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First Half 2009

KEY OIG ACCOMPLISHMENTS IN THIS REPORTING PERIOD

RESULTS IN KEY CATEGORIES

SUMMARY OF AUDIT ACTIVITIES

Reports Issued

Number of Reports	22
Number of Recommendations	133

Management Decisions Made

Number of Reports	22
Number of Recommendations	237

Total Dollar Impact (Millions) of Management-Decided Reports \$112.9

Questioned/Unsupported Costs \$3.6

Funds To Be Put to Better Use \$109.3

SUMMARY OF INVESTIGATIVE ACTIVITIES

Reports Issued 141

Impact of Investigations

Indictments	228
Convictions	225
Arrests	103

Total Dollar Impact (Millions) \$47.4

Administrative Sanctions 74

OIG MAJOR USDA MANAGEMENT CHALLENGES (August 2008)

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

Related material can be found on pages 11 and 16.

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

Related material can be found on pages 6, 9, 12, and 15-17.

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

Related material can be found on page 21.

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

Related material can be found on page 4.

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

No work was reported during this period.

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 3.

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 25-26.

8) Improved Controls Needed for Food Safety Inspection Systems

Related material can be found on pages 1-2 and 4.

9) Implementation of Renewable Energy Programs at USDA

No work was reported during this period.

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 ending March 31, 2009. This is the first Semiannual Report that we have issued to the new Congress and the new Administration. We look forward to working with our stakeholders to provide effective oversight to USDA programs, particularly the new economic recovery programs funded under the American Recovery and Reinvestment Act of 2009 (ARRA). Immediately upon passage of the ARRA, we began a number of proactive measures to review ARRA funding, including reviewing open recommendations from audits of agency programs receiving such funding, working with the Chief Information Officer and the Chief Financial Officer to ensure accurate ARRA reporting, and reviewing agency Recovery Act Plans. Some of our current work on specific recovery program projects is described in the “Ongoing and Planned Work” sections of this report.

This report also highlights the most significant OIG activities completed during the period. During this reporting period, we conducted successful investigations and audits that led to 103 arrests, 225 convictions, \$47.4 million in recoveries and restitutions, 202 program improvement recommendations, and \$112.9 million in financial recommendations. Narrative descriptions of our completed work are presented in the body of this report, organized under the goals set forth in the OIG Strategic Plan for fiscal years (FY) 2007-2012, as shown below. Some of our most significant work completed in the last 6 months includes:

- **Safety, Security, and Public Health** – Prompted by Congressional and public concerns expressed after the release of videos showing inhumane treatment of animals at a California slaughterhouse, OIG conducted a review both of oversight at this plant and at similar plants across the country. In response to our recommendations, the Food Safety and Inspection Service agreed to reassess the inhumane handling risks associated with such establishments and strengthen its pre-slaughter inspection processes. Our investigative work resulted in sentencing in other cases involving uninspected meat and poultry products, illegal importation of plant pests, and international smuggling of orchids.
- **Integrity of Benefits** – Our investigations involving the Supplemental Nutrition Assistance Program and other feeding programs—as well as conversion of mortgaged farm collateral, payment limitations schemes, tobacco and other fraud, and broadband scams—produced significant prison sentences and monetary recoveries totaling millions of dollars. In addition, Congress requested that OIG revisit the rural broadband programs to determine whether the Rural Utilities Service (RUS) had taken sufficient corrective action in response to our previous recommendations. Our audit work found that RUS continues to make loans to broadband providers in areas with preexisting service, sometimes in close proximity to large urban areas.
- **Management Improvement Initiatives** – Our audit of claims from policies reinsured under the Federal Crop Insurance Program resulting from the 2005 hurricanes in Florida found that errors by just one approved insurance provider led to more than \$16 million in erroneous payments. Our audit work also found that the National Agricultural Statistics Service’s weekly published average peanut prices are unreliable because they may not be complete, cannot be verified, and do not reflect prevailing weekly market values. In addition, the USDA FY 2008 consolidated financial statements received an unqualified opinion. Our investigations included ones involving embezzlement, witness tampering, and unlawfully buying and selling prescription drugs.
- **Stewardship Over Natural Resources** – Our investigation found that 18 participants submitted fraudulent soil test results to unlawfully receive compensation from the Conservation Security Program, resulting in administrative recoveries totaling \$628,591, as well as Civil False Claims Act settlements.

In many ways, 2009 has ushered in an era of great challenge for the Nation, for USDA, and for those of us in the oversight community. We look forward to working closely with Secretary Vilsack, Deputy Secretary Merrigan, and the new USDA management team to ensure that USDA programs are delivered effectively and with integrity.



Phyllis K. Fong
Inspector General

Contents

Safety, Security, and Public Health	1
Integrity of Benefits	5
Management Improvement Initiatives	15
Stewardship of Natural Resources	24
Gauging the Impact of OIG	27
Abbreviations of Organizations	40

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 first half of fiscal year (FY) 2009, we devoted 20 percent of our total direct resources to Goal 1, with 96.3 percent of these resources assigned to critical/high impact work. A total of 76.5 percent of our audit recommendations under Goal 1 resulted in management decision within 1 year, and 66.7 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued three audit reports under Goal 1 during this reporting period. OIG's investigations under Goal 1 yielded 101 indictments, 56 convictions, and about \$1.7 million in monetary results during this reporting period.

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) Controls Did Not Detect or Prevent the Inhumane Handling of Cattle

In January 2008, the Humane Society of the United States publicly released videos that documented the egregious abuse of cattle awaiting slaughter at a California slaughterhouse, which could have led to unsafe meat entering the food supply. On February 17, 2008, the slaughterhouse voluntarily recalled approximately 143 million pounds of raw and frozen beef products, the largest recall to date. The videos led Congress, USDA, and the public to question how such events could have occurred at a slaughter establishment under inspection by FSIS and whether these events were isolated or systemic. OIG initiated an audit to determine whether FSIS inspection

controls were effective. We found deliberate actions by slaughterhouse personnel to bypass required inspections, as well as noncompliance with required inspection procedures by FSIS in-plant staff. FSIS management controls did not detect and/or prevent these incidents. We reviewed 10 other cull establishments and found shortcomings, but nothing indicated that unsuitable animals were passed for slaughter; we therefore concluded that there was no systemic failure of the inspection processes/system as designed by FSIS. However, we did find that FSIS controls could be strengthened to provide oversight of the inspection processes and to demonstrate the sufficiency and competency of FSIS' personnel resources. FSIS agreed to reassess the inhumane handling risks associated with cull establishments; establish a process to analyze data for variances in both establishment and inspector performance that could require followup; develop a supportable, risk-based methodology for determining inspection resources and

establishing an appropriate supervisory structure; develop a structured training and development program for both its inspection and management resources; and strengthen its pre-slaughter inspection processes. (Audit Report No. 24601-7-KC, Evaluation of FSIS Management Controls Over Pre-Slaughter Activities)

Owners of a California Corporation Sentenced for Selling Uninspected Meat and Poultry Products

In November 2008, in Federal court in the Central District of California, a California corporation was fined \$25,000 and ordered to serve 3 years of probation. The three owners were each fined \$5,000, and one owner was also ordered to serve 3 years of probation. The owners of the corporation had produced and sold meat and poultry raviolis to the public, without Federal inspection, in violation of the Federal Meat Inspection Act (FMIA) and Poultry Products Inspection Act (PPIA). After being notified of their previous FMIA and PPIA violations, from September 2001 to October 2002, the owners sold more than \$121,000 worth of meat and poultry raviolis. No illnesses were reported.

Pennsylvania and Virginia Individuals Convicted for Illegally Importing Asian Beetles

In two unrelated investigations, the U.S. Postal Service intercepted packages sent from Japan and Taiwan, each containing dozens of live beetles found only in Asian countries. Some of the beetles were as large as a baseball and, due to their uniqueness, required identification by scientists specializing in beetles. It was determined that the beetles, if released, could cause considerable damage to native plants and agriculture in the United States.



These Asian beetles were illegally imported into the United States. OIG photo.

In December 2008, a man in Mohnton, Pennsylvania, pled guilty to a 1-count felony for illegally importing 25 exotic plant pests into the United States. In April 2009, he was sentenced in Federal court to 36 months of probation and fined \$5,025. The judge also ordered the beetles to be turned over to the Smithsonian Institution, which had written to the court to request them. The other subject, a Chinese national who was a college biology major living in Arlington, Virginia, pled guilty to importing plant pests into the United States. He said he liked the colorful, exotic beetles and wanted to breed them. In October 2008, he was sentenced to 12 months of probation and ordered to pay a \$2,000 fine.

These investigations were conducted jointly with the U.S. Department of Homeland Security (DHS), the U.S. Postal Inspection Service, and the Animal and Plant Health Inspection Service (APHIS).

Missouri Company Sentenced for Falsifying Poultry Shipping Certificates

A joint investigation conducted by OIG and FSIS revealed that, for a period of at least 10 years, a Monett, Missouri, meat and poultry company had replaced packaging labels on poultry products and falsified poultry shipping certificates on export items to circumvent international quality guidelines. In October 2008, the company pled guilty to one count of making a false statement on a poultry shipper's certificate. A Federal court in Missouri ordered the company to pay a \$250,000 fine and \$77,000 in restitution.

Texas APHIS Employees and Fumigator Sentenced for Conspiring To Allow Infested Agricultural Products To Enter the United States

From approximately June 2005 through April 2008, three APHIS Plant Protection and Quarantine (PPQ) officers assigned to Laredo, Texas, conspired to permit agricultural products that were infested with a plant pest to enter into the United States. The PPQ officers falsified fumigation documentation and made false overtime claims. In some instances, the fumigations did not occur, and in others the fumigations were not conducted properly because the correct amount of fumigant was not used. In November 2008, in the Southern District of Texas, Laredo, one of the APHIS PPQ officers and the fumigator, respectively, were sentenced to serve 5 months in prison to be followed by 5 months of

home confinement and 36 months of supervised release; and 12 months in prison followed by 36 months of supervised release. They were also ordered to pay \$19,770 and \$39,541, respectively, in restitution to USDA and the various owners of agricultural products that were not fumigated. On October 1, 2008, another former PPQ officer was sentenced to serve 6 months of home confinement. A third APHIS PPQ officer took his own life shortly after he was indicted. This investigation was conducted jointly with the Federal Bureau of Investigation (FBI).

Florida Orchid Dealer Sentenced in International Smuggling Operation

This joint investigation by OIG, the Department of the Interior's U.S. Fish and Wildlife Service, and DHS' Immigration and Customs Enforcement (ICE) involved the import of approximately 1,400 orchid plants, which are regulated by the Convention on International Trade of Endangered Species of Flora and Fauna (CITES). In July 2008, a Ft. Lauderdale, Florida, orchid dealer was charged in the Southern District of Florida with one count of falsely identifying plants intended for import or received from a foreign country, in violation of the Lacey Act. The plants were falsely identified on the CITES document as artificially propagated, when in fact the plants were collected in the wild. In October 2008, the orchid dealer was sentenced to 18 months of probation.

USDA Needs To Monitor the Importation of Transgenic Organisms Developed Outside the U.S. Regulatory System

USDA has no controls to identify transgenic organisms (genetically engineered (GE) plants and animals) that are not declared during importation. To date, USDA has not needed such controls because most transgenic organisms have been developed under the U.S. regulatory system. However, because other nations have recently begun to create and export such organisms, we concluded that USDA will need to monitor their development and importation into the United States in order to mitigate environmental, agricultural, and commercial risks. In response to our audit recommendations, USDA generally agreed to implement a mechanism to monitor transgenic plants and animals developed outside the United States and a corresponding import control system. (Audit Report No. 50601-17-Te, USDA Controls Over Importation of Transgenic Plants and Animals)

USDA Needs an Overall Strategy To Enhance Trade of GE Agricultural Commodities

We found that USDA promotes biotechnology but has not developed an overall strategy to address trade challenges specific to GE U.S. agricultural commodities. Given trade barriers that can create a volatile international market for these commodities, we determined that such a strategy would help stabilize U.S. trade—both softening market downturns and increasing exports in favorable markets. Further, an overall strategy would focus USDA's efforts to open new markets. USDA generally agreed to implement a coordinated, comprehensive strategy to promote exporting U.S. GE commodities and appointed an official to implement our recommendations. (Audit Report No. 50601-14-Te, USDA's Role in the Export of GE Agricultural Commodities)

GOVERNMENTWIDE ACTIVITIES – GOAL 1

Review of Legislation, Regulations, Directives, and Memoranda

- *Guidance for Small and Very Small Establishments on Sampling Beef Products for Escherichia coli O157:H7 (E. coli O157:H7).* OIG reviewed a draft entitled *Guidance for Small and Very Small Establishments on Sampling Beef Products for E. coli O157:H7*, dated August 12, 2008. We generally concurred with the draft guidance, which provided small and very small establishments with information to develop sampling plans for monitoring controls designed to prevent *E. coli* O157:H7-contaminated product from leaving the establishment. However, we commented that the recommended samples appear to be too infrequent to verify the effectiveness of control systems. FSIS recommended that establishments maintain records of test results over time; therefore, frequency of positive tests over time should be a factor in determining sampling rates. Currently, FSIS' recommendations for sampling emphasize only the correlation between establishment size and sampling frequency.

