PREFACE

The Office of Inspector General in the Department of Agriculture was first established in 1963 and continued to function, directing the major audit and investigative activities of the Department, until 1974. At that time it was abolished and the audit and investigative units separately reported to different levels in the Department. In 1977 Secretary Bergland reestablished the Office. The Office currently has a staff of 930, consisting of 430 auditors, 263 investigators and 237 management and administrative support personnel and has the primary audit and investigative responsibility for the over 300 programs, 84,000 employees, and $24 billion in annual program expenditures of the Department of Agriculture.

Last year we issued 1,400 audit reports and 2,500 investigation reports. Our work identified $180 million in recoveries, savings, erroneous payments, management improvements, incorrect loan amounts, penalties, claims, fines and judgments, and resulted in 303 indictments. Most of the indictments involved felony offenses such as food stamp trafficking or fraud in loan programs involving, in some instances, hundreds of thousands of dollars.

We give priority attention to those programs having the greatest vulnerability to fraud and abuse, those posing the greatest risk to
employee integrity and those where the greatest amount of government money can be saved or recovered.

The passage of the Inspector General Act last year provided us with additional authorities and responsibilities, enabling us to do a better job of preventing and detecting fraud and abuse and insuring economy and efficiency in the operation of the Department's programs.

This report does not describe all of our audit and investigative findings, recommendations and actions but only those which are, in the language of the Inspector General Act, "significant." These findings relate to the domestic food assistance programs administered by the Food and Nutrition Service, rural development programs administered by the Farmers Home Administration and disaster relief programs administered within the Department by the Farmers Home Administration and the Agricultural Stabilization and Conservation Service.

Section I of this report covers those programs and contains both the descriptions of the significant problems, abuses or deficiencies and our recommendations for corrective actions.

Section II describes the results of some of our other audit and investigative activities and gives the range of the program activities of the Department which we have examined during the reporting period. A complete listing of the 623 audits completed during the reporting period is contained in the appendix to this report.
Assistant Secretaries and Agency Administrators throughout the Department have responded well to our audit and investigative findings and recommendations. Many times there are legal questions, management problems, staff limitations or other obstacles which prevent full and immediate corrective action. We make every effort to work closely with program managers to overcome such obstacles and achieve better management of the programs. Special mention should be given to the excellent support we have received from Secretary Bergland and Deputy Secretary Williams in carrying out the responsibilities imposed on us by the Inspector General Act of 1978.

THOMAS F. McBRIDE
Inspector General
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APPENDIX
SECTION I

SIGNIFICANT PROBLEMS, ABUSES OR DEFICIENCIES AND
RECOMMENDATIONS FOR CORRECTIVE ACTION

DOMESTIC FOOD ASSISTANCE PROGRAMS

About $11 billion of the President's budget request for the Department of Agriculture for FY 1980 is for the Domestic Food Assistance Programs. Because of the large expenditures of funds, the number and complexity of the programs, and the persistence of serious problems, we devote more of our audit and investigative time to Food and Nutrition Service programs than to those of any other agency--over twice the amount for the next ranking agency.

Food Stamp Program

The Food Stamp Program is the largest food assistance program. The Food and Nutrition Service expects program costs to run in the $7 billion range in FY 1980. There were 18.6 million food stamp recipients in February 1979.

In 1977 the Food Stamp Act was substantially revised. The cash purchase requirement was eliminated. Recipients now get their food stamps free. New standards of eligibility were established aimed at simplifying administration and concentrating assistance on families and individuals who are most in need. New procedures for administra-
tive determinations of fraud were established and greater financial incentives to reduce error rates and to support investigation and prosecution of fraud cases were provided.

Monitoring the implementation of the new legislation is a high priority of the Office of Inspector General. While the elimination of the purchase requirement was accomplished effective January 1, 1979, it is still too early to make an overall assessment of the effect of the new legislation. Our current work is focusing on whether the States are properly redetermining eligibility, whether redetermination of eligibility under the new rules will be completed on time, whether the resources and systems are being established to use the administrative fraud hearing procedure and what effect the elimination of the cash purchase requirement will have on food stamp trafficking or other illegal uses of food stamps. In our next semiannual report, we expect to be able to report in some detail on the impact of the new law.

