Dear Mr. Chairman:

Pursuant to Public Law 95-452, Section 5(b) I am transmitting the semiannual report of the Inspector General.

I believe the report accurately identifies some of the shortcomings of the Department's programs and offers sound recommendations for their solution.

As the Inspector General's report indicates, the Farmers Home Administration has experienced phenomenal growth during the past several years. In Fiscal Year 1971, it provided about $2.4 billion, mostly in the form of loan assistance, throughout the nation for farm, housing and community facility purposes. At that time, the agency had an outstanding indebtedness in principal of about $7.9 billion for about 550,000 individual borrowers. For Fiscal Year 1979, the agency provided about $14.3 billion in assistance, including loan guarantees, with the level of outstanding indebtedness reaching nearly $40 billion for 1.2 million individual borrowers. Furthermore, this was not a simple expansion of just dollars loaned. This expansion embodied several new, more complex type programs, requiring more highly trained and specialized type personnel. Yet, during this span of eight years, the agency's full-time personnel ceiling increased only about three percent. Examining the agency's growth from a different perspective, the agency has provided 45 percent of all financial assistance it has provided in its entire 45-year history, in just the past three fiscal years!

The Farmers Home Administration has not only played an active part in the development of the specific recommendations contained in this report, but provided much of the initiative regarding the identification and formulation of recommended solutions. The agency is now moving aggressively ahead with changes in its regulations and field instructions to implement the recommendations in this report, as well as many other improvements not mentioned in this report. Some of the recommendations will require congressional action—all of which have now been presented to Congress for consideration. The
agency has already begun dispatching program assessment teams (made up of personnel from the Farmers Home Administration National Office, State Offices, and the Office of Inspector General) to review and examine in-depth the administration of individual FmHA programs in each State.

During this past year, the agency has accomplished a major restructuring of its field office system as well as initiated a new State management plan process. The restructuring of its field offices has resulted in the establishment of over 300 new multi-county district offices which are now handling all rural development type loan making and servicing activities, thus relieving county offices of such burdens so they in turn can concentrate on individual type farm and home ownership type loan activities. All of this to date has been accomplished within existing personnel ceilings.

The new State management plan process requires each State Farmers Home Administration Director to develop explicit plans as to how he or she will utilize all the financial and staff resources allocated to them for use within the State to insure that all program funds administered by the agency reach those individuals or communities "most in need", consistent with law, Congressional intent, and Administration policies. This process requires similar planned use of resources at district and county levels as well as the State generally. Furthermore, these plans are to emphasize appropriate allocation of staff time to be devoted to loan supervision as well as loan making activities. Quarterly reviews at district, State and national levels will be conducted to determine progress toward meeting the specific objectives contained in these plans. In addition, the agency began implementation of a newly designed management resources "productivity" system on October 1, 1979 covering all of its over 2,000 county offices to measure monthly the actual production of each office. Standards are now being designed for implementing this system at the district and State office levels on or about February 1, 1980. The agency also now has underway several "cash management" studies which are expected to lead to substantial improvements in both the disbursement and collection of the billions of dollars it handles annually. These particular improvements, once implemented, are likely to result in millions of dollars of savings to the government each year. On yet another front, the agency is moving ahead with a pilot project in three States to determine the feasibility of a nationwide system eventually being established involving banks, mortgage companies and other financial institutions handling all Farmers Home Administration home ownership loan collections and establishment for the first time of an "escrowing" service for borrowers regarding taxes and insurance.
Although the Inspector General's report appropriately notes the problems that Farmers Home Administration has been experiencing in redesigning its information processing and accounting system, known as the United Management Information System, the agency is now moving in a direction which hopefully will resolve many outstanding issues and problems in this regard. Farmers Home Administration, with the active involvement of the Assistant Secretary for Rural Development and the Data Services Center of the Department of Agriculture, has a cooperative effort now underway to assess in some detail what will be required, and when, and at what cost, to complete the Unified Management Information System project. The agency's contractual relationship with the firm that was responsible for the overall design of the system has been terminated. The agency is now in the process of establishing a Farmers Home Administration project control manager and team to manage the day-to-day requirements of both completing the system design and implementing the system. This project manager will report directly to the Administrator of the agency and will be held accountable for carrying out whatever decisions result from the detailed assessment now being conducted. A computer-based monitoring and tracking system will be employed to determine future project progress.