Participation on Committees, Working Groups, and Task Forces

- An OIG Special Agent is assigned full time to the FBI's National Joint Terrorism Task Force (NJTTF). The agent attends 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 JTTFs has provided an excellent conduit 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.
- OIG's Emergency Response Team (ERT) is participating on the FBI's Joint Interagency Agroterrorism Working Group. The overall goal of the working group is to develop protocols and processes among the FBI, APHIS, and OIG that are needed to facilitate a coordinated interagency

response to an Agroterrorism event. In addition, ERT participates in numerous multiagency scenario-based exercises throughout the country to enhance its operational experience.

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),
- National Residue Program for cattle (FSIS),
- oversight of the recall by a California-based meat-packing company (FSIS),
- evaluation of Food Emergency Response Network capabilities (FSIS),
- evaluation of the changes to the Salmonella Verification Testing Program (FSIS),
- oversight of designated qualified persons enforcing the Horse Protection Act (APHIS),
- APHIS controls over pilot suitability (APHIS),
- licensing of animal exhibitors (APHIS),
- controls over animal import centers (APHIS),
- animal care inspections of dealers (APHIS),
- USDA controls over compliance with beef export requirements (AMS and FSIS),
- implementation of flood control dams rehabilitation (Natural Resources Conservation Service (NRCS)),
- USDA controls over GE animal and insect research (Agricultural Research Service (ARS), Cooperative State Research, Education, and Extension Service (CSREES), and APHIS),
- review of Forest Service (FS) firefighting succession plans,
- followup on prior firefighter safety audits (FS), and
- Forest Legacy Program – appraisal process (FS).

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

OIG 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 Supplemental Nutrition Assistance Program (SNAP) 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.

USDA has received \$28 billion in funding under the American Recovery and Reinvestment Act of 2009 (ARRA), enacted in February 2009, in a number of areas, including farm loans, watershed programs, supplemental nutrition assistance, wildland fire management, and several rural development programs such as rural housing, rural business, water and waste disposal, and broadband. ARRA also provided OIG with \$22.5 million (to remain available until September 30, 2013) for “oversight and audit of programs, grants, and activities funded by this Act and administered by the Department of Agriculture.” OIG began working immediately with USDA and the IG community, as well as the Government Accountability Office (GAO) and the Recovery Accountability and Transparency Board (RAT Board), to carry out oversight responsibilities. For our audit oversight, Phase 1 began with OIG having reviewed USDA agencies’

implementation of agreed-to audit recommendations relating to programs receiving ARRA funding. Phase 1 of our investigative efforts entailed outreach and enhancing fraud awareness among USDA employees and clients through increasing the number of fraud awareness briefings that we conduct and publishing literature and distributing hotline posters on our investigative mission and avenues for reporting fraud related to ARRA funding. Phase 1 for both our audit and investigative efforts is focused on proactive measures. Our ARRA oversight plan includes proactive, short-term, and long-term work, and can be found on our Web site at <http://www.usda.gov/oig/recovery/OIGSTIMULUSPLAN.pdf>. We will report the results of our ARRA work in the next Semiannual Report.

In the first half of FY 2009, we devoted 40 percent of our total direct resources to Goal 2, with 89.6 percent of these resources assigned to critical/high-impact work. A total of 92.8 percent of our audit recommendations under Goal 2 resulted in management decision within 1 year, and 83.9 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued seven audit reports under Goal 2 during this reporting period. OIG investigations under Goal 2 yielded 118 indictments, 152 convictions, and about \$44.9 million in monetary results during the reporting period.

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

Broadband Loan and Loan Guarantee Program

Since Congress directed RUS to establish the rural broadband programs in 2001, it has obligated \$1.35 billion to broadband providers to help foster economic growth by delivering broadband service to rural communities. An OIG report issued in 2005 disclosed irregularities, totaling \$340 million out of the \$578 million we reviewed, in the approval and servicing of the broadband loan and grant programs.

Congress requested that OIG revisit the rural broadband programs to determine whether RUS had taken sufficient corrective action in response to our previous recommendations and requested that we answer several additional questions. In response to Congress' additional questions, we found that RUS tracked the number of households served but not the number of previously unserved households. Of the 37 applications approved since our previous report, we found that 34 involved providers proposing to service communities that already had service. We also determined that, since 2001, 11 broadband loans totaling \$48 million were in default as of June 3, 2008, a 3.6 percent default rate.

In addition, we found that RUS has not fully implemented corrective action in response to 8 of the 14 recommendations from our 2005 report. For example, the agency continues to make loans to providers in areas with preexisting service, sometimes in close proximity to large urban areas. RUS officials stated that they had not resolved the outstanding recommendations because they were waiting for passage of the 2008 Farm Bill. OIG maintains that RUS did not need to wait for new legislation to implement most of our 2005 report recommendations.

RUS did not believe that our current report was an accurate portrayal of the performance of the broadband program. RUS stated that it followed the statutory requirements that it was bound to administer. However, we found weaknesses in RUS' administration of the broadband program. For example, RUS approved more than \$103 million of broadband loans even though the applications were incomplete. We also found that RUS does not always serve those communities most in need of broadband. RUS agreed to implement changes recommended

in our September 2005 report within certain timeframes. Its decision to wait for the release of the 2008 Farm Bill meant that the corrective actions had not been completed at the time of our review. (Audit Report No. 09601-8-Te, RUS Broadband Loan and Loan Guarantee Program)

Corporate Chief Executive Officer (CEO) Pleads Guilty to \$3.2 Million in Wireless Broadband Scam

In March 2002, the Rural Utilities Service (RUS) approved a \$3.295 million loan to a Parkersburg, West Virginia, corporation to construct a fixed wireless broadband system to serve areas in Ohio and West Virginia. RUS loan funds were fraudulently disbursed based on phony invoices submitted for payment and were also paid to an Ohio company where former principals of the West Virginia corporation became employed after submitting their resignations. The matter was investigated jointly by OIG, Internal Revenue Service (IRS)-Criminal Investigation (CI) and the West Virginia Legislature, Commission on Special Investigations.

In August 2008, the corporation's former CEO and former Chief Operating Officer (COO), as well as the Ohio company and its Chief Financial Officer (CFO), were charged in the Southern District of West Virginia with mail fraud, theft or bribery concerning programs receiving Federal funds, money laundering, and aiding and abetting. In September 2008, a representative of the Ohio company and the former COO of the West Virginia corporation pled guilty to money laundering conspiracy. In February 2009, the former CEO of the West Virginia corporation also pled guilty to money laundering conspiracy. Sentencing is scheduled for spring 2009. Charges remain pending against the CFO of the Ohio company.

Texas Technology Company and Two Corporate Officers Ordered To Pay \$429,159 in Restitution for Fraud in Broadband Internet Grants

This investigation, referred by OIG Audit after its review of RUS' Broadband Internet Grant Program, was conducted by OIG and the FBI. The investigation determined that an Austin, Texas, company submitted fraudulent claims for equipment purchases and services on its rural broadband Internet project. In December 2007, a Federal court in Lubbock, Texas, sentenced two corporate officers to 60 months of probation and ordered restitution jointly and severally of \$429,159 for one count of theft of public money and aiding and abetting. In

February 2009, the same Federal court sentenced the company to 60 months of probation and ordered restitution in the same amount to be paid jointly and severally for one count of theft of public money and aiding and abetting. The agency also debarred the company and its owner from Federal Government participation for 10 years.

Two Tennessee Businessmen Ordered To Pay \$4.5 Million in Restitution for Bank Fraud, Wire Fraud, and Money Laundering

A joint investigation conducted by OIG, IRS-CI, the FBI, and the Tennessee Valley Authority's (TVA) OIG disclosed that two Dyersburg, Tennessee, businessmen, who were the primary owners of a Hickman, Kentucky, corporation, fraudulently received a \$5 million bank loan, for the purchase of a building and business operating funds, that had been guaranteed by the Rural Business-Cooperative Service and fraudulently obtained an additional \$500,000 direct loan from TVA. These two individuals provided a listing of collateral to secure the USDA-guaranteed loan in Kentucky, even though several items of this collateral were already under obligation for an existing USDA-guaranteed loan for another business they owned in Tennessee. The fraudulent TVA loan was obtained through a similar scheme involving the collateral. A portion of these loan proceeds was later used to pay off non-related debts owed by these two businessmen. In February 2009, a Federal court in Kentucky sentenced the businessmen to 30 months and 27 months of imprisonment, respectively, for bank fraud, wire fraud and money laundering, and ordered them jointly liable for restitution of \$4.1 million regarding the USDA-guaranteed loan and \$420,000 restitution to TVA.

Minnesota Women Sentenced Following Rural Housing (RH) Program Fraud

In July 2008, a Dodge Center, Minnesota, woman and her mother each were sentenced to serve 20 years of probation and perform 100 hours and 75 hours of community service, respectively, following their guilty pleas in State court to felony theft by false representation. The daughter had convinced her elderly mother to obtain \$127,000 in RH Program assistance to purchase a house, because the daughter was not able to obtain RH assistance on her own. The daughter and her boyfriend, rather than the mother, ultimately lived in the house. Rural

Development (RD) later received \$100,009 from the sale of the house.

Multiagency Investigation Leads to Successful Prosecution for RD Housing Fraud and Unlawfully Obtained Supplemental Nutrition Assistance Program (SNAP) Benefits

This investigation conducted by OIG, Social Security Administration OIG, Environmental Protection Agency OIG, and the New Mexico Attorney General's office determined that a man in Gallup, New Mexico, presented false identity documents belonging to a deceased Puerto Rican national to unlawfully obtain RD housing assistance and SNAP benefits totaling approximately \$26,000. In January 2009, the subject was sentenced in State court to 72 months in prison, followed by 60 months of probation, and ordered to pay restitution of \$26,000 for four counts of fraud, identity theft, unlawful dealing in Federal food coupons, and perjury. The execution of the sentence was suspended in lieu of the subject being immediately deported from the United States. Illegal re-entry to the United States would result in the subject being incarcerated for the remainder of his sentence.

SNAP and Related Offenses Result in Significant Prison Sentences and Monetary Recoveries

- Our ongoing investigative efforts to combat large-scale SNAP benefit fraud trafficking in Chicago, Illinois, determined that a store owner and clerk, who were not authorized by the Food and Nutrition Service (FNS) to participate in the program, conspired with at least five other retailers from March to September 2005 to defraud the program of approximately \$6.3 million. The scheme involved relocating EBT terminals from authorized stores to an unauthorized store where SNAP recipients would sell their benefits. The subjects of our investigation were ultimately indicted on wire fraud and criminal forfeiture charges at the U. S. District Court, Northern District of Illinois. The store owner pled guilty as charged and was sentenced in March 2009 to 42 months of incarceration, 3 years of supervised release, and \$3.5 million in restitution. The store clerk also pled guilty and was sentenced to 41 months of incarceration, 3 years of supervised release, and \$2.8 million in restitution. This investigation was conducted with the U.S. Secret Service.
- In another Chicago case, a Federal court in Illinois sentenced a retail grocery store owner in October

2008 to 55 months in prison, followed by 36 months of probation, and ordered him to pay \$535,000 in restitution and forfeit \$535,000 in assets for 10 counts of wire fraud involving SNAP benefits. The OIG investigation revealed that the store owner was involved in a SNAP benefits trafficking scheme that resulted in the loss to USDA of more than \$740,000.

- An OIG investigation in Miami, Florida, revealed that two store owners and the sister of one of the owners illegally exchanged SNAP benefits for cash at an estimated loss to USDA of \$3.3 million. The three individuals were charged with conspiracy to commit Electronic Benefit Transfer (EBT) fraud/wire fraud and money laundering. In October 2008, a Federal court in the Southern District of Florida sentenced one of the store owners to 37 months of imprisonment and ordered him to pay \$1.7 million in restitution to USDA. In December 2008, the other store owner was sentenced to 37 months of imprisonment and paid \$135,000 directly to the court. The owner was further ordered to pay restitution to USDA of \$1.465 million jointly and severally with his sister. In December 2008, the sister was sentenced to 24 months of imprisonment.
- A retail grocery store employee in Syracuse, New York, was sentenced in July 2008 in Federal court to 27 months in prison, followed by 36 months of probation, and ordered to pay \$400,000 in restitution for his role in a SNAP benefits trafficking scheme. The investigation disclosed that, in 2004 and 2005, the employee and the store owner illegally redeemed more than \$1.2 million in SNAP benefits. From January 1, 2004, through July 21, 2006, the police were called to the store 187 times for various complaints including weapons, assault, and drug violations. As a result of the criminal investigation, the store was forfeited to the Federal Government and transferred to the city of Syracuse. The city razed the store and plans to erect new homes and a small park. The arrangements for the new homes and park required the collaboration of the Federal court system, city officials, and the local community, who worked to create a new plan for the neighborhood. The investigation was conducted with IRS and the Syracuse Police Department. Sentencing of the store owner is pending.
- In new action on a case that was previously reported in the first half of FY 2008, in February 2009, a store employee of a Los Angeles, California, grocery store was sentenced by a Federal court in the Central District of California to serve 3 years in prison and ordered to pay \$238,000 in restitution.