There are a number of long-standing problems in the Food Stamp Program that have been repeatedly covered in our audit and investigative work. The most serious of these problems is the inadequate verification of recipient eligibility information, especially income, and the related problem of recipient fraud. This results in ineligible households participating in the program and eligible households receiving too high or too low a level of program benefits.
In the past year we have initiated a number of audits in which we matched wage data from various State and local sources with the information provided by recipients on their food stamp applications. In each of these audits we found numerous cases of underreported or totally unreported income. These are some of the more common situations:

- A fully employed recipient reports zero earned income on the initial application and during successive recertification interviews.
- An applicant is working on more than one job, reports the income for one of them and conceals the income from the others.
- The applicant certifies in successive certifications that fully employed adult household members are unemployed. In some cases the adult members have signed successive work registration forms or have been improperly certified as students.
- An hourly worker presents one weekly check stub to document income and represents it as normal earnings. Actually, other checks for the month are substantially higher than the one provided and the employer's earnings records show the higher income is normal.
- A fully employed applicant receives a salary and supplemental income from commissions or bonuses. The applicant reports only the salary income and conceals the additional income although it is regularly received and varies very little from month to month.

These audits were designed to illustrate the utility of computer matching of employment information with food stamp application data as a means of detecting fraud and verifying information supplied by applicants who are not yet certified. While no national projections can be
made because of sample limitations, the fact that we found 10-40 percent of the sampled households had unreported or underreported income is an indication that significant problems do exist.* As would be expected, the highest rates of income underreporting were found in food stamp projects that have historically had extremely high error rates. It is important to note that our matches involved only households with earned income—one fifth of the households that received food stamps. In other situations, for example aged persons on fixed incomes, we would not expect to find so severe a problem.

There are several things that can be done through legislation to address this problem:

- Require the use of social security numbers on food stamp application forms. This will facilitate computer matching of employment data.

- Make social security wage data and income tax data available for use by State agencies in the verification of eligibility information at the time of initial application for benefits. Appropriate safeguards would be required to ensure that the information is not misused.

- Give the States the option of using the prior month's actual income rather than a forecast of the future month's probable income in determining eligibility and benefits for certain types of households.

* Subsequent to the drafting of this report, the Food and Nutrition Service has released information for State quality control systems for the period January-June 1978. The data indicates that 7.6 percent of all food stamp cases had errors due to unreported or under-reported income and that these errors resulted in a 4.4 percent over-issuance of program benefits. The agency figures represent all food stamp households.
These changes would give food stamp administrators additional tools to accomplish verification of recipient wage data at the time the initial determination of eligibility is made. If such data were available and used by the States, a great deal of food stamp fraud would be prevented.

In addition to improved methods of preventing recipient fraud, there is a need for stronger action to deter fraud. Our audits have repeatedly found that once a fraud claim is established, subsequent actions taken are ineffective in collecting the money. Under current regulations, once a State establishes a fraud claim against an individual it is required to send up to three letters demanding payment and to hold the claim for three years before writing it off as uncollectable. In the case of households that were actually eligible to participate in the program and received excessive benefits through fraudulent means, the fraud claim may be used to offset any benefits improperly denied the household in the past. Other provisions permit but do not require the State to make a personal contact or initiate civil court action to obtain payment of the claim.

We have found that some States do not pursue claims as required and that other States which do comply with regulations by sending out demand letters find the effort unproductive. Two legislative changes would help solve this problem. First, States should be allowed to keep a portion of the fraud claims they recover. This would give them
asked families in one city to justify the income reported on their approved free meal applications. Approximately 9 percent of the families certified for free meals were only eligible for reduced price meals. Another two percent of the families were determined to be ineligible for either free or reduced price meals. These figures cannot be projected nationally because only one city was involved, and that city has had an excellent reputation for checking to ensure that the applications, as submitted, are valid. Furthermore, we did not conduct independent third party verification of applications in our experiment, so the percentage of misrepresentation is probably somewhat understated.

Second, if the money appropriated by the Congress is to be spent for the purposes intended, it is necessary for the schools to count the meals actually served each day by type of meal--fully paid, reduced price, or free. We have found many cases of inflated free meal counts. The excess reimbursement claimed is often used to reduce the operating deficit in the school's food service program or as a hidden subsidy for à la carte food or meals purchased by adults or students required to pay the full price.

Third, many school districts have inadequate accounting systems for food service. It is sometimes impossible to determine the exact cost of a meal. Where we have been able to determine the cost, we have found that some school districts have claimed the maximum Federal per meal reimbursement for a free meal even though the actual cost was
less. Again, the excess reimbursement is normally used for the food service program, thus indirectly paying for food served to children who are not needy.

Applications invalid on their face, inflated meal counts, and unsupported per meal reimbursement rates are nothing new to the National School Lunch and School Breakfast Programs. Not only have we found these abuses every year in our audits, we have found some of the same abuses in the same school districts year after year. In some cases, the General Accounting Office, the Food and Nutrition Service and Office of Inspector General have all reported the same problems in successive reviews.