The strains that the rapid growth has placed upon the agency, its management structure, its accounting and computer-based financial system, as well as upon its field staff, have indeed been severe. Many of the Inspector General's findings and problems identified in this report cover matters which the agency itself asked the Office of Inspector General to examine. Furthermore, as the Inspector General acknowledges in this report, many of the agency's current problems are directly related to both the rapid expansion in its programs and insufficient personnel to adequately staff them. This Administration has gone a long way toward helping the second situation by increasing the Farmers Home Administration personnel levels over 1,000 in the last three years. Much additional work is also being done to train and improve the quality of personnel and to provide new and innovative techniques to handle the increased responsibility. Although the agency continues to move aggressively and imaginatively ahead trying to meet these expanding responsibilities, its ability to service its portfolio of existing borrowers, while taking on more loans and borrowers each succeeding year, poses more than a few serious questions for both the Congress and the Executive as it relates to the future of the agency.

Regarding the domestic food assistance programs, I generally concur with the recommendations of the Inspector General and we are now engaged in active efforts in these areas.

With regard to the issue of replacement authorization cards in the food stamp program, major corrective action is under way in New York
City, a location where the Inspector General has been able to determine that a problem does exist. The Food and Nutrition Service has initiated its own survey of other large metropolitan areas across the country to identify whether problems exist in other areas, and Food and Nutrition Service will require strong corrective actions if problems are present in other locations. Failure by States to take corrective actions will lead to imposition of sanctions by Food and Nutrition Service.

The Food and Nutrition Service recently billed the State of Ohio $577,000 for program losses, including losses due to weaknesses in control of authorization card issuance. The State is now remitting this amount to the Department.

The Department also proposed new regulations on November 9 that will require increased reporting on authorization card use so that any signs of trouble can be readily identified by locality and corrective action undertaken. Additionally, the Department is looking into the possible use of photo identification cards in some large cities, and is considering changes in regulations regarding replacement of lost or stolen authorization cards.

The report discusses the increase in replacement authorization cards primarily in terms of New York City. However, in other cities where a similar problem has been identified, the situation is less severe. Furthermore, preliminary data from the Food and Nutrition Service survey indicate that some large cities are experiencing no increase in replacement cards.

The Inspector General report does provide more specific information on the decrease in authorization cards that have been returned undelivered. While the decrease may be caused by theft, it may also be due to the fact that in converting six million food stamp case files to the new program rules last spring, States may have obtained more current addresses. Since insufficient data exists to determine the exact reason for the situation, I have asked the Inspector General and the Food and Nutrition Service to collect additional information.

I am concerned by the report's treatment of new indictments for criminal activity in the Food Stamp Program. After acknowledging on page 30 that "it is difficult to measure the impact of the elimination of the purchase requirement on the amount of serious criminal activity in the Food Stamp Program," the report immediately offers data on the increase from the first half of fiscal 1979 to the last half in the number of indictments stemming from investigations. Some readers could infer that this data means that increased criminal activity is due to the elimination of the purchase requirement. Such an inference would be unwarranted: many of the indict-
ments brought in the last half of 1979 were based on investigations of alleged criminal acts committed before the purchase requirement was eliminated.

