed in January of each year to ensure that the sampling and notification processes are timely completed during critical erosion control periods. Through a Web-based application, NRCS can now perform the appropriate summarization, analysis, and reporting of status review results by yearend. Our report presented no findings or recommendations. (Audit Report No. 50601-13-KC, Status Review Process)

Management Controls Over the Technical Service Provider (TSP) Process Were Generally Adequate

USDA certifies third parties that can provide conservation technical services to the Nation's farmers and ranchers

through the TSP process. We found that the TSP process generally worked as intended and made conservation technical assistance available to farmers and ranchers, supplementing the capabilities of NRCS staff. However, we determined that the acquisition of, and payment for, these technical services from third-party vendors through contribution agreements needed to be improved. Contribution agreements are used when third parties seek to partner with NRCS in accomplishing conservation assistance. Each partner contributes an equal share of the cost of the agreed-to assistance.

Our assessment of the use of contribution agreements in two States found that one State lacked much of the information that should have existed to support both the awarding of the contribution agreements and subsequent payments for the work performed. In addition, oversight of contribution agreements by the NRCS national office was not sufficient to identify and correct ongoing problems. Without better documentation, misunderstandings may occur regarding the type and extent of assistance provided, and unsupported claims could result in NRCS making improper payments. NRCS agreed to revise its guide for conducting management reviews of the acquisition process at State offices, targeting improved coverage of pre- and post-award functions performed by the States when acquiring conservation assistance through contribution agreements. (Audit Report No. 10601-5-Ch, Controls Over TSPs)

ONGOING AND PLANNED REVIEWS FOR GOAL 4

Topics that will be covered in ongoing or planned reviews under Goal 4 include:

- Conservation Security Program (NRCS),
- Wildlife Habitat Incentives Program (NRCS),
- review of NRCS conservation compliance,
- Environmental Quality Incentives Program (NRCS),
- Conservation Stewardship Program (NRCS),
- FS Invasive Species Program,
- FS watershed management,
- FS management of oil and gas resources on National Forest System lands,
- FS Legacy Program – appraisal process,
- FS administration of special use permits,
- FS cost contracting – engine crews,
- FS rights-of-way and easements,
- oversight and control of FS activities, and
- timber sale administration – Northwest Forest Plan (FS).

The findings and recommendations from these efforts will be covered in future Semiannual Reports as the relevant audits and investigations are completed.

Gauging the Impact of OIG

MEASURING PROGRESS AGAINST THE OIG STRATEGIC PLAN

The first way we gauged our impact was by measuring the extent to which our work focused on the key issues under our newly revised goals that became effective in FY 2008:

1. Strengthen USDA's ability to implement safety and security measures to protect the public health as well as agricultural and Departmental resources.
2. Reduce program vulnerabilities and strengthen program integrity in the delivery of benefits to program participants.
3. Support USDA in implementing its management improvement initiatives.
4. Increase the efficiency and effectiveness with which USDA manages and exercises stewardship over natural resources.

IMPACT OF OIG AUDIT AND INVESTIGATIVE WORK ON DEPARTMENT PROGRAMS

A second way we gauge our impact is by tracking the outcomes of our audits and investigations. Many of these measures are codified in the Inspector General Act of 1978, as amended. The following pages present a statistical overview of the OIG's accomplishments this period.

For audits we show

- reports issued
- management decisions made (number of reports and recommendations)
- total dollar impact of management-decided reports (questioned costs and funds to be put to better use)
- program improvement recommendations
- audits without management decision

For investigations we show

- indictments
- convictions
- arrests
- total dollar impact (recoveries, restitutions, fines)
- administrative sanctions
- OIG Hotline complaints

PERFORMANCE RESULTS TOTALS UNDER OUR STRATEGIC GOALS

Performance Measures	FY 2007 Actual	FY 2008 Target	FY 2008 2nd Half Actual	FY 2008 Full Year Actual
OIG direct resources dedicated to critical-risk and high-impact work	92.8%	90%	95.0%	95.3%
Audit recommendations resulting in management decision within 1 year of report issuance	84.0%	85%	97.0%	84.3%
Closed investigations previously referred for action that resulted in an indictment, conviction, civil suit or settlement, judgment, administrative action, or monetary result	73.7%	65%	68.7%	72.5%