The employee, a fourth defendant in this investigation, engaged in EBT trafficking with an undercover agent from October 2005 to June 2006. As previously reported, three other individuals were also charged with SNAP benefits trafficking in this case, including the owner of the store, who fled the country after he had agreed to forfeit assets and plead guilty to SNAP trafficking charges. Another employee pled guilty to SNAP charges and was sentenced to 57 months in Federal prison and was ordered to pay restitution of \$2.7 million. The third individual was charged with SNAP trafficking, wire fraud, and conspiracy violations but also fled the country before OIG could arrest her.

- A series of investigations of SNAP benefit recipient fraud, conducted throughout the State of Montana under the oversight of the U.S. Attorney's Office in an effort to combat SNAP fraud, have led to the filing of Federal charges against eight individuals, including a Montana Department of Public Health and Human Services (MDPHHS) employee. The estimated fraud from the investigations is approximately \$115,000. Those persons investigated were charged with making false statements to MDPHHS concerning their income and employment during various periods between approximately 2002 and 2007. To date, four of the individuals have pled guilty and are awaiting sentencing, and additional guilty pleas are anticipated. The investigations were conducted jointly with MDPHHS.
- In January 2009, a couple was sentenced to serve a cumulative total of 15 months in prison and ordered to pay a cumulative total in excess of \$2,600 in fines by the Multnomah County Circuit Court in Portland, Oregon, as a result of their felony convictions relating to the delivery of methamphetamine, disposing of SNAP benefits, and child neglect. From September 2008 to November 2008, the couple conducted several purchases of the Oregon Trail EBT cards, in exchange for methamphetamine, from undercover officers. In November 2008, on the day the couple was arrested by OIG agents and officers from the Gresham, Oregon, Police Department, the agents and officers found that the couple had left a 3-year-old child unattended at their residence while they conducted another methamphetamine-for-EBT card transaction with the undercover officer. A subsequent search of the residence recovered methamphetamine, cocaine, and EBT cards.

Child and Adult Care Food Program (CACFP) Sponsor in Ohio Used Program Funds To Offset Negative Cashflow

We found that a recurring negative cashflow experienced by a nonprofit entity that sponsored multiple programs in Ohio, including CACFP, jeopardized the integrity of CACFP funds. Over a 17-month period from October 2006 through February 2008, the sponsor's cash account, which commingled funds from all sources, was in a negative position 25 times. The account remained negative for an average of 8 days during those 25 instances, with an average negative balance of \$24,547. Because of this, the sponsor used more than \$195,000 in CACFP funds to pay nonprogram expenses, increased an existing line of credit to \$150,000 by improperly using CACFP funds as collateral, obtained \$85,000 in operating loans from unallowable sources, and performed accounting functions that did not adhere to Generally Accepted Accounting Principles (GAAP). The sponsor also claimed CACFP reimbursement for unallowable costs of \$12,436. In addition, we found that the Ohio State agency responsible for administering CACFP in Ohio had failed to provide the results of a monitoring review to the sponsor and had not ensured that more than \$22,000 in overclaims had been collected.

FNS agreed to instruct the State agency to require the sponsor to establish one bank account for CACFP funds only, exclude CACFP funds as collateral for the line of credit, restrict the source of loans to allowable lenders, ensure GAAP are adhered to, repay the \$12,436 improper cost reimbursement, and ensure that the State agency collects the \$22,136 for meal overclaims from the sponsor identified during the monitoring review. (Audit Report No. 27601-37-Ch, Monitoring of CACFP Sponsor, Collaborative Network, Toledo, Ohio)

Feeding Program Investigations Yield Substantial Monetary Recoveries

- In mid-2003, a Greenwich, Connecticut, food service management company voluntarily disclosed that it had violated National School Lunch Program (NSLP) rules and regulations by inflating costs on invoices and making false claims to the U.S. Government. Our investigation disclosed that from 1998 through the end of 2002, the company overcharged school districts and other customers in excess of \$8 million for costs that were never incurred. In December 2008, in U.S. District Court for the

Southern District of New York, the company agreed to pay \$3,557,474 to the Government. In addition, the company made reimbursements totaling \$8,477,506 to the school districts and other customers that had been defrauded.

- In September 2008, the Providence, Rhode Island, Recreation Department agreed to repay \$853,112 to FNS after an independent audit and OIG investigation found that the Recreation Department had inflated the number of meals served to eligible recipients in order to receive higher reimbursements. The city of Providence agreed that significant overclaims were made and arranged to have appropriate corrective actions taken to improve its program, including changing its administrative structure and strengthening its internal controls.
- In January 2009, a University of California (UC) Davis employee was sentenced by a Federal court in the Eastern District of California to serve 12 months and 1 day in prison and ordered to pay \$128,681 in restitution. OIG—working with UC Davis police, UC Davis internal audit, and the FBI—conducted a search warrant, obtained evidence, and determined that the employee purchased personal property such as computers, iPods, stereos, cameras, televisions, camera recorders, and similar items with grant monies received from FNS' Food Stamp Nutrition Education Program. The items were later sold, gifted to family members, or kept for personal use.

Successful Prosecutions Achieved in Several Farm Service Agency (FSA) Conversion Cases

- A Ridgeview, South Dakota, producer was sentenced in March 2009 to serve 1 year of probation and was ordered to pay restitution of \$357,560 following his November 2008 guilty plea for conversion of mortgaged property. The OIG investigation revealed that, in 2004, the producer converted the proceeds from the sale of 72 head of mortgaged cattle, hay, and crops pledged as security to FSA. The producer sold the cattle in his daughter's and son's names to conceal the sales from FSA. As part of a plea agreement, the producer also agreed to a 5-year disqualification from participation in FSA programs.
- In December 2008, after pleading guilty to conversion of FSA collateral and bankruptcy fraud, a Wilcox, Arizona, man was sentenced to 1 year in prison. Both he and his wife were further sentenced to 6 years of probation and ordered to pay \$268,050 in restitution by a Federal court in the District of Arizona. Their daughter had pled guilty earlier last year to conversion of FSA collateral and was sentenced to 1 year of probation and restitution of \$1,000.

The husband and wife, along with their 18-year-old daughter, had fraudulently applied for and later received real estate and operating loans of more than \$923,000 from FSA to operate a farm. After obtaining the loans, they not only failed to make payments but also converted approximately \$103,000 of FSA-pledged collateral, which they used, in part, to purchase two Mercedes-Benz vehicles, and deposited the remainder in their bank accounts. The husband and wife previously had filed for bankruptcy and had hidden assets from the bankruptcy court. The bankruptcy was ultimately dismissed due to their fraudulent activities.

- A Dutton, Montana, producer was sentenced in December 2008 in U.S. District Court to serve 12 months in Federal prison, followed by 24 months of probation, and was fined \$10,000 after his guilty plea to conversion of mortgaged grain. The OIG investigation disclosed that, from August 2006 to April 2007, the producer sold approximately 50,000 bushels of mortgaged grain and received \$136,951 in sales proceeds that he failed to remit to FSA.
- An Elkader, Iowa, producer admitted that he sold approximately 19,315 bushels of Commodity Credit Corporation (CCC)-mortgaged corn, valued at \$38,517. The producer split the sales proceeds with his son and failed to notify FSA or to provide any of the sales proceeds to FSA. In November 2008, the producer was indicted in Federal District Court for the Northern District of Iowa for conversion of mortgaged grain and subsequently pled guilty. Sentencing is pending.
- An OIG investigation revealed that two owners of a Munnsville, New York, dairy farm made false statements to FSA to receive more than \$450,000 in USDA loans for their farm. The owners, who are brothers, filed for bankruptcy and admitted to making false statements to the U.S. Bankruptcy Court regarding their assets. The brothers sold 200 dairy cows—valued at \$150,000 and pledged to FSA as loan security—without FSA approval. The brothers subsequently testified in Federal bankruptcy court that the dairy cattle had died. In July 2008, the brothers were sentenced in Federal court to 5 years of probation, and each was ordered to pay half the total of \$450,000 in restitution to FSA. The bankruptcy court dismissed their bankruptcy filing.

Investigations Thwart Payment Limitations Schemes

- A joint investigation with the IRS disclosed that a Wray, Georgia, producer created several entities in his children's names to avoid FSA payment limitations and conspired with an employee of a crop production company to divert more than \$4 million in promotional farm products and inventory for their personal gain. The loss to USDA was approximately \$1.3 million. The producer was charged with conspiracy to commit money laundering and conspiracy to make false claims/statements. In October 2008, a Georgia Federal court sentenced the producer to 60 months of imprisonment and ordered him to pay \$1.36 million in restitution to FSA. He was also ordered to pay \$4 million in restitution to the crop production company.
- In 2000 and 2001, two Emmons, Minnesota, producers conspired to violate FSA payment eligibility provisions and, as a result, received \$563,879 in farm program payments. The two made false statements on their farm operating plans and submitted altered documents that caused FSA to approve the funds. In December 2006, each was charged in Federal Court for the District of Minnesota with defrauding FSA. In September 2008, one producer pled guilty and was sentenced to 2 years of probation and ordered to pay \$26,658 in restitution. The second producer entered into a settlement agreement with the U.S. Department of Justice (DOJ), wherein he agreed that he had violated the Civil False Claims Act, and paid a \$75,000 civil settlement.

Nine Individuals Sentenced for Conspiracy To Structure \$4.5 Million in Money Transactions Related to Tobacco Fraud

A joint investigation in Nashville, Tennessee, conducted by OIG, IRS-CI, the FBI, and the Tennessee Bureau of Investigation revealed that nine individuals conspired to structure more than \$4.5 million in money transactions relating to tobacco fraud. In October 2007, after a 7-day trial, a jury found two individuals guilty of conspiring to structure more than \$4.5 million in cash to evade IRS reporting requirements. The jury also found these defendants responsible for a \$4.5 million forfeiture judgment. There was testimony at the trial that the cash obtained through the structured transactions was used, at least in part, for engaging in illegal tobacco transactions and bribing executives from tobacco companies. The other seven co-defendants previously had pled guilty in Federal court in Tennessee to a variety of charges including conspiring to structure financial transactions to avoid IRS reporting requirements, conspiring to make false statements to USDA regarding the tobacco

program, and money laundering. The defendants received sentences ranging from 1 year of probation to 60 months of imprisonment and were ordered to pay up to \$393,857 in forfeiture judgments and fines.

Michigan Producer Sentenced for Fraudulent Loan Application

An OIG investigation revealed that a Niles, Michigan, producer conspired with his mother and two other individuals to defraud FSA of loan proceeds and program payments. At the producer's direction, one co-conspirator obtained a \$124,000 FSA operating loan despite not conducting farm operations. A second co-conspirator obtained an FSA operating loan for \$175,000 for which she received approximately \$50,000 in cash from the producer. The producer pled guilty to one count of conspiracy to provide a fraudulent loan application to FSA. In October 2008, a Federal court in Michigan sentenced the producer to 42 months in prison and ordered him to pay \$305,000 in restitution. Two of the co-conspirators pled guilty to providing false statements and received lesser sentences; they were ordered to pay \$131,000 and \$175,000 in restitution respectively. Charges against the producer's mother were dismissed.

Florida Construction Company Owner Who Defrauded the Natural Resources Conservation Service (NRCS) Ordered To Pay \$600,000 to IRS for False Tax Return

A joint OIG and IRS investigation disclosed that a Live Oak, Florida, construction company owner conspired with poultry and dairy farmers to defraud NRCS. The producers submitted inflated invoices for construction projects eligible for cost share assistance under the Environmental Quality Incentives Program and the Watershed Protection and Flood Prevention Program. A Federal court in Florida sentenced the owner in October 2008 to 18 months of imprisonment and 12 months of probation. The owner had previously pled guilty to one count of filing a false tax return and was ordered to pay more than \$600,000 to the IRS for under reported taxes, penalties, and interest. In December 2008, the tax preparer was charged in the Middle District of Florida with one count of accessory after the fact relating to her knowledge that the construction company owner had reported false information on his tax returns. In March 2009, the tax preparer was convicted and fined \$2,500.

Program Weakness in Group Risk Protection (GRP) Plans of Insurance Could Result in Excessive Indemnities

Our review identified problems in counties where the Risk Management Agency (RMA) offered GRP and Group Risk Income Protection (GRIP) insurance plans that do not specify or differentiate between irrigated and non-irrigated practices. For some county crop programs, RMA offered GRP/GRIP insurance plans based on a blended yield (that is, a weighted average of different agricultural practices) because it believed it did not have sufficient National Agricultural Statistics Service (NASS) production and acreage data to establish the insurance coverage by practice.