The report notes on page 33 that New York City is making efforts to correct its issuance problems, but the report mentions only New York's efforts to reconcile authorization cards expeditiously and to identify duplicate redemptions. In fact, as a result of strong efforts by the Department, New York City has undertaken comprehensive efforts to tighten controls over all aspects of the authorization document system. The City has installed a computer that can perform timely reconciliations; has taken over the mailing of Authorization to Participate cards from a private contractor; will require manual pick up of all replacement cards in order to eliminate the possibility of fraudulent duplicate redemptions; is requiring that all persons who report two consecutive nondeliveries of the cards pick up their Authorization to Participate cards in person each month instead of receiving them through the mail; and is planning to eliminate all use of authorization documents in two years by converting to an electronic funds transfer system in which clients can pick up their food stamps directly from banks.

With regard to one final food stamp item in the report—the recommendation that the Department provide guidance to State agencies on acceptable mail loss rates and closely monitor the adoption of mail issuance by any large urban area—we are in full agreement. Food and Nutrition Service will establish tolerances for mail losses and monitor this situation carefully. At present, very few large urban areas use mail issuance of coupons. It is mainly used in rural areas where it appears effective in reducing administrative costs and energy usage, and at the same time has resulted in only minimal loss.

The Department is also taking action on the findings of the California audit of the Women, Infants and Children program. These findings were presented to the Food and Nutrition Service in late September. The Food and Nutrition Service immediately began a fact finding initiative to determine whether similar problems existed in other States. As noted in the report, the information gathered indicated that only one other State is redeeming more than 5 percent of its vouchers at the maximum value, and that California is instituting major changes in its system on January 1, 1980. However, the Department is seeking improvements in the food delivery process to assure that any abuse by retailers in any area is prevented. A review of Women, Infants and Children delivery system requirements, including possible methods to strengthen investigation activity and penalties against retail stores that abuse the program, is now underway. Efforts to improve the California program are continuing.
Finally, I would like to note a series of significant improvements in management of domestic food programs since issuance of the last Inspector General semiannual report. The Department has issued new regulations requiring all reimbursement claims for meals served in child nutrition programs to be submitted within 90 days of the end of the fiscal year or else go unpaid; has established a Food and Nutrition Service financial management unit in each Food and Nutrition Service regional office; and has recovered from State bank accounts about $80 million of unused child nutrition funds from prior years.

Improvements continued this summer in management of the summer feeding program, as the report notes. While the 1976 summer program cost $150 million and the Ford Administration had projected $230 million for 1977 costs and larger amounts for subsequent years, actual 1978 costs were $115 million.

Joint efforts by the Food and Nutrition Service and the Office of Inspector General to improve food stamp management in key problem States are paying off. Food and Nutrition Service is now withholding $460,000 a month in administrative costs from the State of Pennsylvania. The State is responding with a major effort to clean up program deficiencies. As noted, the most significant corrective effort in the history of the New York City Food Stamp Program is underway.

The Department also proposed new regulation changes in October that would save over $75 million in food stamp costs in fiscal 1981 and $100 million a year by fiscal 1982. Finally, the Food and Nutrition Service is taking steps to automate the food stamp quality control system nationwide in order to realize faster access to complete data so that problems may be identified and corrected more rapidly and so that error prone profiles may be more readily generated to improve the accuracy of food stamp certifications.

I am also in agreement with the Inspector General's findings and recommendations about the Food Safety and Quality Programs of the Department. We are pleased that few major problems were encountered, and that we are already taking action to correct many of the problem areas outlined in the report. The Inspector General justly criticizes the lack of objective food specifications and, in some cases, nonuniform contract compliance activities. The Food Safety and Quality Service has recently assumed full control for the government-wide Food Quality Assurance Program. It is currently reviewing and revising many meat product specifications used by all Federal agencies, the States and other institutional food buyers. Others will be reviewed on a priority basis. We will be using improved statistical sampling techniques to determine compliance, and have gained
access to the food specification research and development capabilities of other Federal agencies, such as the Defense Department's Natick Laboratories.