RECOGNITION OF OIG EMPLOYEES BY THE PRESIDENT, THE DEPARTMENT, AND THE IG COMMUNITY

PRESIDENTIAL RANK AWARD

Meritorious Executives

Robert Young

Audit

SECRETARY'S HONOR AWARD

Meat and Poultry Risk-Based Inspection Team

Audit

PCIE/EXECUTIVE COUNCIL ON INTEGRITY AND EFFICIENCY AWARDS

Alexander Hamilton Award

Marlane Evans

Audit

Gaston L. Gianni, Jr., Better Government Award

LINK Task Force

Investigations

Barry R. Snyder Award

Financial Statement Audit Network

Audit

AWARDS FOR EXCELLENCE

Meat and Poultry Risk-Based Inspection Team

Audit

Ohio Organized Crime Investigations Commission Task

Force 08-2

Investigations

Faith in Action/Community Outreach, et al., Investigation

Team

Investigations

USDA Animal Import Controls Review Team

Audit

Bad Newz Kennels Investigation Forfeiture Team

Multiple Disciplines

GOLD PRESIDENTIAL VOLUNTEER SERVICE AWARD

Rodney DeSmet

Office of Inspections and Research

Matthew Wilkins

Investigations

SUMMARY OF AUDIT ACTIVITIES—APRIL–SEPTEMBER 2008

Reports Issued	34
Audits Performed by OIG	33
Evaluations Performed by OIG	0
Audits Performed Under the Single Audit Act	0
Audits Performed by Others	1
Management Decisions Made	
Number of Reports	25
Number of Recommendations	153
Total Dollar Impact (Millions) of Management-Decided Reports	\$118.6
Questioned/Unsupported Costs	\$0.7 ^{ab}
Recommended for Recovery	\$0.7
Not Recommended for Recovery	\$0.0
Funds To Be Put to Better Use	\$117.9
^a These were the amounts the auditees agreed to at the time of management decision.	
^b The recoveries realized could change as the auditees implement the agreed-upon corrective action plan and seek recovery of amounts recorded as debts due the Department.	

SUMMARY OF INVESTIGATIVE ACTIVITIES— APRIL–SEPTEMBER 2008

Reports Issued	129
Cases Opened	193
Cases Closed	150
Cases Referred for Prosecution	111
Impact of Investigations	
Indictments	359
Convictions	358 ^a
Searches	132
Arrests	994
Total Dollar Impact (Millions)	\$40.0
Recoveries/Collections	\$2.0 ^b
Restitutions	\$21.1 ^c
Fines	\$0.3 ^d
Claims Established	\$7.7 ^e
Cost Avoidance	\$2.7 ^f
Administrative Penalties	\$6.2 ^g
Administrative Sanctions	78
Employees	14
Businesses/Persons	64
^a Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 358 convictions do not necessarily relate to the 359 indictments.	
^b Includes money received by USDA or other Government agencies as a result of OIG investigations.	
^c Restitutions are court-ordered repayments of money lost through a crime or program abuse.	
^d Fines are court-ordered penalties.	
^e Claims established are agency demands for repayment of USDA benefits.	
^f Consists of loans or benefits not granted as the result of an OIG investigation.	
^g Includes monetary fines or penalties authorized by law and imposed through an administrative process as a result of OIG findings.	

Full FY 2008 Results in Key Categories

SUMMARY OF AUDIT ACTIVITIES— OCTOBER 2007—SEPTEMBER 2008	
Reports Issued	64
Management Decisions Made	
Number of Reports	47
Number of Recommendations	333
Total Dollar Impact (Millions) Of Management-Decided Reports	\$482.4
Questioned/Unsupported Costs	\$31.3
Funds To Be Put to Better Use	\$451.1

SUMMARY OF INVESTIGATIVE ACTIVITIES— OCTOBER 2007—SEPTEMBER 2008	
Reports Issued	275
Impact of Investigations	
Indictments	484
Convictions	732
Arrests	1,176
Total Dollar Impact (Millions)	\$74.7
Administrative Sanctions	132

**INVENTORY OF AUDIT REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE
FROM APRIL 1 THROUGH SEPTEMBER 30, 2008**

		NUMBER	DOLLAR VALUE
A.	FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 2008	4	\$3,116,001
B.	WHICH WERE ISSUED DURING THE REPORTING PERIOD	3	\$191,433,339
	TOTALS	7	\$194,549,340
C.	FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	3	
	(1) DOLLAR VALUE OF DISALLOWED COSTS		\$117,871,854
	(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$0
D.	FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	4	\$76,677,486
	REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	3	\$2,727,159