This program design weakness could result in policyholders receiving an excessive indemnity payment even though a normal crop is produced. In one county alone, we determined that GRIP policyholders of irrigated and non-irrigated corn acres could receive excessive indemnities totaling as much as \$35 million for the 2008 crop year. This occurred because the blended yield was affected by a wide disparity between the irrigated and non-irrigated yield (the disparity totaling 138 bushels per acre), as well as a sizeable change increase in non-irrigated acres compared to irrigated acres. We also identified 513 additional GRP/GRIP county crop programs offered in 15 States and 376 counties that are potentially at risk of producers taking advantage of disparities between irrigated and non-irrigated yields. RMA agreed with our recommendations to correct these shortcomings. (Audit Report No. 05601-4-KC, RMA Use of NASS' County Average Yields for the GRP Plans of Insurance)

Crop Insurance Agent Sentenced to Prison

A joint OIG and RMA-Compliance investigation disclosed that, from 1998 to 2002, a licensed Loup City, Nebraska, crop insurance agent defrauded USDA of approximately \$6.7 million when he created fraudulent yield histories for his clients, which increased perceived losses and subsequent indemnity payouts to farmers. The scheme also qualified the agent for substantial commissions and bonuses to which he was not entitled. In October 2008, the agent pled guilty to making false statements to RMA. In January 2009, the agent was sentenced to serve 12 months and 1 day in Federal prison, followed by 24 months of supervised release.

GOVERNMENTWIDE ACTIVITIES – GOAL 2

Review of Legislation, Regulations, Directives, and Memoranda

- *Proposed Rule 7 C.F.R. Parts 761 and 762, “Maximum Interest Rates on Guaranteed Farm Loans.”* OIG commented on this proposed rule in conjunction with following up on recommendations in Audit Report No. 03601-17-Ch, FSA’s Controls Over Guaranteed Farm Loan Interest Rates and Interest Assistance (September 2008). In the audit report, we had reported that FSA did not have controls to ensure that lenders’ interest rates met program requirements. FSA agreed that the interest rate requirements were unclear and agreed to simplify and clarify the interest rate requirements by amending its existing rules. In the proposed rule, FSA proposed tying the maximum interest rate that may be charged to nationally published indices unless the lender uses a formal written risk-based pricing model for loans, in which case the rate must be the rate charged to moderate-risk borrowers. To ensure clarity and reasonableness of interest rates throughout the term of variable rate loans, OIG recommended that FSA establish interest rate limits for such loans throughout the term of the loan, not just at loan closing. OIG also recommended that FSA establish clear limits for the interest rate that can be charged to a moderate-risk borrower and for lenders using a risk-based pricing model. FSA should also establish specific procedures to evaluate the reasonableness of interest rates charged by lenders using a risk-based pricing model.
- *Interim Rule 7 C.F.R. Part 1400, “Farm Program Payment Limitation and Payment Eligibility for 2009 and Subsequent Crop, Program, or Fiscal Years.”* OIG commented on this interim rule in conjunction with numerous audits and investigations concerning payment limitations. In the audit reports, OIG made a number of recommendations to address loopholes to farm program limitations that OIG believed impacted effective administration of payment limitation provisions. OIG recommended that CCC make a number of changes to clarify procedures, definitions, and terms used in the interim rule. For example, the interim rule set forth requirements under which a change in ownership of equipment or

land, by sale or gift, will be considered a bona fide and substantive change in a farming operation and qualify a new person or legal entity for payments. One requirement is that the transferred “amount” of such equipment or land must be commensurate with the new person’s or legal entity’s share of the farming operation. OIG pointed out that it was not clear what was meant by the word “amount” and recommended that the rule clarify whether the “amount” of such equipment or land means value of the equipment/land or numbers of pieces of equipment/acres of land. Another example of OIG’s efforts to promote clarity was a recommendation that the rule consistently use the term “joint operations,” which is defined to include general partnerships and joint ventures, rather than sometimes referring solely to general partnerships and/or joint ventures.

Reviews Coordinated With Other Government Entities

- OIG shared its technical knowledge and expertise with the OIG of the Export-Import Bank of the United States for approximately 10 months. The bank’s OIG contracted with an Independent Public Accountant (IPA) to perform an audit of the Medium Term Credit Program. The audit required the IPA to identify control deficiencies, assess the adequacy of information technology (IT) systems, and evaluate the Bank’s effectiveness in identifying fraud and managing credit losses. Through a memorandum of understanding, USDA OIG assisted in monitoring the contractor’s performance and reviewing audit documentation to ensure compliance with auditing standards. The program performance report was submitted to the Export-Import Bank senior management team on January 30, 2009, for comments.

Participation on Committees, Working Groups, and Task Forces

- OIG Special Agents have been participating in a Hurricane Katrina/Rita Fraud Task Force since January 2006. From November 1, 2005, to date, OIG has conducted 87 cases in which FNS, FSA, and RD have been defrauded by individuals who submitted false claims or provided false statements to obtain Federal benefits. From June 2006 to date,

130 individuals have been indicted, 77 have been convicted, and fines and restitution thus far have totaled \$66,975 and \$1,241,773, respectively. The task force is expected to continue through FY 2009.

- OIG Special Agents are participating on a Bridge Card Enforcement Team (BCET) task force to investigate criminal violations of SNAP and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). Members include the Michigan State Police and IRS-CI. The FBI, SSA OIG, and Immigration and Customs Enforcement have provided assistance during warrant operations. The initiative, which has been operational since 2007, has resulted in 83 arrests and 95 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, the cases have resulted in 54 guilty pleas and sentences that included incarceration, fines, and restitution. Forfeiture actions of more than \$2 million have been initiated by the U.S. Attorney's Office. 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 fugitives wanted for crimes of violence through long-term, proactive, and coordinated teams of Federal, State, and local law enforcement officers and prosecutors.
- An OIG Special Agent has been assigned to the U.S. Marshals Service Fugitive Task Force in Chicago, Illinois, since 2008. The mission of the task force is to apprehend Federal fugitive felons wanted in the Northern District of Illinois. OIG's participation in this task force is in conjunction with our Operation Talon program. (An update on Operation Talon can be found under Goal 3.)
- Two OIG Special Agents are participating part time on the United States Marshals Service's Southern Ohio Fugitive Apprehension Strike Team (SOFAST) in Columbus and Cincinnati, Ohio. Agents assist with the location and arrest of fugitives by comparing fugitive identification information against individuals participating in SNAP.

- An OIG Special Agent is participating on the Ohio Organized Crime Investigations Commission (OOCIC) Task Force in Dayton. OOCIC provides assistance to local law enforcement agencies in the investigation of organized criminal activity. OIG investigators have participated in the OOCIC Dayton Task Force since 1996 and have conducted investigations involving welfare recipient fraud, food stamp trafficking, theft of USDA-mortgaged farm equipment, stolen property trafficking, and dogfighting.

ONGOING AND PLANNED REVIEWS FOR GOAL 2

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

- CACFP followup (Food and Nutrition Service (FNS)),
- followup on the Disaster Supplemental Nutrition Assistance Program (FNS),
- safety of foods in school meal programs (FNS),
- review of adjusted gross income limitation provision (NRCS, FSA),
- citrus indemnity payments resulting from 2005 Florida hurricanes (RMA),
- USDA payments for 2005 citrus canker losses (RMA, FSA),
- oversight of approved insurance providers' (AIP) quality control process (RMA),
- controls over the use of new producer designation by AIPs (RMA),
- controls over group risk crop insurance (RMA),
- controls over Pasture, Rangeland, and Forage Loss Pilot Program (RMA),
- review of RMA's inconsistent yield and added land procedures,
- controls over relenders that receive low-interest loans in the Rural Business-Cooperative Service (RBS) Intermediary Relending Program,

- controls over lender activities in the Single-Family Housing (SFH) Guaranteed Loan Program (Rural Housing Service (RHS)),
- Rural Rental Housing (RRH) Program maintenance costs and inspection procedures (RHS),
- Rural Cooperative Development Grant Program eligibility and grant funds use for a Missouri entity (RD),
- controls over expenditures in Water and Waste Disposal Grants – Alaska (RUS),
- identity of interest review for Multi-Family Housing Loans in Texas (RHS),
- business and industry (B&I) lender loan guarantees (RBS),
- payments to quota tobacco producers under the Tobacco Transition Payment (Tobacco Buyout) Program (FSA), and
- Emergency Conservation Program—2008 emergency disaster assistance (FSA).

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

ONGOING AND PLANNED REVIEWS FOR GOAL 2 UNDER ARRA “STIMULUS” FUNDS

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

- summary of nationwide EBT operations (FNS),
- WIC vendor monitoring (FNS),
- SNAP participant certification (FNS),

- controls over The Emergency Food Assistance Program (FNS),
- State fraud detection efforts for SNAP (FNS),
- FS administration of grants,
- WIC management – IT systems (FNS),
- FNS management and oversight,
- SNAP increased benefits from stimulus funds (FNS),
- followup on healthy forests (FS),
- FS capital improvement and maintenance,
- wildland fire management (FS),
- FSA IT,
- direct farm operating loans (FSA),
- NRCS stimulus discretionary funding,
- watershed and flood prevention operations (NRCS),
- Rural Business Enterprise Grants (RBS),
- B&I loan guarantees (RBS),
- controls over eligibility determinations for single-family housing loan stimulus funds (RHS),
- rural communities facilities loans and grants (RHS),
- single-family housing (SFH) direct loans stimulus funds (RHS),
- SFH administrative expenses for stimulus funding (RHS), and
- monitoring implementation of Trade Adjustment Assistance for Farmers (Foreign Agricultural Service (FAS), FSA, Economic Research Service, ARS, and CSREES).

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 first half of FY 2009, we devoted 37 percent of our total direct resources to Goal 3, with 98.7 percent of these resources assigned to critical/high-impact work. A total of 80.0 percent of our audit recommendations under Goal 3 resulted in management decision within 1 year, and 83.3 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued 12 audit reports under Goal 3 during this reporting period. OIG investigations under Goal 3 yielded 8 indictments, 16 convictions, and \$843,646 in monetary results during the reporting period.

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 3

Errors by One Approved Insurance Provider (AIP) Led to More Than \$16 Million in Erroneous Payments

In 2005, Hurricanes Katrina, Rita, and Wilma struck Florida, resulting in more than \$275 million in nursery claims from policies reinsured under RMA's Nursery Crop Insurance Program, a part of the Federal Crop Insurance Program (FCIP). RMA administers the FCIP through a cooperative financial assistance agreement, known as the Standard Reinsurance Agreement (SRA), with private insurance companies, or AIPs.

Because of the extent of the errors we found at one AIP, we decided to limit our review to that AIP alone. In all phases of the insurance process—underwriting policies, adjusting claims for losses, and reporting its indemnities to RMA—the AIP did not fulfill contractual obligations it had agreed to under the SRA. The errors resulted in erroneous payments to policyholders of \$16,601,134. We recommended that RMA seek an opinion from USDA's Office of the General Counsel (OGC) as to whether RMA may apply a provision of the SRA to the AIP that allows RMA to suspend the company from the FCIP.

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

For the one AIP we reviewed, RMA generally agreed with 15 recommendations for recovery of the overpayments from policyholders and strengthening of the AIP's program management. Based on informal feedback from OGC, RMA contends that it cannot deny reinsurance or indemnity payments to all of the AIP's policyholders. RMA has requested a formal legal opinion from OGC. RMA is currently reviewing the overpayments to specific policyholders. We are working with RMA to resolve our differences. (Audit Report No. 05099-28-At, RMA's 2005 Emergency Hurricane Relief Efforts in Florida)

FS Employee Embezzles \$282,000 in Overtime and Holiday Pay

This investigation was initiated after a Hotline complaint alleged that an employee in the FS national office was involved in a scheme to repeatedly and fraudulently claim overtime and holiday pay for hours which she did not work. The investigation revealed that the employee, through processing her own time and attendance (T&A) reports, fraudulently claimed and received \$282,134 in overtime and holiday pay. In September, the employee was charged in U.S. District Court for the District of Columbia for conversion of public money and later pled guilty. In January 2009, the employee was sentenced to serve 18 months in prison, followed by 3 years supervised release, and ordered to pay \$282,134 in restitution to FS. In conjunction with the terms of the plea agreement, the employee resigned from FS. In addition, FS took administrative action against two managers whose failure to certify the employee's T&A reports resulted in her ability to carry out the fraudulent scheme.

Mandatory Pricing Needed To Ensure Validity of FSA Peanut Program Payments

We found that NASS' weekly published average peanut prices are unreliable because they may not be complete, cannot be verified, and do not reflect prevailing weekly market values. FSA relies on those prices to calculate financial assistance payments to peanut producers, totaling over \$1 billion from 2002 to 2007. However, NASS uses price data from shellers because there is no public commodities market for in-shell peanuts; the shellers' participation in the NASS survey is voluntary and confidential. FSA's assistance can be affected significantly by even small changes in prices.