In order to cope successfully with the Inspector General's recommendations concerning specifications and quality control in grading, substantial additional change is necessary. The Department has recently reviewed the overall management situation in the Meat Quality Division of the Food Safety and Quality Service. In order to meet the Inspector General's concerns, the following changes, as well as others, are being initiated:

(1) An independent program review function will be established within the Meat Quality Division to gather information that can be used to promote uniformity in acceptance and grading work.

(2) The Compliance Program of the Food Safety and Quality Service is establishing an audit capability for all Commodity Service Programs to better ensure that emerging problems are recognized and dealt with in a timely manner.

(3) Specifications and standards are being reviewed on an expedited basis within the Meat Quality Division and objective measures are being incorporated wherever possible.

On the specific subject of uniformity in the application of meat grading standards, the Department continues to remain concerned about the subjective nature of the program because of the lack of available technology. The Department is currently investing in promising areas of technology to develop an objective meat grading instrument. During Fiscal Year 1980, approximately $200,000 will be spent by the Food Safety and Quality Service on research and development in conjunction with the Department's Science and Education Administration. Current projections indicate that an operational design will be ready for testing in June 1980. The Department believes that other regulatory changes can be made to ensure uniformity. In October 1979, the Department published the following proposed regulations that will promote uniformity in beef grading:

(1) The term "beef carcass" is defined to include an explanation of the manner in which it will be dressed before being presented for grading.

(2) All meat will be graded only as carcasses and only in establishments in which the animals were slaughtered (except for veal and calf carcasses, which shall be graded only after
the hide is removed and only in the establishment where such removal occurs. Provisions will also be made for grading damaged sides, and upon special approval of the Food Safety and Quality Service, other exemptions may be granted.

(3) Beef carcasses must be ribbed a minimum of 10 minutes prior to being offered for grading.

(4) The conditions which must be met for yield grade designations to be removed from grade-identified beef are specified.

(5) Certain practices designed to alter the ribeye or the fat cover over the ribeye of a beef carcass will be considered fraudulent and deceptive if the carcass is presented for grading.

The Department is also in the initial stages of an extensive examination to determine whether the current grading systems in all commodities, including meat, adequately meet the needs of consumers and industry with respect to both specifications and nomenclature.

With regard to compliance activities of the Food Safety and Quality Service, a number of initiatives are underway to strengthen regulatory and enforcement capabilities. When Food Safety and Quality Service was established and organized in March 1977, the Compliance Program became organizationally more visible and its responsibilities were strengthened. The progress we have made to date will be enhanced by the new authorities the Department is seeking to increase our capacity in enforcing the law. The Inspector General has indicated some useful areas to pursue and I expect to implement and, in some instances, go beyond these recommendations.

Federal reviews of State compliance programs need to be increased to continue an active Federal-State cooperative effort. Even with strong State programs there are limitations on the ability of any State to do the whole job. To effectively control interstate shipments, States need the assistance and support of the Federal program's information network and regulatory authority for interstate commerce.

The Food Safety and Quality Service plant review effort began as a systematic evaluation program and has evolved toward a more regulatory approach as suggested by the Inspector General. As the report indicates, the Food Safety and Quality Service in May 1978, initiated a policy of announcing the names of chronic problem plants identified through the review process as consistently operating on the borderline of acceptable practices. Three plants have been
listed as chronic problem plants since May 1978. Because of the condemnation and retention authority of inspection personnel, detention authority for review officers may not be necessary. Also, we are examining our policy of announcing reviews in advance. Any changes to the implant review policy will be carefully examined to ensure that on-site inspectors and supervisors are able to maintain continued inspection control over the implant food production operations and assure uniformity and continuity of regulatory actions. To do otherwise would greatly weaken our regulatory efforts.

In the past, a number of legal precedents and policy decisions committed this Department to less than full utilization of the withdrawal provisions in the meat and poultry inspection acts. For several years, the Food Safety and Quality Service and the Office of the General Counsel have been proceeding deliberately to expand the precedents and improve the use of this authority to assure that violative meat and poultry products being distributed are kept to an absolute minimum. A Federal Register statement describing current policy concerning withdrawal actions due to bribery convictions was issued in July 1979. The Food Safety and Quality Service and the Office of the General Counsel are working together to develop and issue additional criteria for withdrawing inspection.