**INVENTORY OF AUDIT REPORTS WITH QUESTIONED COSTS AND LOANS
FROM APRIL 1 THROUGH SEPTEMBER 30, 2008**

		DOLLAR VALUES		
		NUMBER	QUESTIONED COSTS AND LOANS	UNSUPPORTED^a COSTS AND LOANS
A.	FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 2008	7	\$2,987,251	\$569,119
B.	WHICH WERE ISSUED DURING THIS REPORTING PERIOD	7	\$18,538,470	\$0
	TOTALS	14	\$21,525,721	\$569,119
C.	FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	4		
	(1) DOLLAR VALUE OF DISALLOWED COSTS			
	RECOMMENDED FOR RECOVERY		\$715,060	\$2,808
	NOT RECOMMENDED FOR RECOVERY		\$34,830	\$0
	(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$633,834	\$542,422
D.	FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	10	\$20,141,997	\$23,889
	REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	5	\$2,191,596	\$23,889

^aUnsupported values are included in questioned values.

PROGRAM IMPROVEMENT RECOMMENDATIONS

A significant number of our audit recommendations carry no monetary value per se, but their impact can be immeasurable in terms of safety, security, and public health. They can also contribute considerably toward economy, efficiency, and effectiveness in USDA's programs and operations. During this reporting period, we issued 128 program improvement recommendations, and management agreed to implement a total of 138 program improvement recommendations that were issued this period or earlier. Examples of the program improvement recommendations issued this period (see the main text of this report for a summary of the audits that prompted these program improvement recommendations) include the following:

- FSA agreed to revise its examination procedures and forms to provide comprehensive procedural guidance for warehouse examiners at port facilities.
- FNS agreed to consult with DOJ to ensure that the retailer authorization process is sufficient for successful prosecution of retailers who are trafficking food stamp benefits.
- FNS agreed to require the Colorado State agency to ensure that errors in the FSP eligibility system are corrected and claims properly established.
- RMA officials agreed to establish and implement formal policies and procedures on sufficient documentation and proper administration and monitoring of ARPA contracts and partnerships.
- FS agreed to use the dispute resolution process to resolve any future conflicts with FEMA after disaster relief activities.
- The Department agreed to develop and implement a renewable energy strategy that includes program goals for agency managers.
- NRCS agreed to develop a monitoring system to prioritize WRP easements and optimize monitoring resources by implementing, for example, a risk-based system.

SUMMARY OF AUDIT REPORTS RELEASED FROM APRIL 1 THROUGH SEPTEMBER 30, 2008
DURING THE 6-MONTH PERIOD FROM APRIL 1 THROUGH SEPTEMBER 30, 2008,
THE OFFICE OF INSPECTOR GENERAL ISSUED 34 AUDIT REPORTS, INCLUDING 1 PERFORMED BY OTHERS.
THE FOLLOWING IS A SUMMARY OF THOSE AUDITS BY AGENCY:

AGENCY	AUDITS RELEASED	QUESTIONED COSTS AND LOANS	UNSUPPORTED^a COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
AGRICULTURAL RESEARCH SERVICE	1			
ANIMAL AND PLANT HEALTH INSPECTION SERVICE	1			
CHIEF INFORMATION OFFICER	1			
COOPERATIVE STATE RESEARCH, EDUCATION AND EXTENSION SERVICE	1			
DELTA REGIONAL AUTHORITY	1			
FARM SERVICE AGENCY	6	\$1,591,532		\$655,520
FOOD AND NUTRITION SERVICE	4	\$102,087		
FOOD SAFETY AND INSPECTION SERVICE	2			
FOREIGN AGRICULTURAL SERVICE	1			
FOREST SERVICE	2	\$46,078		\$116,827,492
MULTIAGENCY	5			
NATURAL RESOURCES CONSERVATION SERVICE	2	\$418,598		\$73,950,327
OFFICE OF THE CHIEF FINANCIAL OFFICER	2			
RISK MANAGEMENT AGENCY	2	\$15,951,016		
RURAL BUSINESS-COOPERATIVE SERVICE	1			
RURAL TELEPHONE BANK	1			
RURAL UTILITIES SERVICE	1	\$429,159		
TOTALS	34	\$18,538,470		\$191,433,339
TOTAL COMPLETED:				
SINGLE AGENCY AUDIT	29			
MULTIAGENCY AUDIT	5			
SINGLE AGENCY EVALUATION	0			
MULTIAGENCY EVALUATION	0			
TOTAL RELEASED NATIONWIDE	34			
TOTAL COMPLETED UNDER CONTRACT ^b	1			
TOTAL SINGLE AUDIT ISSUED ^c	0			
^a Unsupported values are included in questioned values ^b Indicates audits performed by others ^c Indicates audits completed as Single Audit				