We have worked with Food and Nutrition Service officials for several months to develop some administrative requirements to meet these problems.

The Food and Nutrition Service is developing a regulatory proposal that will deal with some of the abuses of the self-certification process for free meals. The family-size income eligibility limits for free and reduced price meals will continue to be announced through local media, as required by law. However, the individual application form which now shows the cutoff for free and for reduced price meals will be modified to show the limit for reduced price meals only. This should make it more difficult to misrepresent a family's income as being just below the free meal limit.
The Food and Nutrition Service has responded promptly to our findings. They are reviewing their regulations to see if they need to be strengthened, and are preparing to give more technical assistance to State and local school offices. There is also a provision in the Administration's proposed child nutrition legislation that would permit the Department to direct a portion of the child nutrition State administrative expense funds to the commodity distributing agency.

**Summer Feeding Program.** The Office of Inspector General, the General Accounting Office and the Food and Nutrition Service have all testified to the endemic problems of the Summer Feeding Program. Local program management is often in the hands of ad hoc groups who have no continuing accountability. The predictable result is inadequate planning and supervision, fraudulent bidding and contracting, excessive ordering of meals, meals given to adults or taken away from the site, and excessive reimbursement claims.

We think that the best long-range solution is to require that the program be run through school systems or other local institutions participating in a year-round feeding program. We urge the adoption of the Administration's budget and legislative proposal to eliminate large private sponsor/private vendor combinations as a major step in the right direction. We also think that more extensive use of statistical sampling in monitoring large programs could bring big dividends. To be really effective, statistical sampling must be used to establish claims as well as for assessing problems. We have found
this tool invaluable in our own work and are working with the Food and Nutrition Service in the development of a pilot project to assist administering agencies in implementing and interpreting the results of a statistical sampling monitoring approach.

Finally, the Food and Nutrition Service is forced to take over administration of the Child Care and Summer Feeding Programs if a State decides it no longer wants to operate the program. On at least two occasions large States have elected to drop out of the Summer Feeding Program well after the January 1 cutoff date established by the law. Taking over direct program operations dilutes the Food and Nutrition Service management resources. It also gives States a powerful weapon to resist taking corrective action on deficiencies since they can always threaten to turn over administration of the programs to USDA. The Administration's child nutrition proposal includes a necessary provision to require State administration of the Summer Feeding and Child Care Food Programs.

**Corrective Action**

Many of the legislative proposals and regulatory changes recommended in Section I of this report have been developed jointly with the Food and Nutrition Service. The program agency is working to establish performance standards for State and local program administrators, providing technical and financial assistance to the States as well as developing proposed legislative actions to assist State and local administrators in meeting these standards. The Assistant Secretary
their location. Currently, the agency does not have a management information system sufficiently sophisticated for the size and complexity of its operations. All of these actions are a step in the right direction. However, as the existing programs grow in size, the portfolio of loans becomes ever larger. This, along with the additions of new programs, is causing enormous strains on present agency resources. We believe much more needs to be done to correct the serious imbalance between loan making and loan servicing. The following are some of the examples of our audit findings in these programs, and some of our recommendations for corrective action.

**Rural Rental Housing**

In FY 1978 about 1,500 Rural Rental Housing loans totaling $680 million were disbursed. These loans were made to provide moderate cost rental and related facilities in rural areas for elderly persons and persons of low or moderate income. Currently, there are approximately 5,000 outstanding Rural Rental Housing loans with principal totaling $1.5 billion. Some of our findings are:

- Borrowers have inflated the value of land or have manipulated cash accounts to avoid actually paying the borrower's share, usually five percent, of the cost of the project.

- Borrowers who build Rural Rental Housing projects utilizing contracts with themselves or subsidiary companies as the construction contractors have made unreasonable profits. The possibilities exist for unreasonable profits through inflated architectural fees, subcontractor costs, and building material costs. While there is no specific percent of profit cited by Farmers Home Administration regulations, the regulations do provide general guidelines for the profit margin to be com-
parable to that for similar private rental housing projects in the area.

- Borrowers who manage Rural Rental Housing projects after construction have charged larger management fees than those charged by private management companies for similar services to similar size rental projects in the area.

- Tenants have been encouraged by the borrower or borrower's representative to understate their incomes to qualify for a lower rent or their incomes have been inadequately screened.