Peanut shellers generally purchase peanuts through option contracts, which give them the option, at the price quoted in the contracts, to accept delivery of producers' peanuts, often months later, by redeeming the producers' peanuts from under FSA commodity loans. The quoted price generally has two components: (1) a sum certain ("option payment") per ton of peanuts and

(2) the FSA commodity loan repayment rate on the date the sheller exercises the option to redeem the peanuts from under loan and accept delivery of the peanuts. Although the NASS survey is supposed to represent the total pounds of peanuts purchased and prices paid by shellers in a given week, due to the exercise of option contracts, the survey, at best, represents prices that are established when option contracts are signed. In addition, neither of the two peanut shellers that allowed us access to their confidential records included option payments in the voluntary NASS surveys they submitted. Although NASS has since added a new option payment section to its survey, since buyers' responses are confidential, neither NASS nor FSA can verify if buyers submit complete price information in future survey responses.

FSA generally agreed to seek authority to establish mandatory price reporting of peanut purchases by buyers and the authority to verify buyers' reported data to NASS. We are working with FSA to achieve management decision on our recommendation that it request NASS to collect buyers' contract price data for option contracts negotiated with producers during the week. (Audit Report No. 50601-14-KC, FSA's Reliance on NASS' Published Peanut Prices)

Livestock Indemnity Program (LIP) and Feed Indemnity Program (FIP) Help Producers Recover From Livestock and Feed Losses After the 2005 Hurricanes

In FYs 2006 and 2007, FSA provided nearly \$22.3 million in LIP payments and more than \$4.8 million under FIP for the 2005 hurricane losses. We found that while overseeing several disaster-related programs with limited staff, FSA personnel successfully administered many aspects of the two programs, but we did find some areas needing improvement. Almost half (97 of 200) of the approved LIP applications we reviewed relied on third-party certifications. However, producers often provided unclear and inadequate third-party certifications to substantiate their losses. We also identified payments based on unsupported beginning livestock inventories (prior to the hurricanes), livestock losses in excess of the beginning inventories, and improper changes to Farm Operating Plans that increased the number of participants eligible to receive LIP payments. As a result, we questioned more than \$900,000 in program payments. In addition, we determined that the 60-day disaster period may have been excessive, especially in Florida. For example, producers claimed livestock losses from stress and calving complications that occurred more than 30 days after the hurricane.

For future LIP programs, FSA agreed to develop procedures detailing the documentation required for applicants and third-party certifiers to clearly substantiate claimed livestock losses

and provide specific instructions for local FSA office personnel to follow when applicants do not have verifiable evidence for establishing beginning inventory. In addition, FSA agreed to (1) instruct the Louisiana State FSA Office to coordinate with OIG Investigations to take corrective action on six cases under investigation, (2) determine the adequacy of documentation supporting beginning and ending inventories, (3) review the State Committee's determination to approve changes made to 2005 farm program records that increased program payments and request the Deputy Administrator for Farm Programs to make a final determination, (4) seek recovery of any unsupported payments from the producers in three parishes associated with those issues, and (5) review the facts and circumstances regarding the establishment of loss claim periods to ensure they correlate eligible loss periods more closely with local conditions related to the disaster. (Audit Report No. 03601-23-KC, LIP and FIP)

Former Nebraska RD Employee Sentenced Following Guilty Plea for Embezzlement

A former RD employee in Cambridge, Nebraska, admitted that, from 2004 to 2006, she embezzled more than \$42,000 from the accounts of RD borrowers and grant recipients and then deposited the funds into a personal bank account. The employee also transferred \$16,000 from other borrowers' accounts to replace a portion of the stolen funds. A Federal court in the District of Nebraska sentenced the employee to serve 6 months of home detention, followed by 60 months of supervised release, and ordered restitution of \$58,062.

Operation Talon Update

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 March 31, 2009, Operation Talon had resulted in 14,011 arrests of fugitive felons during joint OIG and other Federal, State, and local law enforcement operations. During this reporting period, OIG agents conducted Talon joint operations in Arizona and Virginia, making a total of 106 arrests, 23 in Arizona and 83 in Virginia. Offenses included aggravated assault, burglary, motor vehicle theft, larceny, assorted drug charges, robbery, fraud, forgery, embezzlement, driving under the influence, and sex offenses, among others.

FSIS Meat Inspector Guilty of Witness Tampering and Unlawful Possession of a Firearm While Using Methamphetamine

In September 2006, a Federal jury in Iowa found a former Sioux City FSIS meat inspector guilty of possession of narcotics,

unlawfully possessing a firearm while under the influence of methamphetamine, and transporting a firearm across State lines. The jury also found the employee and his brother guilty of witness tampering and intimidation of witnesses. In November 2008, the former FSIS meat inspector was sentenced by a U.S. District Court judge in Iowa to serve 30 months in Federal prison followed by 376 months of probation. The meat inspector's brother was also sentenced to serve 18 months in prison, followed by 36 months of probation. This investigation was conducted jointly with the Bureau of Alcohol, Tobacco, Firearms, and Explosives.

Employees at USDA Lab Face Administrative Sanctions for Buying and Selling Prescription Drugs Without a Prescription

A biological science lab technician at the National Veterinary Services Laboratory (NVSL), APHIS, Ames, Iowa, and two veterinarians at the Center for Veterinary Biologics (CVB) in Ames, Iowa, purchased prescription drugs from veterinary supply companies and resold them to other USDA lab employees at cost. The drugs were ordered using the subject veterinarians' accounts at veterinary supply companies. The lab technician then facilitated the sale of the drugs to USDA employees, who used many of the prescription drugs to treat themselves or family members for various medical ailments and illnesses. The Food and Drug Administration (FDA) confirmed that approximately 67 of the drugs sold were for human use and required a bona fide prescription from a physician before they could be dispensed. Administrative actions are being pursued against at least 19 USDA employees, and, in addition, the biological lab technician has resigned from her position.

National Finance Center (NFC) Improved Controls Over Time and Attendance Data

Our audit of NFC's T&A validation and correction systems, in general, found that NFC did not ensure that access to employees' T&A data was restricted to only those personnel whose job required it. However, NFC implemented key improvements during our audit to restrict access to its T&A validation and correction systems and instituted a control mechanism to monitor its employees' actions in the correction system. Together, these actions strengthened NFC's controls over the two systems to minimize the potential for unauthorized access and unallowable changes to T&A data. Accordingly, our report presents no recommendations, and no further action is required by NFC. (Audit Report No. 11501-4-FM NFC's Application Controls Over T&A Data)

USDA FY 2008 Consolidated Financial Statements – Unqualified Opinion

The USDA FY 2008 consolidated financial statements received an unqualified opinion. USDA also received a clean opinion on its FY 2008 special purpose financial statements. For FY 2007, we had issued a qualified opinion on USDA's consolidated financial statements because of significant revisions made to RD's credit reform processes related to the SFH Program cashflow model and subsidy reestimates. For internal control over financial reporting for FY 2008, we identified two significant deficiencies, which we believe are material weaknesses: improvements are needed in overall financial management and in IT security and controls. Our report on compliance with laws and regulations discussed three instances of noncompliance relating to the Federal Financial Management Improvement Act (FFMIA), the Anti-Deficiency Act (ADA), and certain aspects of appropriations law. As discussed in its Federal Managers' Financial Integrity Act of 1982 report, the Department has plans to address the weaknesses discussed in the report. The key recommendation in this report was limited to additional improvements needed in financial management with respect to obligations.

In addition to auditing the Department's consolidated and special purpose financial statements, audits of six USDA agencies were also performed. Details of these financial audits follow:

- **Federal Crop Insurance Corporation (FCIC)/ RMA – Unqualified Opinion in FY 2008/2007.** No significant deficiencies or material weaknesses related to internal controls were identified.
- **CCC – Unqualified Opinion in FY 2008/2007.** The audit of CCC identified five significant deficiencies (the first three are material weaknesses) in CCC's (1) financial system functionality and funds control, (2) management's review procedures over the cashflow models, (3) management's analysis of obligations and liabilities for Direct and Countercyclical Payment Programs, (4) information security controls, and (5) monitoring of sub-recipient agency financial information. Three instances of noncompliance related to the Federal Information Security Management Act of 2002 (FISMA), FFMIA, and ADA were identified. CCC concurred with the significant deficiencies discussed in the report and is implementing corrective actions.
- **FS – Unqualified Opinion in FY 2008/2007.** The audit of FS identified eight significant deficiencies in FS' (1) general control environment, (2) policy and procedures for financial management and reporting of wildland fire activity, (3) management review of credit card transactions and controls over the programs, (4) physical inventory policies and procedures for pooled real property, (5) accountability for unliquidated obligations, (6) internal controls over its environment and disposal liabilities, (7) internal controls for revenue-related transactions, and (8) period end accrual processes. Instances of noncompliance were identified related to appropriations law, FFMIA, and a followup on the FY 2006 ADA violation. FS generally agreed with the significant deficiencies discussed in the report and is implementing corrective actions.

- **NRCS – Disclaimer of Opinion in FY 2008.** In its disclaimer of opinion, KPMG, an independent certified public accounting firm, reported that NRCS was unable to provide sufficient evidential matter in support of transactions and account balances in FY 2008, particularly with respect to obligations, including accrued expenses, undelivered orders, and unfilled customer orders. KPMG’s report on NRCS’ internal control structure over financial reporting identified five material weaknesses in NRCS’ accounting and controls over (1) undelivered orders, (2) unfilled customer orders, (3) accrued expenses, and (4) property, plant, and equipment; as well as (5) controls over financial reporting. NRCS generally agreed to implement procedures and controls that ensure (1) undelivered order balances are valid at period end, (2) unfilled customer orders are complete and valid at period end, and (3) capital leases are identified and accounted for as required; as well as to provide training to employees (a) regarding policies and procedures over preparing, reviewing, and recording accruals and (b) to ensure compliance with GAAP.
- **RD – Unqualified Opinion in FY 2008.** During FY 2008, RD addressed previously reported weaknesses in the credit reform area. As a result, RD’s material weakness was downgraded to a significant deficiency. RD agreed to document, explain, and provide support for any adjustments made to the cumulative cash difference and continue to make enhancements to the direct cashflow models in FY 2009 and implement those changes early in the fiscal year. This would allow for more time to ensure that all changes to the models are properly made and reviewed.
- **FNS – Unqualified Opinion in 2008/2007.** The audit of FNS did not identify any significant deficiencies; however, we reported that FNS is not in full compliance with the Improper Payments Information Act of 2002.

(Audit Reports Nos. 50401-65-FM, 50401-66-FM, 05401-17-FM, 06401-23-FM, 08401-09-FM, 10401-02-FM, 85401-15-FM, and 27401-33-Hy, respectively, for the USDA consolidated and special purpose, FCIC/RMA, CCC, and FS financial statements for FY 2008/2007; the NRCS financial statements for FY 2008; and the RD and FNS financial statements for FY 2008/2007)

GOVERNMENTWIDE ACTIVITIES – GOAL 3

Review of Legislation, Regulations, Directives, and Memoranda

- *President’s Council on Integrity and Efficiency (PCIE) Peer Review Guide for the Generally Accepted Government Auditing Standards (GAGAS).* OIG reviewed the exposure draft to update the [then] PCIE External Peer Review Guide that provides policy guidance on the implementation of the General Standard on Quality Control and Assurance of GAGAS. During our review, we recommended that the definition of “pass” be clarified. We also recommended that references in the various checklists in the Peer Review Guide be uniform.
- *Exposure Draft Incorporating Generally Accepted Accounting Principles (GAAP) into Financial Accounting Standards Advisory Board (FASAB).* OIG reviewed the exposure draft of a proposed Statement of Federal Financial Accounting Standards entitled *The Hierarchy of GAAP for Federal Entities, Including the Application of Standards*, issued by FASAB. The statement proposed to incorporate the hierarchy of GAAP into FASAB’s authoritative literature. In addition, the statement proposed to clarify GAAP for those Federal entities that are currently applying financial accounting and reporting standards issued by FASAB. We generally concurred with the proposal.
- *Exposure Draft Amending Statements of Federal Financial Accounting Standards (SFFAS) 6 and 23.* OIG reviewed the exposure draft of a proposed SFFAS, *Estimating the Historical Cost of General Property, Plant, and Equipment – Amending SFFAS 6 and 23*. The statement proposed to amend SFFAS 6 and 23 to clarify that reasonable estimates of original transaction data on historical cost may be used to value general property, plant, and equipment. We generally concurred with the proposed amendments.
- *Advanced Notice of Proposed Rulemaking 7 C.F.R. Part 1493, “Export Credit Guarantee Program.”* OIG commented on an advanced notice of proposed rulemaking by which the Foreign Agricultural Service (FAS) and CCC solicited comments to specific questions on options to reform CCC’s Export Credit Guarantee Program (GSM 102). OIG

recommended that FAS develop and implement a premium structure that is based on all major actual risks CCC assumes when making a loan guarantee, instead of the simplified risk based fee structure that it implemented in July 2005. This recommendation had previously been made in OIG's July 2008 GSM-102 audit (Audit Report No. 07601-2-HY). In addition, OIG recommended that CCC consider ways to independently verify information provided by an applicant, including, at a minimum, a requirement that an applicant produce documentation to support the information provided to CCC to better ensure accountability and tracking of relevant commodities.