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
FROM APRIL 1, 2008 THROUGH SEPTEMBER 30, 2008**

AUDIT NUMBER	RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS TO BE PUT TO BETTER USE
Agricultural Research Service						
026010002CH	2008/05/13	Implementation of Renewable Energy Programs at the Agricultural Research Service				
Total: Agricultural Research Service			1			
Animal and Plant Health Inspection Service						
336010002HY	2008/04/21	APHIS' Transfer Authority of Program Funding				
Total: Animal and Plant Health Inspection Service			1			
Chief Information Officer						
885010012FM	2008/09/19	Statement on Auditing Standards No. 70 Report on the National Information Technology Center General Controls				
Total: Chief Information Officer			1			
Cooperative State Research, Education, and Extension Service						
136010001HY	2008/05/30	CSREES – National Research Initiative Competitive Grants Program (NRICGP)				
Total: Cooperative State Research, Education and Extension Service			1			
Delta Regional Authority						
620990002TE	2008/07/31	Controls Over Issuance of Appropriated Funds by the Delta Regional Authority FY's 2005-2007				
Total: Delta Regional Authority			1			
Farm Service Agency						
030990181TE	2008/05/08	Payment Limitation Review in Louisiana		\$1,432,622		
030990198KC	2008/08/22	FSA Inspection of Temporary Domestic Storage Sites for Foreign Food Assistance				
036010015AT	2008/09/04	Tobacco Transition Payment Program/Tobacco Assessments (Against Tobacco Manufacturers and Importers)				

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
FROM APRIL 1, 2008 THROUGH SEPTEMBER 30, 2008**

AUDIT NUMBER	RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS TO BE PUT TO BETTER USE
036010017CH	2008/09/29	Controls Over Guaranteed Farm Loan Interest Rates and Interest Assistance				
036010024KC	2008/09/17	Hurricane Relief Initiative – Emergency Forestry Conservation Reserve Program		\$158,910		\$655,520
036010026KC	2008/09/25	Marketing Assistance Loans and Loan Deficiency Payment Provisions for Pulse Crops				
Total: Farm Service Agency			6	\$1,591,532		\$655,520
Food and Nutrition Service						
270020025HY	2008/09/10	FNS Food Stamp Program, New Jersey Administrative Costs				
270170006HQ	2008/08/19	DCAA Audit of ABT Associates, Inc., FY 2004 Incurred Cost				
270990068HY	2008/06/20	Audit of the Colorado State Agency Oversight of EBT Operations		\$102,087		
276010015AT	2008/09/26	FNS Food Stamp Program Retailer Authorization Controls and Visits				
Total: Food and Nutrition Service			4	\$102,087		
Food Safety and Inspection Service						
246010008HY	2008/08/04	Followup on FSIS' Inspection of Meat and Poultry Imports				
246010009HY	2008/08/07	FSIS Recall Procedures for Adulterated and Contaminated Product				
Total: Food Safety and Inspection Service			2			
Foreign Agricultural Service						
076010002HY	2008/07/22	GSM 102 Export Credit Guarantee Program				
Total: Foreign Agricultural Service			1			
Forest Service						
086010051SF	2008/08/05	FS Controls Over Documenting and Reporting Its Hurricane Relief Expenditures to FEMA				\$116,827,492