When a borrower contracts with a construction firm to build the Rural Rental Housing, the Office of Inspector General does not have access to the records of the contractors. We are therefore unable to check on the reasonableness of the construction costs or the profits. We have made a number of recommendations to the Farmers Home Administration which will permit the Department to review construction costs and related profits and generally help to insure that they are reasonable. These recommendations include requiring construction to be performed under the "owner/builder" method, which automatically provides access for the Office of Inspector General staff to records of construction costs, requiring the borrower to submit construction cost data that has been certified by a licensed CPA, or requiring borrowers to use competitive bidding procedures. The agency has advised us that they are carefully reviewing existing procedures and examining the need to tighten controls to resolve these problems. The Farmers Home Administration is also rewriting all Rural Rental Housing regulations including comprehensive management instructions.
DISASTER RELIEF PROGRAMS

Both the Farmers Home Administration and the Agricultural Stabilization and Conservation Service have disaster relief programs for farmers. Other Federal agencies such as the Small Business Administration also provide loans or payment assistance. We have found three persistent problems in our reviews of these activities. First, since overlapping programs within and between Federal departments are available, farmers often apply for multiple benefits. However, when one application is accepted, the others are not always withdrawn or adjusted. Agencies often fail to share information on applicants or on loans granted or reach agreement on who will handle specific situations. Second, in any disaster there is, understandably, strong pressure on program agencies to get money to the victims quickly. This often results in a failure to manage properly. For example, there is often inadequate verification of losses. Finally, once a disaster program goes into operation, there is seldom any meaningful evaluation of the need for continued assistance once the initial crisis stage is passed.

Here are some examples of our findings:

- In 1978 we found that the Agricultural Stabilization and Conservation Service's Drought and Flood Conservation Program was not discontinued in areas where improved crop and moisture conditions alleviated drought problems. Further, many of the conservation practices for which program funds were expended provided minimal relief from the immediate drought problems.
On a joint audit with the Inspector General of the Department of Interior we examined the Bureau of Reclamation's records of payments resulting from the Teton Dam disaster. It was found that many farmers received payments from both the Bureau and the Agricultural Stabilization and Conservation Service through its Emergency Conservation Measures Program. While there is nothing intrinsically wrong in this particular situation with receiving funds from both agencies, we have found that some claims for losses in the USDA cost-sharing program were overstated.

The Farmers Home Administration operates an emergency loan program which provides low interest loans to farmers suffering production losses because of a disaster. In FY 1978, 51,000 loans totaling about $3.6 billion were made. After the initial loss loan is made, the farmer is eligible for emergency loans at a higher operating loan interest rate for five additional years.

In a review of these loans in nine States, we found that almost one-third of approximately 950 loans exceeded eligible losses. The loans were made in excessive amounts because borrowers had understated crop yields, or overstated planted acreage; had not reported insurance indemnity payments, or other program payments which reduced their loss; and because county supervisors had not verified all factors affecting eligibility or followed instructions regarding computation of production losses.

While we have found that both the Agricultural Stabilization and Conservation Service and the Farmers Home Administration take corrective action on individual problems disclosed by our audits and investigations, many of our recommendations for disaster program improvement have been made repeatedly. For the most part these involve checking the validity of the applications and subsequent payments. Such things as the size of the acreage and yields affected as well as whether the applicants applied for or received other disaster benefits are not
difficult to check and should be verified. For example, applicants under the Department's disaster programs are required to state on their application forms whether they have applied for or received other disaster assistance. We would recommend that other Federal agencies impose a similar requirement, and more importantly, that checks be made to determine whether duplicate benefits have been received. The expanded Crop Insurance Program recommended by the Administration should alleviate some of the problems we have noted. In addition, we will be working with the Inspectors General from other Departments to help assure that disaster assistance programs are better coordinated and more closely monitored.
SECTION II

SUMMARY OF AUDIT AND INVESTIGATIVE ACTIVITIES

AUDITS

A representative selection of our recent audits is highlighted below. In many cases corrective action has already been taken or is in progress. Some other audits are very recent so the agencies may still be reviewing the recommendations for appropriate response.

- **Agricultural Conservation Program.** We conducted an audit to determine whether there had been a meaningful redirection of the 1978 Agricultural Conservation Program from production-oriented practices to more lasting practices that assist in solving long term soil and water conservation problems. We found that due to opposition and resistance in the agricultural community, the Department's efforts at redirecting the program met with only minimal success. Program funds in 1978 were generally used for the same practices as in prior years. A task force was established to assist in making sure the program meets the Congressionally mandated objective of sponsoring enduring conservation practices. The Office of Inspector General will be providing follow-up audit coverage of this program.