- *Proposed Rule 7 C.F.R. Parts 1496, 1499, and 1599, "McGovern Dole International Food for Education and Child Nutrition Program (McGovern-Dole Program) and Food for Progress (FFPr) Program."* OIG reviewed and commented on the CCC and FAS proposed rule, amending regulations governing the McGovern-Dole Program and FFPr Program. OIG expressed concerns with FAS' proposal to remove the Section 416(b) Program (deriving from the Agricultural Act of 1949) from the regulations governing the McGovern-Dole Program and FFPr Program, as the current regulations provide structure and controls for the section 416(b) grants, which are operated by the same grantees and subject to the same risks as grants in the McGovern-Dole Program and FFPr Program. Therefore, OIG recommended that FAS continue to monitor any Section 416(b) commodities in the same manner and subject to the same regulations as the McGovern-Dole Program and FFPr Program. FAS also proposed to eliminate uniform semiannual logistics and monetization reports in favor of mid-point and end-point evaluations by independent third-party reviewers with times and requirements specified in individual agreements. In response, OIG recommended that FAS establish consistent timeframes for submission of such reports for all agreements, and establish specific time periods for the interim evaluation reports rather than require them at the non-specific "mid-point" of agreement operations. OIG also requested that FAS consider making the requirement for annual Single Audit Act and Office of Management and Budget (OMB) Circular A 133 audits mandatory, regardless of the terms of a particular agreement or

funding availability. Finally, OIG recommended that FAS provide clarification regarding how the new requirement for monitoring of agreements by independent third-party reviewers would complement FAS' current system of internal close out reviews.

- *Federal Acquisition Regulation (FAR) Case 2009-011, ARRA—GAO/IG Access.* OIG commented on the draft interim rules amending the FAR to implement Sections 902, 1514, and 1515 of ARRA with respect to reviews of contracts using ARRA funds. Specifically, OIG noted that certain language in the proposed FAR provisions did not accurately reflect relevant ARRA provisions. For example, the draft interim rules did not properly use the language provided for in ARRA regarding GAO's access to records. OIG also noted that the draft interim rules did not reflect the IGs' or GAO's authority to review records of or interview any State or local government agency administering a contract regarding related transactions.
- *FAR Case 2009-12, ARRA—Whistleblower Protections.* OIG commented on the draft interim rules amending the FAR to implement Section 1553 of ARRA with respect to protecting State and local government and contractor whistleblowers. Specifically, OIG noted that the draft interim rules required the contracting officer to forward the whistleblower complaints to the agency legal counsel. ARRA, however, requires the IG to investigate whistleblower complaints. Therefore, OIG recommended that the contracting officer forward whistleblower complaints directly to the IG. OIG also noted that the draft interim rules state that a complainant has been deemed to have exhausted all administrative remedies when the head of the agency has taken certain actions. However, certain actions listed can be taken only by the IG rather than the head of the agency. Therefore, OIG recommended that the relevant section be amended to reflect those actions that can only be taken by the IG.

Participation on Committees, Working Groups, and Task Forces

- *Council of the Inspectors General on Integrity and Efficiency (CIGIE).* The USDA IG was elected as the first Chair of this new Council in mid-November 2008, a few weeks after the enactment of the IG Reform Act of 2008. One provision of

the Act established this Council, which merged the two previous IG councils—the PCIE and the Executive Council on Integrity and Efficiency. During this reporting period, the Council’s Executive Council held several meetings to shape the needed governing and guiding documents for the Council, specifically its Charter and Strategic Business Plan. The full Council held its first meeting in January and subsequently approved these documents establishing CIGIE’s governance, business goals, supporting objectives, and performance measures for the first 2 years of the Council’s operations.

- During the reporting period, Congress considered and passed H.R. 1, “ARRA,” which was signed into law by the President on February 14, 2009. While this legislation was being developed, the Chair of CIGIE and other IGs worked with Congressional committees of jurisdiction to discuss IG community views on the oversight role to be played by IGs. IG concerns focused primarily on ensuring effective coordination and avoiding duplication in effort between CIGIE, individual IGs, and the proposed Recovery Accountability and Transparency Board (RAT Board); ensuring IG independence in performing their oversight work; affording IGs more substantive discretion in handling whistleblower reprisal complaints of employees of non-Federal employers receiving Recovery Act funding; and extending the period allowed for IG oversight. ARRA, as passed, addressed many of the concerns of the IG community.
- *RAT Board.* The RAT Board was established by ARRA to coordinate and conduct oversight of the funding expended under the Act. The IG is 1 of 10 IGs designated as members of the Board by the ARRA. The RAT Board is tasked with a number of duties, including oversight of certain aspects of contracts and grants using ARRA funds, reviewing wasteful spending and poor management practices related to the Act, and maintenance of the Recovery.gov Web site. The RAT Board is working to develop a governance mechanism that will ensure effective coordination of the work of the IGs performing ARRA oversight, as well as other oversight bodies such as GAO and the State and local governments. The RAT Board, together with CIGIE, also has established a Working Group, comprised of all the IGs whose

agencies received Recovery Act funding. The Assistant IG for Audit is a member of this group. The group has worked to ensure effective communication and reporting of the various IG ARRA-related activities.

- 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, Great Plains, Midwest, Southeast, Southwest, and Western Regions participate on procurement fraud task forces initiated by the local U.S. Attorneys’ Offices. This task force is expected to continue through FY 2009.
- The National Computer Forensic Division (NCFD) is an active participant in the CIGIE IT Committee’s Investigations Subcommittee and the Working Group on Computer Forensics. The subcommittee is reviewing Encryption Key Escrow policies in 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 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 [then] 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 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 on 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. In addition, the workgroup is coordinating with OMB to implement changes. During Phase I, from February 2008 to November 2008, the workgroup conducted a paragraph-by-paragraph review of OMB Circular A-133 to identify parts that require change, addressing both the impact on the community as well as the single audit process. When the review is completed within OMB, the workgroup will draft a Federal Register Notice to accompany a Notice of Proposed Rulemaking. Moreover, in Phase II, this workgroup will proceed and continue to consider additional changes requiring more lengthy study and deliberation, including any recommendations made by GAO or other parties for changes in the single audit process.

- *Financial Statement Audit Network (FSAN) Workgroup.* USDA OIG auditors are members of the FSAN workgroup. FSAN consists of OIG auditors from numerous Federal agencies, and its main purpose is to share ideas, knowledge, and experience concerning Federal financial statement audits. In conjunction with FSAN, USDA OIG hosted the CIGIE/GAO Annual Financial Statement Audit Conference in the Department’s Jefferson Auditorium on March 24, 2009.

Testimony Delivered

- *IG Testifies Before the Senate Homeland Security and Governmental Affairs Committee on the Role of the IG Community in Oversight of Federal Stimulus Activities.* On March 5, 2009, IG Phyllis K. Fong testified on the role of the IG community in overseeing Federal expenditures and operations under ARRA. IG Fong presented her testimony in her dual capacities as IG at USDA and as Chair of CIGIE. She offered additional perspectives as 1 of 10 IGs who are statutorily appointed to the RAT Board created by ARRA. IG Fong advised the Committee that the IGs at agencies receiving stimulus funds were actively engaged in planning to meet their responsibilities, and the community’s emphasis was on taking proactive measures to ensure the proper expenditure and usage of vast public monies involved. The IG’s testimony discussed three significant new responsibilities created for Federal IGs in ARRA: oversight of stimulus expenditures at their respective agencies and departments, working productively with the new RAT Board, and assessing stimulus-related whistleblower complaints from non-Federal personnel (State and local government employees, contractors, etc.). IG Fong stated that OIGs would have to carefully monitor the staff and resource requirements necessary to meet these new responsibilities as Federal stimulus funds were expended. The IG’s testimony described CIGIE’s supportive input to OMB for its ARRA implementation guidance and the continuing, productive relationships that OIGs have with their counterparts at GAO. IG Fong provided extensive overview information to the Committee about common approaches within the IG community to ARRA oversight, the initial stimulus oversight plan she was implementing at USDA OIG, and major “lessons learned” by the community from the emergency Federal relief operations conducted after the Gulf Coast hurricanes in 2005.

ONGOING AND PLANNED REVIEWS FOR GOAL 3

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

- ARS management controls over research agreements,
- Grain Inspection, Packers and Stockyards Administration's (GIPSA) management and oversight of the Packers and Stockyards Program,
- RMA compliance activities,
- Hurricane Indemnity Program – integrity of data provided by RMA,
- FS replacement plan for firefighting aerial resources,
- FS acquisition of IT software/hardware,
- FS contract review for fire-effect modeling programs,
- FS capital improvement and maintenance,
- effectiveness and enforcement of debarment and suspension regulations in USDA,
- controls over RHS disaster assistance payments,
- Oklahoma Rural Rental Housing company management practices (RHS),
- controls over property used to secure farm loans (FSA),
- Farm Loan Program foreclosures on socially disadvantaged borrowers (FSA),
- implementation of the 2008 Farm Bill provisions and mandates (FSA, NRCS, RMA, and RD),
- hurricane relief initiatives:
 - Section 32 Hurricane (crop) Indemnity Program (FSA and CCC),

- Department and standalone agencies' financial statements for FYs 2008 and 2009 (Office of the Chief Financial Officer (OCFO)),
- retirement, health, and life insurance withholdings/contribution and supplemental headcount report submitted to the Office of Personnel Management FYs 2008 and 2009 (OCFO),
- FY 2009 FSA accounting for farm loan programs,
- FY 2009 NFC general controls,
- FY 2009 FISMA (Office of the Chief Information Officer (OCIO)),
- FY 2009 National Information Technology Center general controls (OCIO), and
- FY 2009 Defense Contract Audit Agency contract audit administration.

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

ONGOING AND PLANNED REVIEWS FOR GOAL 3 UNDER ARRA "STIMULUS" FUNDS

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

- State grants for aquaculture assistance (FSA),
- RUS controls over Water and Waste Disposal Loan and Grant Programs, and
- ARRA reporting oversight (OCFO).

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 first half of FY 2009, we devoted 3 percent of our total direct resources to Goal 4, with 99.6 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 none of our investigative cases resulted in criminal, civil, or administrative action. OIG issued no audit reports under Goal 4 during this reporting period. OIG investigations under Goal 4 yielded one indictment, one conviction, and \$30,100 in monetary results during the reporting period.

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

Chemical Representative Assisted in the Submission of False Claims for Conservation Security Program (CSP) Benefits

Eighteen participants in NRCS' CSP, in a scheme to defraud, submitted fraudulent soil test results in 2005 to qualify for and receive compensation from CSP totaling \$473,567. OIG determined that a Spokane, Washington, chemical representative assisted several of the 18 participants in the creation of fraudulent soil test reports submitted to NRCS. From 2006 to 2008, the 18 CSP participants paid administrative recoveries totaling \$628,591 to NRCS. In March 2009, five of the most egregious violators involved in this scheme and the chemical representative each agreed to a Civil False Claims Act settlement in the amount of \$5,500.

GOVERNMENTWIDE ACTIVITIES – GOAL 4

Review of Legislation, Regulations, Directives, and Memoranda

- *Interim Final Rule 7 C.F.R. Part 1466, “Environmental Quality Incentives Program (EQIP).”* OIG commented on an interim NRCS/CCC final rule that amends regulations governing USDA’s EQIP. OIG recommended that NRCS follow up on recommendations from a September 2006 GAO review of EQIP, relating to the program’s fund allocation formula (Report No. GAO-06-969). OIG also recommended that NRCS require producers to provide supporting documentation and evidence of gross farm sales and household income before a producer is determined to be eligible for the program, as outlined in OIG’s February 2005 EQIP audit (Audit Report No. 10099-18-KC). In addition, OIG recommended that NRCS provide clarification on certain definitions, the pre contract approval waiver process, the contract application grouping and selection process (including consideration of its effect on historically underserved producers), the percentage of indirect costs that are excluded from Conservation Innovation Grants, and the relationship between environmental credits and EQIP contracts.
- *Interim Final Rule 7 C.F.R. Part 1491, “Farm and Ranch Lands Protection Program (FRPP).”* OIG provided comments on this NRCS and CCC interim final rule, which implements amendments to FRPP’s authorizing legislation enacted in 2008. The interim final rule requires a non-governmental organization to have a “dedicated fund” for the administration of conservation easements in order to be eligible as a “certified entity” under FRPP. While the interim final rule required the “dedicated fund” to be “sufficiently capitalized,” it did not define or otherwise explain what was meant by “sufficiently capitalized.” To ensure that the dedicated funds have sufficient monies, OIG recommended that NRCS provide additional specific guidance on what was meant by “sufficiently capitalized.” In addition, to protect the interests of the Federal Government, OIG recommended that NRCS be required to review amendments to easement deeds and sign an acceptance of amendments to the deeds.