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES						
FROM APRIL 1, 2008 THROUGH SEPTEMBER 30, 2008						
AUDIT NUMBER	RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS TO BE PUT TO BETTER USE
086010052SF	2008/08/12	FS' Renewable Energy Program		\$46,078		
Total: Forest Service			2	\$46,078		\$116,827,492
Multi-Agency						
505010009FM	2008/07/11	Management and Security Over USDA Wireless Connections				
505010013FM	2008/09/30	FY 2008 Federal Information Security Management Act (FISMA) Report				
506010004HY	2008/09/18	Adequacy of Internal Controls Over Travel Card Expenditures – Followup				
506010013CH	2008/08/14	Implementation of Renewable Energy Programs in USDA				
506010013KC	2008/06/11	NRCS Status Review Process				
Total: Multi-Agency			5			
Natural Resources Conservation Service						
100990004SF	2008/08/25	NRCS Wetland Reserve Program – Restoration Compliance		\$418,598		\$73,950,327
106010005CH	2008/09/16	Controls Over Technical Service Providers				
Total: Natural Resources Conservation Service			2	\$418,598		\$73,950,327
Office of the Chief Financial Officer						
114010028FM	2008/09/19	Statement on Auditing Standards No. 70 Report on the National Finance Center General Controls				
114010029FM	2008/09/18	Agreed-Upon Procedures: Retirement, Health Benefits, and Life Insurance Withholdings/ Contribution and Supplemental Headcount Report Submitted to the Office of Personnel Management FY 2008				
Total: Office of the Chief Financial Officer			2			
Risk Management Agency						
050990112KC	2008/05/09	Contracting for Services Under the Agricultural Risk Protection Act of 2000				

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
FROM APRIL 1, 2008 THROUGH SEPTEMBER 30, 2008**

AUDIT NUMBER	RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS TO BE PUT TO BETTER USE
056010015TE	2008/09/30	Crop Loss and Quality Adjustments for Aflatoxin Infected Corn		\$15,951,016		
Total: Risk Management Agency			2	\$15,951,016		
Rural Business-Cooperative Service						
346010005CH	2008/07/03	Implementation of Renewable Energy Programs in RBS				
Total: Rural Business-Cooperative Service			1			
Rural Telephone Bank						
154010008FM	2008/07/11	RTB Closeout Audit				
Total: Rural Telephone Bank			1			
Rural Utilities Service						
096010006TE	2008/07/03	Texas Community Connect Grants Close-out Audit		\$429,159		
Total: Rural Utilities Service			1	\$429,159		
Grand Total:			34	\$18,538,470		\$191,433,339

AUDITS WITHOUT MANAGEMENT DECISION

The Inspector General Act has a number of reporting requirements, among them tracking 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. (in dollars)
APHIS	01/15/08	1. USDA's Implementation of the National Strategy for Pandemic Influenza (33701-1-Hy)	0	0
Multiagency	03/31/08	2. USDA's Controls Over the Importation and Movement of Live Animals (50601-12-Ch)	0	0

PREVIOUSLY REPORTED BUT NOT YET RESOLVED

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

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. (in dollars)
CSREES	08/17/07	3. CSREES – Tribal 1994 Land-Grant Institutions (13011-3-At)	951,345	874,986
FAS	02/22/07	4. Trade Promotion Operations (07601-1-Hy)	0	0
FSA	9/26/07	5. Tobacco Transition Payment Program – Quota Holder Payments and Flue-Cured Tobacco Quotas (03601-12-At)	456,703	29,820
FSIS	06/21/00	6. Implementation of the Hazard Analysis and Critical Control Point (HACCP) System (24001-3-At)	0	0
	09/30/03	7. Oversight of Production Process and Recall at ConAgra Plant (Establishment 969)(24601-2-KC)	0	0
	06/24/05	8. HACCP – Compliance by Very Small Plants (24601-5-At)	0	0
Multiagency	09/30/03	9. Implementation of ARPA (50099-12-KC)	0	0
	02/23/04	10. Homeland Security Issues for USDA Grain and Commodities Inventory (50099-13-KC)	0	0
	03/28/07	11. Implementation of Trade Title of 2002 Farm Bill and President's Management Agenda (50601-12-At)	0	0
	08/27/07	12. Crop Bases on Lands With Conservation Easements Conservation Easements	1,385,937	1,385,937
RBS	01/28/02	13. Lender Servicing of Business and Industry Guaranteed Loans, Florida (34601-3-At)	1,536,060	1,536,060
RHS	09/30/04	14. Rural Rental Housing Project Costs, Cairo, IL (04099-143-Ch)	164,000	164,000
RMA	03/15/02	15. Monitoring of RMA's Implementation of Manual 14 Reviews/Quality Control Review System (05099-14-KC)	0	0
	03/26/07	16. Evaluation of RMA Indemnity Payments for 2004 Florida Hurricanes (05099-27-At)	415,710	415,710