- **Drought and Flood Conservation Program.** The program was designed to rehabilitate farmland damaged by flood and to prevent future damage by practices with an immediate impact on drought-related problems. Our review found that as crop and moisture conditions improved, and the drought was alleviated in some areas, program needs were not reassessed nor funds redirected to other areas. Consequently, the achievement of program objectives, to provide assistance to those in immediate need, was not fully accomplished since funds in fact were committed to areas where conditions had substantially improved or in areas where they provided minimal benefits. While no funds have been provided for the Drought and Flood Conservation Program since August 1977, the Agricultural Stabilization and Conservation Service intends to implement the audit recommendation if this kind of assistance again becomes available.
• **Normal Crop Acreage.** If the set aside and deficiency payment systems of Agricultural Stabilization and Conservation Service's farm programs are to work, it is essential that a correct determination of "normal crop acreage" be established for each participating farm so that decisions can be made in formulating a program for each eligible crop. Reviews by our office have indicated that in some cases the normal crop acreage was greater than the acreage an individual farmer had ever devoted to covered crops in any one year. This occurred because the highest acreage for each crop over a three-year period was used to make the determination. In this way a farm operator could meet set aside requirements while maintaining normal production. The agency has responded to our audit by providing more specific guidance to the State and county offices on the procedures they should employ in determining normal crop acreage. As a result, normal crop acreage has been reduced by almost one and one-half million acres in 15 States.

• **Emergency Loan Program.** We did a review of the Emergency Loan Program in South Dakota. Because of drought conditions in South Dakota during the past several years, the Emergency Loan Program was relatively large. At the time of the audit, approximately $192 million in three to five percent loans had been disbursed for crop and livestock losses. Our audit disclosed that out of 100 borrowers sampled, production loss loans to 63 were incorrectly determined. Based on our sample, we estimated about $12 million in emergency loan funds were over-disbursed.

• **Rural Rental Housing.** We audited four Rural Rental Housing projects in Indiana. A combination of overstated development costs by the borrowers and numerous errors in completing and reviewing the loan agreements made by State and county office personnel demonstrated that in these four projects the program intent was not being carried out. In a second review we looked at a nationwide sample of ten Rural Rental Housing loans. Of the States visited only one had established a system to monitor project costs. Inconsistencies and deficiencies in controls over site selection, land costs and appraisals were noted in eight of the ten projects reviewed. Tenants' incomes had not been accurately determined by five of the ten borrowers audited, and general funds had been used for unauthorized purposes in eight of the ten projects. In four of the ten projects the borrowers had not computed the monthly rental rate in accord with instructions, causing tenants to be paying incorrect rent. Six of seven borrowers who contracted with management firms to run the projects did not have their contracts approved by the Farmers Home Administration. Each
of the six borrowers held an interest in the management firm providing the service.

- Operating Loan Interest Rates. We reviewed the interest rate of the Operating Loan Program of the Farmers Home Administration. The Operating Loan interest rate under existing legislation is supposed to reflect the current market rate. However, because the Farmers Home Administration's policy was to adjust the Operating Loan interest rate no more than twice during a fiscal year, we estimated that approximately 35,000 operating loan borrowers were overcharged about $8.4 million in interest and an additional 10,446 were undercharged approximately $1.1 million during the period January 1976 through January 1977.

- Farm Ownership Loan Program. We reviewed a nationwide sample of Farm Ownership Loans to determine the eligibility of applicants. Based on our review we statistically projected that at least $27.3 million in FY 1977 farm ownership loan funds were not used in accordance with program objectives or regulations. Our review showed that loans were made to individuals who did not rely on farm income to have a reasonable standard of living, farmers who as members of farm partnerships conducted farming operations on a larger than family size basis, and applicants who submitted inaccurate financial statements. The Farmers Home Administration has recently established new guidelines on income levels and partnership operations which will clarify participation requirements.

- Timber Sales. Our review of timber sales in one Forest Service region disclosed that incorrect rates were used to determine how much money was owed the Government by timber companies. On one sale alone, this practice resulted in a loss to the Federal Government of about $160,000. Our review also disclosed that the timber purchasers in the region were not cutting the stumps as close to the ground as was the practice in other regions. We estimated that if the region followed the same practice for cutting stumps as other regions, an additional 12 million board feet of wood would be realized and would increase U.S. revenues by approximately $420,000. The Forest Service has taken corrective action by approving a new contract clause for use in future timber sales contracts.

- Forest Service/Property Management. We conducted a review of a number of audits that we had done in the Forest Service over a period of years in order to group findings and trends in
property management. The results of the review strongly suggested that physical inventories and reconciliation of accountable property has not received the necessary attention by the Forest Service in recent years. About 60 percent of our audits over the last two years have reported property management problems and have identified property shortages of $2.4 million. The Forest Service has hired additional personnel at Headquarters to give property management greater coverage, has advised the regions of the need for better property management, and will be including property management as an area to be covered in internal management reviews.