Testimony Delivered

- *Deputy Inspector General (DIG) Testifies Before the House Agriculture Committee’s Subcommittee on Conservation, Credit, Energy, and Research Regarding Administration and Management Issues at USDA’s NRCS.* On March 25, 2009, DIG Kathleen S. Tighe presented testimony on recent OIG oversight of NRCS programs and operations. The first issue presented by the DIG was OIG’s assessment of a private firm’s audit of NRCS financial statements in FY 2008. The financial statement audit found that NRCS could not support its transactions and account balances because of a lack of Federal financial accounting expertise at the agency. DIG Tighe stated that NRCS has taken steps to address the deficiencies disclosed in the 2008 financial audit, such as training NRCS employees on financial accounting principles and procuring an outside evaluation of the agency’s efforts to clean up its financial statements. The second topic discussed by the DIG was recent or pending OIG audits of NRCS program operations. DIG Tighe testified that OIG had previously determined that the agency’s Wetland Reserve Program (WRP) compensation determinations had significantly underestimated the market value of WRP easements. DIG Tighe said NRCS had subsequently modified its WRP appraisal methodology to recognize the residual value of easement-encumbered lands. After discussing OIG audits involving problems of interagency coordination and landowner compliance in WRP, DIG Tighe advised the Subcommittee of OIG’s nearly completed review of NRCS’ dam rehabilitation program. OIG’s audit found that NRCS has not always rehabilitated the dams that pose the greatest risk to public safety. The DIG testified that NRCS officials have acknowledged the need to expeditiously complete assessment of high-hazard dams and will be using funding provided under the ARRA to accomplish this goal. DIG Tighe also discussed oversight work OIG will conduct in FYs 2009-2010 on NRCS’ use of ARRA funds for activities such as floodplain easements and watershed operations.
- *IG Testifies Before the House Appropriations Committee’s Subcommittee on Interior, Environment, and Related Agencies Regarding FS Oversight.* On March 11, 2009, IG Phyllis K. Fong presented testimony to

the House Interior Appropriations Subcommittee on OIG audit and investigative work regarding FS. IG Fong's testimony on OIG audit work presented followup information on three FS programs and initiatives related to wildland fire management: large-fire suppression costs, the Healthy Forests Initiative (HFI), and FS air safety and aerial resources issues. IG Fong stated that OIG believes FS managers are making progress toward more effective fire suppression practices due to the increased ability of Incident Commanders to change their management actions and tactics during fire suppression efforts. FS is now using an interagency Large-Fire Cost Review Guide, developed with OIG's assistance, to conduct large-fire suppression reviews. In response to prior OIG concerns about FS' assessment of wildland fire risks and the benefits of fuels treatment projects, IG Fong noted that FS is now prioritizing hazardous fuels initiatives to allocate its budget and conduct HFI projects. The IG informed the Subcommittee about OIG's upcoming report on FS' program to replace its firefighting aerial resources. OIG believes FS and Congress must focus on the advancing age and increasing accumulation of flight hours of the agency's firefighting airtankers. IG Fong addressed FS' FY 2008 financial statement audit, wherein the agency sustained its unqualified opinion on its financial statements as it continued to make progress in financial management and reporting. The IG then discussed prominent OIG investigations involving FS operations in 2008-2009, primarily the investigations into the tragic deaths of FS firefighters in the Thirtymile Fire (Washington State) and the Esperanza Fire (California). IG Fong's testimony also provided information about OIG's plan for oversight of FS' stimulus-funded activities in FYs 2009-2010, in light of the more than \$1.1 billion for Capital Improvements & Maintenance and Wildland Fire Management the agency received from ARRA.

ONGOING AND PLANNED REVIEWS FOR GOAL 4

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

- alleged abuse in Farm and Ranch Lands Protection Program by non-governmental organizations (NRCS),
- CSP (NRCS),
- Wildlife Habitat Incentives Program (NRCS),
- Environmental Quality Incentives Program (NRCS),
- FS processes to obtain and grant rights of way and easements,
- FS administration of special use permits, and
- FS watershed management.

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

ONGOING AND PLANNED REVIEWS FOR GOAL 4 UNDER ARRA "STIMULUS" FUNDS

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

- oversight and control of FS activities,
- oversight and control of watershed and flood prevention operations (NRCS), and
- oversight and control of watershed rehabilitation program (NRCS).

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 IG 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 2008 Actual	FY 2009 Target	FY 2009 1st Half Actual
OIG direct resources dedicated to critical-risk and high-impact work	95.3%	90%	94.6%
Audit recommendations resulting in management decision within 1 year of report issuance	84.3%	85%	84.4%
Closed investigations previously referred for action that resulted in an indictment, conviction, civil suit or settlement, judgment, administrative action, or monetary result	72.5%	65%	79.7%

SUMMARY OF AUDIT ACTIVITIES—OCTOBER 2008—MARCH 2009

Reports Issued	22
Audits Performed by OIG	16
Evaluations Performed by OIG	0
Audits Performed Under the Single Audit Act	0
Audits Performed by Others	6
Management Decisions Made	
Number of Reports	22
Number of Recommendations	237
Total Dollar Impact (Millions) of Management-Decided Reports	\$112.9
Questioned/Unsupported Costs	\$3.6 ^{ab}
Recommended for Recovery	\$3.6
Not Recommended for Recovery	\$0.0
Funds To Be Put to Better Use	\$109.3
^a These were the amounts the auditees agreed to at the time of management decision.	
^b The recoveries realized could change as the auditees implement the agreed-upon corrective action plan and seek recovery of amounts recorded as debts due the Department.	

SUMMARY OF INVESTIGATIVE ACTIVITIES—OCTOBER 2008—MARCH 2009

Reports Issued	141
Cases Opened	196
Cases Closed	133
Cases Referred for Prosecution	109
Impact of Investigations	
Indictments	228
Convictions	225 ^a
Searches	58
Arrests	103
Total Dollar Impact (Millions)	\$47.4
Recoveries/Collections	\$2.9 ^b
Restitutions	\$35.2 ^c
Fines	\$6.7 ^d
Claims Established	\$2.5 ^e
Cost Avoidance	\$0.0 ^f
Administrative Penalties	\$0.1 ^g
Administrative Sanctions	74
Employees	17
Businesses/Persons	57
^a Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 225 convictions do not necessarily relate to the 228 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.	

**INVENTORY OF AUDIT REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE
FROM OCTOBER 1, 2008, THROUGH MARCH 31, 2009**

		NUMBER	DOLLAR VALUE
A.	FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 2008	3	\$75,141,426
B.	WHICH WERE ISSUED DURING THE REPORTING PERIOD	1	\$35,000,000
	TOTALS	4	\$110,141,426
C.	FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	3	
	(1) DOLLAR VALUE OF DISALLOWED COSTS		\$109,242,897
	(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$44,472
D.	FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	1	\$874,986
	REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	1	\$874,986

**INVENTORY OF AUDIT REPORTS WITH QUESTIONED COSTS AND LOANS
FROM OCTOBER 1, 2008, THROUGH MARCH 31, 2009**

		DOLLAR VALUES		
		NUMBER	QUESTIONED COSTS AND LOANS	UNSUPPORTED ^a COSTS AND LOANS
A.	FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 2008	11	\$21,678,057	\$23,889
B.	WHICH WERE ISSUED DURING THIS REPORTING PERIOD	3	\$219,135,264	\$1,039,135
	TOTALS	14	\$240,813,321	\$1,063,024
C.	FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	8		
	(1) DOLLAR VALUE OF DISALLOWED COSTS			
	RECOMMENDED FOR RECOVERY		\$3,607,641	\$0
	NOT RECOMMENDED FOR RECOVERY		\$22,225	\$0
	(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$1,775,356	\$0
D.	FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	6	\$235,729,913	\$1,063,024
	REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	4	\$16,607,085	\$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 98 program improvement recommendations, and management agreed to implement a total of 202 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:

- FSIS agreed to reassess the inhumane handling risks associated with cull establishments and strengthen its pre-slaughter inspection processes.
- USDA generally agreed to implement a mechanism to monitor transgenic plants and animals developed outside the United States and a corresponding import control system.
- USDA generally agreed to implement a coordinated, comprehensive strategy to promote exporting U.S. GE commodities and appointed an official to implement our recommendations.
- FNS agreed to instruct the State agency to require a sponsor in Ohio to establish one bank account for only CACFP, exclude CACFP funds as collateral for the line of credit, restrict the source of loans to allowable lenders, and ensure GAAP is adhered to.
- RMA agreed with our recommendations to correct program weakness in GRP and GRIP insurance plans that could result in excessive indemnities.
- RMA generally agreed with our recommendations for strengthening an AIP's program management.
- For future LIP programs, FSA agreed to provide procedures detailing the documentation required for applicants and third-party certifiers to clearly substantiate claimed livestock losses and provide specific instructions for local FSA office personnel to follow when applicants do not have verifiable evidence for establishing beginning inventory.

SUMMARY OF AUDIT REPORTS RELEASED FROM OCTOBER 1, 2008, THROUGH MARCH 31, 2009
 DURING THE 6-MONTH PERIOD FROM OCTOBER 1, 2008, THROUGH MARCH 31, 2009,
 THE OFFICE OF INSPECTOR GENERAL ISSUED 22 AUDIT REPORTS, INCLUDING 6 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			
COMMODITY CREDIT CORPORATION	1			
FARM SERVICE AGENCY	2	\$1,866,411	\$1,039,135	
FOOD AND NUTRITION SERVICE	3	\$12,436		
FOOD SAFETY AND INSPECTION SERVICE	1			
FOREST SERVICE	2			
MULTIAGENCY	5			
NATURAL RESOURCES CONSERVATION SERVICE	1			
OFFICE OF THE CHIEF FINANCIAL OFFICER	1			
RISK MANAGEMENT AGENCY	3	\$217,256,417		\$35,000,000
RURAL DEVELOPMENT	1			
RURAL UTILITIES SERVICE	1			
TOTALS	22	\$219,135,264	\$1,039,135	\$35,000,000
TOTAL COMPLETED:				
SINGLE AGENCY AUDIT	15			
MULTIAGENCY AUDIT	5			
SINGLE AGENCY EVALUATION	0			
MULTIAGENCY EVALUATION	0			
TOTAL RELEASED NATIONWIDE	22			
TOTAL COMPLETED UNDER CONTRACT ^b	6			
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 OCTOBER 1, 2008, THROUGH MARCH 31, 2009**

AUDIT NUMBER	RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS TO BE PUT TO BETTER USE
Agricultural Research Service						
020170008HQ	2008/10/30	DCAA Audit of International Technology Centers (ISTC)				
Total: Agricultural Research Service			1			
Commodity Credit Corporation						
064010023FM	2008/11/13	FY 2008 CCC Financial Statements				
Total: Commodity Credit Corporation			1			
Farm Service Agency						
030990182TE	2008/10/23	Payment Limitation Case in Texas				
036010023KC	2009/02/02	Hurricane Relief Initiatives: Livestock and Feed Indemnity Program		\$1,866,411	\$1,039,135	
Total: Farm Service Agency			2	\$1,866,411	\$1,039,135	
Food and Nutrition Service						
270990035SF	2008/12/04	FNS' Continued Monitoring of EBT Operations – State of California				
274010033HY	2008/11/07	FY 2008 FNS Financial Statements				
276010037CH	2009/02/26	Monitoring of CACFP Sponsor Collaborative Network, Toledo, OH		\$12,436		
Total: Food and Nutrition Service			3	\$12,436		
Food Safety and Inspection Service						
246010007KC	2008/11/28	Evaluation of FSIS' Management Controls Over Pre-Slaughter Activities				
Total: Food Safety and Inspection Service			1			
Forest Service						
080170015HQ	2009/03/18	DCAA Audit of OK's Cascade Company's Termination Settlement Proposal				
084010009FM	2008/11/13	FY 2008 Forest Service Financial Statements				

**AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
FROM OCTOBER 1, 2008, THROUGH MARCH 31, 2009**

AUDIT NUMBER	RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS TO BE PUT TO BETTER USE
Total: Forest Service			2			
Multi-Agency						
504010065FM	2008/11/14	FY 2008 USDA Financial Statements				
504010066FM	2008/11/17	FY 2008 Audit of USDA's Closing Package				
506010014KC	2009/03/31	Peanut Pricing for FSA Programs Purposes				
506010014TE	2009/02/20	USDA's Role in the Export of Genetically Engineered Agricultural Commodities				
506010017TE	2008/12/12	USDA Controls Over Importation of Transgenic Plants and Animals				
Total: Multi-Agency			5			
Natural Resources Conservation Service						
104010002FM	2008/11/13	FY 2008 NRCS Financial Statements				
Total: Natural Resources Conservation Service			1			
Office of the Chief Financial Officer						
115010004FM	2008/10/29	Management Over T&A Data Processed by Time at NFC				
Total: Office of the Chief Financial Officer			1			
Risk Management Agency						
050990028AT	2009/03/04	RMA's 2005 Emergency Hurricane Relief Efforts in Florida		\$217,256,417		
054010017FM	2008/11/06	FY 2008 FCIC Financial Statements				
056010004KC	2009/03/04	Use of NASS County Average Yields for the Group Risk Protection Plans of Insurance				\$35,000,000
Total: Risk Management Agency			3	\$217,256,417		\$35,000,000
Rural Development						
854010015FM	2008/11/07	FY 2008 Rural Development Financial Statements				
Total: Rural Development			1			
Rural Utilities Service						
096010008TE	2009/03/31	Broadband Loan and Loan Guarantee Programs				
Total: Rural Utilities Service			1			
Grand Total:			22	\$219,135,264	\$1,039,135	\$35,000,000