AUDITS WITHOUT MANAGEMENT DECISION— NARRATIVE FOR NEW ENTRIES

1. USDA's Implementation of the National Strategy for Pandemic Influenza (33701-01-Hy), Issued January 15, 2008

OIG found that certain support tasks (e.g., tasks for which USDA is responsible for coordinating and collaborating with the lead agency) were not properly assigned. USDA was tasked to implement response or screening protocols at domestic airports and other transport modes based on disease characteristics and availability of rapid detection methods and equipment. USDA, however, does not have the authority to regulate interstate transportation of agricultural products. APHIS agreed to coordinate with DHS, the lead agency, to determine scope and suggest any reassignments to the U.S. Homeland Security Council. OIG agreed with this proposed corrective action; however, to reach management decision, APHIS needs to provide a date when the collaboration will take place on the details regarding the reassignment of this task.

2. USDA's Controls Over the Importation and Movement of Live Animals (50601-12-Ch), Issued March 31, 2008

OIG found that APHIS needed increased inspection efforts for import restrictions, enhanced animal surveillance at the northern border, better controls to ensure imported animals reach slaughter, and steps to prevent the importation of diseased/unhealthy bovine at the southern border. In addition APHIS needs better accountability of official USDA seals and improved oversight of port operations. APHIS agreed with most of these nine open recommendations. To reach management decision, APHIS needs to describe how an information system will track import problems and provide a plan for oversight to ensure that the United States can rely on Canadian certifications. APHIS also needs to describe how it will receive notification of animal shipments from U.S. Customs and Border Protection and provide procedures for reconciling all imported-restricted animals, analyzing trends, and implementing corrective actions. Further, APHIS needs to enforce existing requirements concerning bovine tuberculosis testing and provide procedures for analyzing animal rejections from Mexico. APHIS needs to identify when it will complete an inventory of USDA seals. Finally, APHIS needs to identify additional controls needed for its Import Tracking System.

INDICTMENTS AND CONVICTIONS

From April 1 through September 30, 2008, OIG completed 129 investigations. We referred 111 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 359 indictments and 358 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 358 convictions do not necessarily relate to the 359 indictments. Fines, recoveries/collections, restitutions, claims established, cost avoidance, and administrative penalties resulting from our investigations totaled about \$40.0 million.

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

Indictments and Convictions— April 1–September 30, 2008		
Agency	Indictments	Convictions*
AMS	3	1
APHIS	102	176
ARS	0	1
FNS	213	137
FS	6	4
FSA	15	23
FSIS	4	7
GIPSA	0	1
NRCS	1	0
OCFO	1	0
RBS	0	1
RHS	7	5
RMA	3	0
RUS	4	2
Totals	359	358
*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 767 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. Volume and Type