- Soil Conservation. We reviewed the emergency watershed protection program in the State of Georgia and found that the funds had not entirely served the purpose for which the allocations were intended. The streambank areas determined immediately after a flood to be in need of emergency measures, and included in the funding request, were not always the same areas that later received the corrective measures. Further, eligible landowners often had to wait for over a year after the flood for emergency watershed protection funding. Finally, we found the need for the Soil Conservation Service and the Agricultural Stabilization and Conservation Service to coordinate their activities more closely in developing and implementing an effective Agricultural Conservation Program. The State took corrective action by requiring that all emergency work be completed within 220 days after the funds are allocated. It also developed a Statewide coordinated stream protection cost-share practice for 1979.

- Procurement Systems. In October 1978 an Office of Inspector General task force was established to assess the vulnerability of the various USDA procurement systems to the types of fraud and abuse reported in GSA. To date, the task force has reviewed only small purchases—purchases that do not require formal contracts—and has found a number of instances where there is an absence of appropriate control over ordering and receiving materials and the disbursement of funds.

-- The controls and procedures at one of the Department's central warehouses were such that it was relatively easy for unauthorized persons to obtain blank purchase orders/invoices/voucher forms. Warehouse receiving procedures and controls over forms have since been changed.

-- The Department's agencies were not receiving sufficient information from the National Finance Center to detect
abuses in the purchase orders/invoice/voucher payment system. Periodic reports are now being distributed by the National Finance Center to agencies for regular review.

-- Procedures in the Department's Central Supply Store enabled the same person to place the order and receive the property. Controls at the Central Store also enabled unauthorized persons to obtain supplies. Further, since the agencies receive no individual accounting from the store, there would be no way to detect purchases by unauthorized persons. Ordering and receiving controls as well as authorization and identification procedures have now been improved at the store.

-- Disbursements were made from the Department's Imprest Fund without requiring verification of the identity of the payee. Controls and central review of the Imprest Fund have been improved.

- Overtime. Acting on a Forest Service referral, we found several employees had been manipulating time and attendance reports to receive unearned overtime. To date, six employees have been convicted. In addition to the Forest Service, we also are reviewing other agencies within the Department which account for large amounts of employee overtime. For example, an audit/investigation of the Animal and Plant Health Inspection Service's Plant Protection and Quarantine inspectors has found numerous instances of possible overtime abuse. We made several recommendations to management and action was taken which will assist in the prevention of overtime abuse.

- Computer Security. We conducted an audit/investigation of the security and control at the Department's Washington Computer Center. The review found instances of unauthorized access to computer files by persons using remote terminals. One of the files contained information about a payment system which disburses $83 million annually. Security and other files were copied on discs or tape and then produced on printouts which allowed employees unlimited opportunity to manipulate data processed at the Center. Finally, we found instances where the computers were being used for personal matters. Although our review disclosed no actual dollar losses, the potential for abuse was high. Effective corrective action has been taken to eliminate the previous problems and to strengthen the existing security arrangements. We plan to follow up on this audit by conducting similar reviews at all the Department's computer centers in 1979 and 1980.
National School Lunch and School Breakfast Programs.

-- We audited a number of Job Corps Centers to determine whether they were eligible to participate in the Child Nutrition Programs of the Food and Nutrition Service and whether that participation resulted in duplicate funding by the Department of Labor and the Department of Agriculture. As a result of that review some Job Corps Centers were found to be ineligible.

-- A review of the Child Nutrition Programs in the State of New Jersey disclosed that residential child care institutions for which the Department of Human Services had oversight responsibility were over-reimbursed approximately $1.5 million for the School Lunch Program and the School Breakfast Programs during the period September 1976 through April 1978.

-- We conducted a statistical sample audit of the National School Lunch and Breakfast Programs for Washington, D.C. We questioned the eligibility for reimbursement of 58 percent of the breakfasts and 13 percent of the lunches served in February 1978. Many meals had missing components, had improperly substituted components such as fruit drink instead of fruit juice, or were automatically claimed for free meal reimbursement without regard to the economic status of the children receiving the meal.

-- We conducted a followup to the 1977 General Accounting Office audit of the New York City school lunch program which reported that 36 percent of the meals tested did not meet the Department's meal pattern requirements. We statistically sampled and tested meals in New York City for a two-week period and determined that 37 percent of the meals served still did not meet the Department's requirements.