AUDITS WITHOUT MANAGEMENT DECISION

The IG 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. Decision
FAS	07/22/2008	1. GSM 102 Export Credit Guarantee Program (07601-2-Hy)	0	0
RMA	09/30/2008	2. Crop Loss and Quality Adjustments for Aflatoxin Infected Corn (05601-15-Te)	15,951,016	15,951,016

PREVIOUSLY REPORTED BUT NOT YET RESOLVED

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

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision
APHIS	01/15/08	3. Continued Monitoring of Avian Flu Preparations (33701-1-Hy)	0	0
CSREES	08/17/07	4. CSREES – Tribal 1994 Land Grant Institutions (13011-3-At)	951,345	874,986
FAS	02/22/07	5. Trade Promotion Operations (07601-1-Hy)	0	0
Multiagency	09/30/03	6. Implementation of Agricultural Risk Protection Act (50099-12-KC)	0	0
	02/23/04	7. Homeland Security Issues for USDA Grain and Commodities Inventory (50099-13-KC)	0	0
	03/28/07	8. Implementation of Trade Title of 2002 Farm Bill and President's Management Agenda (50601-12-At)	0	0
	03/31/08	9. USDA's Controls Over the Importation and Movement of Live Animals (50601-12-Ch)	0	0
RHS	09/30/04	10. Rural Rental Housing Project Costs, Cairo, IL (04099-143-Ch)*	164,000	164,000
RMA	03/15/02	11. Monitoring of RMA's Implementation of Manual 14 Reviews/ Quality Control Review System (05099-14-KC)	0	0
	03/26/07	12. 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. GSM 102 Export Credit Guarantee Program (07501-2-Hy, Issued July 22, 2008)

OIG found that most of the corrective actions on the control weaknesses that FAS identified during the FY 2006 and 2007 internal control reviews had been taken. The current audit found that the premium structure of the loan guarantee program did not include a risk factor for the financial soundness of foreign banks. While FAS agreed to revise the premium structure, FAS officials would not provide an estimated completion date for the revision. Because of the complex nature and sensitivities of the subject matter, FAS staff decided to delay making decisions until a new FAS Administrator has been selected.

2. Crop Loss and Quality Adjustments for Aflatoxin-Infected Corn (05601-15-Te, Issued September 30, 2008)

Through AIPs, RMA insures corn producers against losses caused by aflatoxin (a fungus). In 2005, AIPs paid \$17.5 million to Texas producers for aflatoxin-infected corn (\$27 million nationwide). We examined aflatoxin-related payments to Texas producers and concluded that AIPs did not use reasonable rates to calculate producers' losses, effectively paying more than their infected corn was worth. Further, although RMA revised its procedures in 2007 for AIPs to determine payments, the revised procedures will not ensure that AIPs calculate producers' actual losses and appropriate payments. AIPs accepted unreasonably low values for infected corn, as demonstrated by the producers later selling their infected corn for between 5 to 28 times the values accepted by AIPs. Because RMA insures producers for the difference between the value of their infected corn and a pre-established value for uninfected corn, the low values accepted by AIPs resulted in much higher insurance payouts. We questioned nearly \$16 million that was paid based on unreasonably low rates (i.e., below \$0.25 per bushel). We are working with RMA officials to obtain audit resolution.

INDICTMENTS AND CONVICTIONS

From October 1, 2008, through March 31, 2009, OIG completed 141 investigations. We referred 109 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 228 indictments and 225 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 225 convictions do not necessarily relate to the 228 indictments. Fines, recoveries/collections, restitutions, claims established, cost avoidance, and administrative penalties resulting from our investigations totaled about \$47.4 million.

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

Indictments and Convictions October 1, 2008 – March 31, 2009		
Agency	Indictments	Convictions*
APHIS	95	56
FNS	104	129
FS	0	2
FSA	8	13
FSIS	5	10
GIPSA	0	2
NRCS	4	1
RBS	0	5
RHS	0	2
RMA	9	2
RUS	3	3
Totals	228	225
*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 720 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

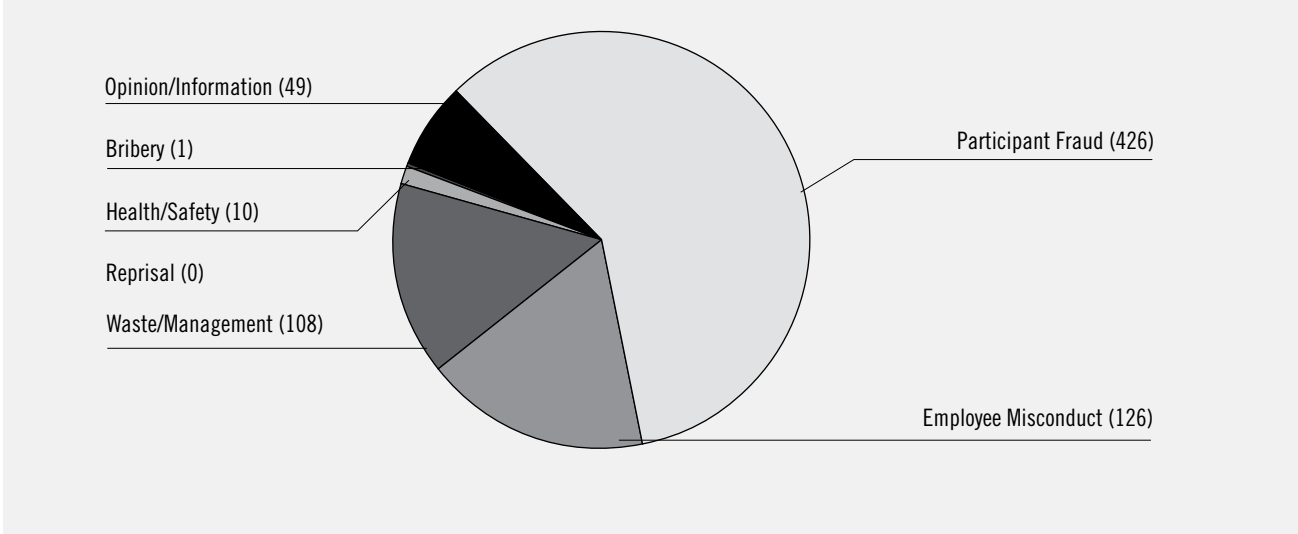
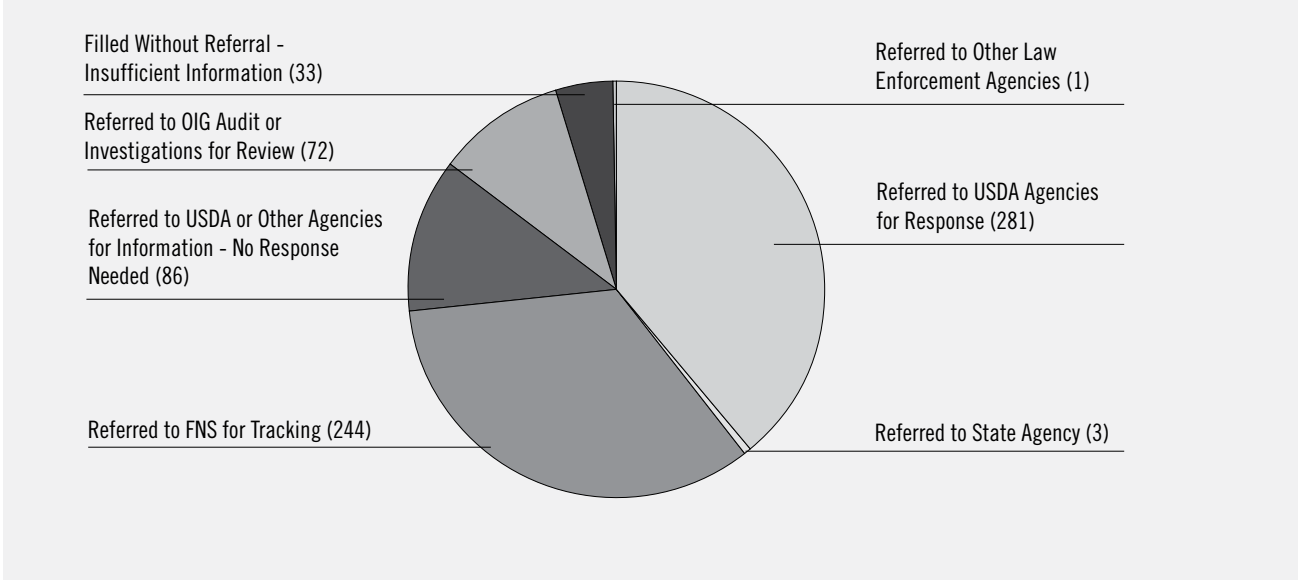


Figure 2. Disposition of Complaints Received



FREEDOM OF INFORMATION ACT (FOIA) AND PRIVACY ACT (PA) REQUESTS FOR THE PERIOD OCTOBER 1, 2008, TO MARCH 31, 2009	
Number of FOIA/PA Requests Received	78
Number of FOIA/PA Requests Processed	64
Number Granted	7
Number Partially Granted	20
Number Not Granted	37
Reasons for Denial	
No Records Available	7
Referred to Other Agencies	2
Requests Denied in Full Exemption 5	2
Requests Denied in Full Exemption 7(A)	10
Requests Denied in Full Exemption 7(C)	5
Request Withdrawn	5
Fee-Related	2
Not a Proper FOIA Request	1
Not an Agency Record	2
Duplicate Request	1
Other	0
Requests for OIG Reports From Congress and Other Government Agencies	
Received	8
Processed	9
Appeals Received	8
Appeals Processed	6
Appeals Completely Upheld	4
Appeals Partially Reversed	0
Appeals Completely Reversed	1
Appeals Requests Withdrawn	0
Other	0
Number of OIG Reports/Documents Released in Response to Requests	15
NOTE 1: A request may involve more than one report.	
NOTE 2: During this 6-month period, 27 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)
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CSREES	Cooperative State Research, Education, and Extension Service
CVB	Center for Veterinary Biologics
DCAA	Defense Contract Audit Agency
DHS	U.S. Department of Homeland Security
DOJ	U.S. Department of Justice
FAS	Foreign Agricultural Service
FBI	Federal Bureau of Investigation
FCIC	Federal Crop Insurance Corporation
FDA	Food and Drug Administration
FNS	Food and Nutrition Service
FS	Forest Service
FSA	Farm Service Agency
FSAN	Financial Statement Audit Network
FSIS	Food Safety and Inspection Service
GAO	Government Accountability Office
GIPSA	Grain Inspection, Packers and Stockyards Administration
HARCFL	Heart of America Regional Computer Forensic Lab
ICE	Immigration and Customs Enforcement (DHS)

Abbreviations of Organizations	
IRS	Internal Revenue Service
ISTC	International Science and Technology Centers
MDPHHS	Montana Department of Public Health and Human Services
NASS	National Agricultural Statistics Service
NCFD	National Computer Forensic Division
NFC	National Finance Center
NJTTF	National Joint Terrorism Task Force
NRCS	Natural Resources Conservation Service
NVSL	National Veterinary Services Laboratory
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
OOCIC	Ohio Organized Crime Investigations Commission
PCIE	President's Council on Integrity and Efficiency
PPQ	Plant Protection and Quarantine
RAT Board	Recovery Accountability and Transparency Board
RBS	Rural Business-Cooperative Service
RD	Rural Development
RHS	Rural Housing Service
RMA	Risk Management Agency
RUS	Rural Utilities Service
SOFAST	Southern Ohio Fugitive Apprehension Strike Team
SSA	Social Security Administration
TVA	Tennessee Valley Authority
USDA	U.S. Department of Agriculture
UC	University of California

EXAMPLES OF PROGRAM IMPROVEMENT RECOMMENDATIONS MANAGEMENT AGREED TO DURING THIS REPORTING PERIOD (202 TOTAL)

- FSIS agreed to reassess the inhumane handling risks associated with cull establishments and strengthen its pre-slaughter inspection processes.
- USDA generally agreed to implement a mechanism to monitor transgenic plants and animals developed outside the United States and a corresponding import control system.
- USDA generally agreed to implement a coordinated, comprehensive strategy to promote exporting U.S. GE commodities and appointed an official to implement our recommendations.
- FNS agreed to instruct the State agency to require a sponsor in Ohio to establish one bank account for only CACFP, exclude CACFP funds as collateral for the line of credit, restrict the source of loans to allowable lenders, and ensure GAAP is adhered to.
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- For future LIP programs, FSA agreed to provide procedures detailing the documentation required for applicants and third-party certifiers to clearly substantiate claimed livestock losses and provide specific instructions for local FSA office personnel to follow when applicants do not have verifiable evidence for establishing beginning inventory.

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 website at
www.usda.gov/oig/home.htm

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Outside DC 800-424-9121

TDD (Call Collect) 202-690-1202

Bribes or Gratuities

202-720-7257 (Monday–Friday, 9:00 a.m.– 3 p.m. ET)

888-620-4185 (24 hours)

Office of
**Inspector
General**



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