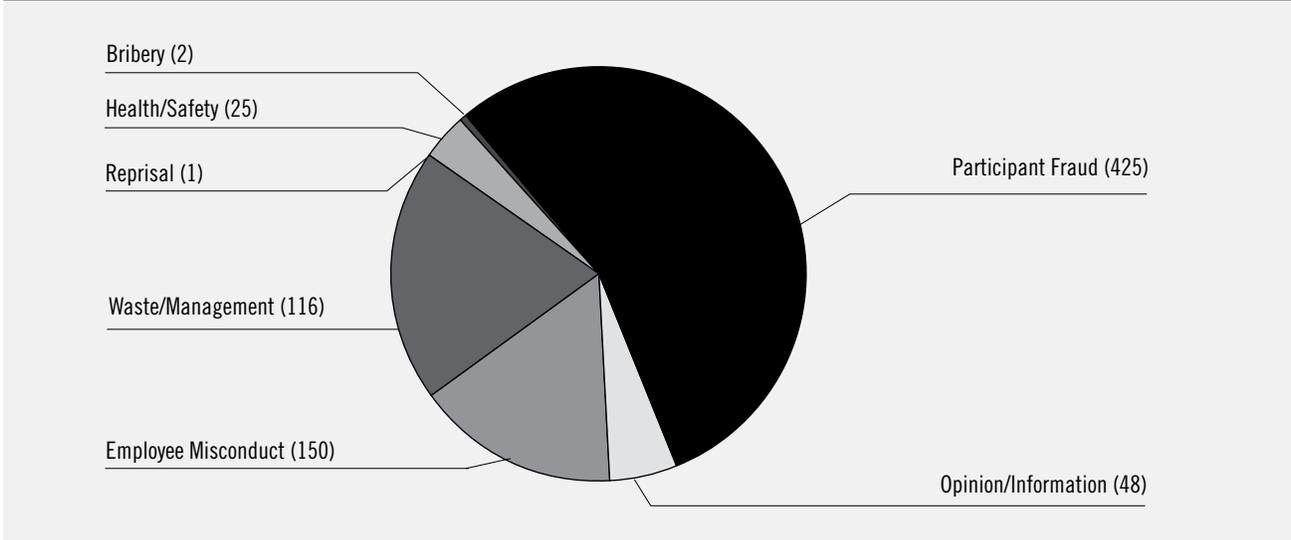
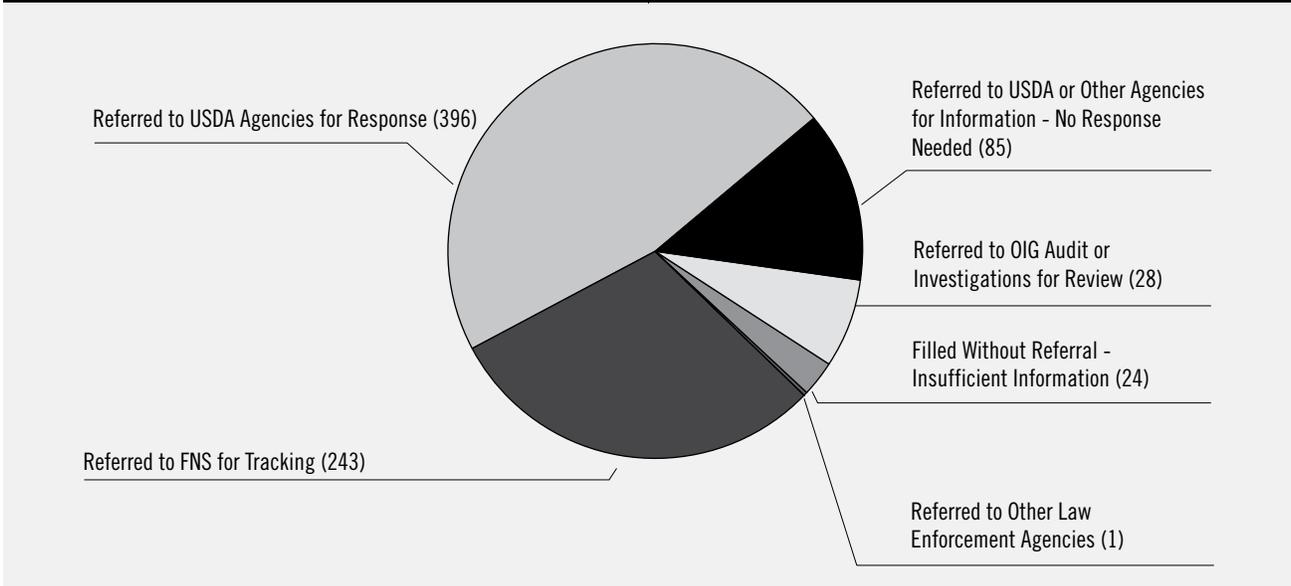


Figure 2. Disposition of Complaints Received



**FREEDOM OF INFORMATION ACT (FOIA) AND PRIVACY ACT (PA) REQUESTS
FOR THE PERIOD APRIL 1 TO SEPTEMBER 30, 2008**

Number of FOIA/PA Requests Received	95
Number of FOIA/PA Requests Processed	106
Number Granted	8
Number Partially Granted	62
Number Not Granted	36
Reasons for Denial	
No Records Available	12
Referred to Other Agencies	1
Requests Denied in Full Exemption 5	1
Requests Denied in Full Exemption 7(A)	6
Requests Denied in Full Exemption 7(C)	4
Request Withdrawn	5
Fee-Related	1
Not a Proper FOIA Request	2
Not an Agency Record	1
Duplicate Request	3
Other	0
Requests for OIG Reports From Congress and Other Government Agencies	
Received	25
Processed	22
Appeals Received	2
Appeals Processed	1
Appeals Completely Upheld	1
Appeals Partially Reversed	0
Appeals Completely Reversed	0
Appeals Requests Withdrawn	0
Other	0
Number of OIG Reports/Documents Released in Response to Requests	68

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

NOTE 2: During this 6-month period, 30 audit reports were posted to the Internet at the OIG website: <http://www.usda.gov/oig>.