Summer Feeding Program. We evaluated the 1978 Summer Feeding Program in New York City. Since our efforts in monitoring the 1977 program in the City contributed significantly to a savings in program funds of over $30 million, our efforts in the 1978 program were directed to monitoring closely the Food and Nutrition Service's pre-program planning operations to make certain that the problems which hampered the effective operations of the 1975 and 1976 programs did not reappear.
- Food Stamp Program

-- We conducted a review of the reconciliation of food coupon transactions by the Food and Nutrition Service. We found that the reconciliations were not initiated on a timely basis and that some reconciliations were not done for as long as twelve months after shortages occurred. Therefore, the Food and Nutrition Service managers did not have the necessary information to monitor and control effectively the process which accounts for $8.3 billion worth of coupons per year. The Food and Nutrition Service is taking corrective action by issuing the regulations necessary to improve the timeliness and accuracy of the reconciliation process.

-- We reviewed the contract and procedures related to the Food and Nutrition Service's agreement with the Bureau of Engraving and Printing for the printing of food coupons. This showed that sufficient analysis had not been done to determine if a more economical method of food coupon production was available. The Food and Nutrition Service is currently pursuing alternative methods for coupon production.

-- We audited the New York State Food Stamp Program to determine whether quality control reviews were being used to identify certification problems and to take corrective action. We determined that the project office had not taken action necessary to correct or prevent certification deficiencies reported by the State agency's quality control personnel in over 50 percent of the cases reviewed. Based on our statistical sample we projected a loss during the sample period of between approximately $21 million and $25 million in bonus coupons.

-- We reviewed a sample of food stamp certification determinations in the State of Alabama. Our sample was drawn from households that were not on public assistance and, thus, were most likely to have earned income. About 32 percent of the cases studied had incorrectly reported their income resulting in actual overissuances of about $91,000.
• **Food Distribution Programs.** At the request of the Food and Nutrition Service, we made a review of contracts for processing donated foods. We determined that 12 processors sold donated foods to commercial outlets, exchanged donated foods with their own commercial inventories, and could not physically account for about $3.4 million of donated foods that should have been in their inventories. All of these practices are contrary to program regulations.

• **Mexican-American Screwworm Eradication Program.** The audit evaluated the overall management of the cooperative program designed to eradicate screwworms in Mexico and establish a barrier to prevent infestation in the United States.

We found problems in the Joint Commission's management of the program, including limited coordination between domestic and foreign program officials; weaknesses in determination of aircraft needs, pilot training, and aircraft maintenance; questionable expenditures due to lack of coordination of production and dispersal of sterile screwworm flies; inadequate accounting systems; and questionable contract and advance payment procedures.

The results of our audit were reviewed by Mexican and American officials and actions were initiated, including personnel changes, to improve the program operation.

• **Commodity Credit Corporation - Sale and Disposition of Peanuts and Peanut Oil.** Audits covered the sales of 817 million pounds of peanuts and peanut oil from the 1974-1977 crop years, including circumstances surrounding the sale of 81.9 million pounds of peanut oil to one company.

We found inadequate policy coordination among the people and agencies within the Department responsible for commodity sales and a lack of documentation showing the methods used to determine acceptable sales prices or economic and policy considerations which might have influenced sales determinations. At least 17.5 million pounds of peanut oil, which should have been restricted to domestic use, had been exported. This resulted from the lack of an effective system to monitor and enforce domestic use restrictions.
INVESTIGATIONS

Between October 1, 1978 and March 31, 1979, we completed 1186 investigations including 890 which involved possible criminal violations. We referred 241 cases to the Department of Justice and 83 matters to State and local prosecutive authorities.

There were a total of 193 indictments and 152 convictions based upon our investigations. Since the period of time to get court action on an indictment varies widely, the 152 convictions are not necessarily related directly to the 193 indictments. Fines, recoveries, and collections due to our investigations during this same period totaled $1,714,362, and claims were established for $2,602,795. The following is a breakdown of indictments and convictions, by agency, for the period.

<table>
<thead>
<tr>
<th>Agency</th>
<th>Indictments</th>
<th>Convictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural Marketing Service</td>
<td>12</td>
<td>2</td>
</tr>
<tr>
<td>Agricultural Stabilization &amp; Conservation Service</td>
<td>26</td>
<td>30</td>
</tr>
<tr>
<td>Farmers Home Administration</td>
<td>11</td>
<td>8</td>
</tr>
<tr>
<td>Forest Service</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>Rural Electrification Administration</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Soil Conservation Service</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Food and Nutrition Service</td>
<td>108</td>
<td>88</td>
</tr>
<tr>
<td>Animal and Plant Health Inspection Service</td>
<td>13</td>
<td>9</td>
</tr>
<tr>
<td>Food Safety and Quality Service</td>
<td>11</td>
<td>4</td>
</tr>
<tr>
<td>Federal Grain Inspection Service</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Office of the General Sales Manager</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Multiple Agencies (two or more USDA agencies involved)</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

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In February, 1979, the Office of Inspector General installed a toll-free "hot line" for Department employees to report instances of fraud, abuse, and waste. An employee, without giving his or her name, can pass on information about illegal or wasteful practices. To date, approximately 100 complaints have been received.