Abbreviations of Organizations

AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
BCET	Bridge Card Enforcement Team
CCC	Commodity Credit Corporation
CI	Criminal Investigation (IRS)
CR	Office of Civil Rights (now OAC)
CSREES	Cooperative State Research, Education, and Extension Service
DCAA	Defense Contract Audit Agency
DHS	U.S. Department of Homeland Security
DOJ	U.S. Department of Justice
DRA	Delta Regional Authority
FAS	Foreign Agricultural Service
FBI	Federal Bureau of Investigation
FDA	Food and Drug Administration
FEMA	Federal Emergency Management Agency
FNS	Food and Nutrition Service
FS	Forest Service
FSA	Farm Service Agency
FSAN	Financial Statement Audit Network
FSIS	Food Safety and Inspection Service
GIPSA	Grain Inspection, Packers and Stockyards Administration
HARCFL	Heart of America Regional Computer Forensic Lab
ICE	Immigration and Customs Enforcement (DHS)
IRS	Internal Revenue Service

Abbreviations of Organizations

ISDC	Interagency Suspension and Debarment Committee
JTTF	Joint Terrorism Task Force
NASS	National Agricultural Statistics Service
NJTTF	National Joint Terrorism Task Force
NCFD	National Computer Forensic Division
NFC	National Finance Center
NITC	National Information Technology Center
NRCS	Natural Resources Conservation Service
OAC	Office of Adjudication and Compliance
OBPA	Office of Budget and Program Analysis
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
OPM	Office of Personnel Management
PCIE	President's Council on Integrity and Efficiency
RBS	Rural Business-Cooperative Service
RD	Rural Development
RHS	Rural Housing Service
RMA	Risk Management Agency
RTB	Rural Telephone Bank
RUS	Rural Utilities Service
TTB	Alcohol and Tobacco Tax and Trade Bureau (Treasury)
USDA	U.S. Department of Agriculture
VS	Veterinary Services (APHIS)

EXAMPLES OF PROGRAM IMPROVEMENT RECOMMENDATIONS MANAGEMENT AGREED TO DURING THIS REPORTING PERIOD (138 TOTAL)

- FSA agreed to revise its examination procedures and forms to provide comprehensive procedural guidance for warehouse examiners at port facilities.
- FNS agreed to consult with DOJ to ensure that the retailer authorization process is sufficient for successful prosecution of retailers who are trafficking food stamp benefits.
- FNS agreed to require the Colorado State agency to ensure that errors in the FSP eligibility system are corrected and claims properly established.
- RMA officials agreed to establish and implement formal policies and procedures on sufficient documentation and proper administration and monitoring of ARPA contracts and partnerships.
- FS agreed to use the dispute resolution process to resolve any future conflicts with FEMA after disaster relief activities.
- The Department agreed to develop and implement a renewable energy strategy that includes program goals for agency managers.
- NRCS agreed to develop a monitoring system to prioritize WRP easements and optimize monitoring resources by implementing, for example, a risk-based system.

MISSION OF OIG

OIG assists USDA by promoting effectiveness and integrity in the hundreds of programs of the Department. These programs encompass a broad spectrum, involving such areas as consumer protection, nutrition, animal and plant health, agricultural production, agricultural product inspection and marketing, rural development, research, conservation, and forestry. They affect our citizens, our communities, and our economy.

OIG STRATEGIC GOALS

We have focused nearly all of our audit and investigative direct resources on our four goals:

- Strengthen USDA's ability to implement safety and security measures to protect the public health as well as agricultural and Departmental resources.
- Reduce program vulnerabilities and strengthen program integrity in the delivery of benefits to program participants.
- Support USDA in implementing its management improvement initiatives.
- Increase the efficiency and effectiveness with which USDA manages and exercises stewardship over natural resources.



To learn more about OIG, visit our Web site at
www.usda.gov/oig/home.htm

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