Among the more significant prosecutions in the period covered by this report were:

- While under Office of Inspector General surveillance, two officials of a religious group operating as sponsors in New York City's 1978 Summer Feeding Program, offered a $1,000 bribe to a Food and Nutrition Service employee to influence the release of a $30,000 payment being withheld from their organization. Trial is pending. (U.S. vs Hersch Herskovitz and Morris Friedman, Eastern District of New York.)

- An Indonesian National offered a bribe to an official of USDA's Office of General Sales Manager to arrange $57,000,000 in Agriculture loan guarantees to finance rice shipments to Nigeria. The suspect's meetings with the USDA official were monitored by our Special Agents and she was arrested by FBI Agents. She pleaded guilty to offering a gratuity to a public official and was sentenced to five years probation. (U.S. vs Thankam Mathews, District of Columbia.)

- A USDA Meat Inspector in Springfield, New Jersey, was convicted of soliciting a $3,000 cash payment from the President of a meat packing establishment under his jurisdiction. A prison sentence of two years was imposed. (U.S. vs Phillip R. Jaffe, District of New Jersey.)

- A USDA Veterinarian in charge of inspection at a slaughtering and processing plant at Tucumcari, New Mexico, was involved in the inspection, purchase, and interstate transportation of 1460 head of diseased cattle. This inspector, the packing company and three of its officials and a Texas cattle broker have been indicted for conspiracy to defraud the government and Federal Meat Inspection Act violations. Trial is pending. (U.S. vs John Ryan; U.S. vs William H. Hudson, III, et al., District of New Mexico.)
- An Assistant County Supervisor at a Farmers Home Administration County Office in New Jersey was charged with accepting $8,000 in payments from area builders to expedite processing of rural housing mortgage loans. He pleaded guilty to charges of conspiracy to defraud the government and was sentenced to a two year term. (U.S. vs Wilbur Stewart, District of New Jersey.)

- The former Director of New York City's Food Stamp Program was charged with embezzling more than $13,000 in Federal food stamp funds. He pleaded guilty to a charge of embezzlement and was sentenced to three years probation on the condition he make full restitution and accept voluntary employment for one year in a family service program. (U.S. vs Sidney Brooks, Southern District of New York.)

- Two State caseworkers and three other persons were indicted by a federal grand jury in Chicago for conspiring to issue more than $16,000 in Food Stamps and convert them to cash for their own use. Trial is pending. (U.S. vs McKinley, et al., Northern District of Illinois.)

- A family ring in Philadelphia operated a store-front fencing operation for cash purchase of Food Stamp Authorization to Purchase cards stolen from the mails, purchased at discount, or stolen from bona fide recipients. Hundreds of people visited this store-front, under surveillance of our Agents and Postal Inspectors. Five defendants received sentences of up to three years and fines of up to $3,000. (U.S. vs John McCullough, et al., Eastern District of Pennsylvania.)

- Two Memphis, Tennessee, caseworkers developed a system to create fictitious households and generate Authorization to Purchase cards enabling confederates to obtain several thousands of dollars in food stamps. The caseworkers were sentenced to two and three years. Four of their confederates were given lesser sentences. (U.S. vs Margo Tate, et al., Western District of Tennessee.)

- The Administrator of a summer feeding sponsor and a bookkeeper falsified participation and purchase records to defraud the Summer Feeding Program in Eufala, Alabama. Both were convicted and sentenced to three years probation and a $5,000 fine. (U.S. vs Gehodies H. Cossey and Fail Ceil Walker, Middle District of Alabama.)
A detailed analysis of inventory and loading records of Continental Grain Company's Norfolk, Virginia, export elevator disclosed evidence of off-grading and false certification of grain. The company entered guilty pleas to six counts and was fined $18,000. (U.S. vs Continental Grain Company, Eastern District of Virginia.)

Seven USDA employees conspired to defraud the Government by submitting false claims for overtime. All pleaded guilty to charges of conspiracy, embezzlement, or false claims—or a combination of these charges. All were sentenced to prison terms and all agreed to full restitution. (U.S. vs Harold C. Peele, et al., Eastern District of Virginia.)