The administrator of the Food Safety and Quality Service is now conducting a complete reexamination of the functions of the Meat and Poultry Standards and Labeling Division, consistent with the policies of this Administration to assure that meat and poultry products are truthfully and informatively represented and that program management is efficient, effective and equitable. In the meantime a number of interim corrections are being made in response to the Inspector General's findings. Food Safety and Quality Service will publish for comment prior to rulemaking the informal products standards which have been developed over the years. Work has also begun on establishing criteria and procedures for rescinding labels approved in error and on limiting temporary label approvals. A forthcoming Federal Register notice will propose procedures for improving the equity in processing the more than 100,000 label applications Food Safety and Quality Service receives each year.

A Food Safety and Quality Service Task Force on Integrity has completed a report containing recommendations which are now undergoing review. Vigorous cooperative efforts between Food Safety and Quality Service and the Inspector General to establish an effective integrity program will be explored to counteract the day-to-day pressures facing inspection and grading personnel.
I concur with the Inspector General's comments supporting legislative changes to establish civil penalties, increase criminal penalties and strengthen withdrawal authorities. Food Safety and Quality Service has developed and recommended legislative initiatives in these areas. Debarment proceedings against firms contracting with the Department also need to be strengthened and steps taken to insure better interagency coordination within the Department.

Sincerely,

/s/ Bob Bergland

Enclosure
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

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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 underreported 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
a positive incentive to pursue these actions. Second, in those fraud
cases where a household is still eligible to participate in the pro-
gram, the overissuance should be recouped from future benefits after
the required three month disqualification of the household member who
committed the fraud.

Finally, since there is no State matching of benefits in the Food
Stamp Program, as is the case with Aid to Families With Dependent
Children, for example, the States do not have a strong incentive to
improve management. If administrative errors lead to a high level of
overissuance of benefits, it is a drain on the Federal, not the State,
treasury. For that reason, we recommend that States be required to
pay for the cost of errors in the Food Stamp Program that exceed
national standards set by the Food and Nutrition Service.

Enactment of other recommendations which would permit better verifica-
tion of eligibility data would be pointless unless the States actually
make use of them. Requiring States to share in the cost of their own
mistakes is the most effective device we know of to make those States
and projects with poorly managed operations take an aggressive interest
in improving the program.

Child Nutrition Programs

In addition to our work monitoring the Food Stamp Program, we have
devoted considerable attention to the Child Nutrition Programs, par-
icularly the National School Lunch, School Breakfast and Summer
Feeding Programs. These three programs will account for well over $3
billion of the Administration's FY 1980 budget. The lunch and breakfast programs are administered by State education agencies. Meal service is provided by local school systems. The Summer Feeding Program is designed to feed needy children when school is not in session. Program benefits are delivered to children by a variety of public and private sponsoring organizations.

**National School Lunch and School Breakfast Programs.** Both the National School Lunch and School Breakfast Programs have a three-tiered system of benefits. A minimum level of Federal cash and commodity assistance per meal is provided for all meals served. Additional funding is provided for meals served to children from low-income families. Children from families with incomes between 125 percent and 195 percent of the Income Poverty Guidelines pay a reduced price (10-20¢) for each meal. Children from families with incomes below 125 percent of the guidelines receive their meals free. Our reviews have indicated that the system often breaks down at three points.

First, we have found that schools frequently do not check to see if the free and reduced price meal applications are valid as submitted. Our audits and agency reviews have frequently found that 8-10 percent of the approved applications are unsigned, have no statement of income or family size, or have an income above the cutoff for the type of meal that the child is receiving. In addition, the information on the forms is not subject to verification unless the school has actual cause to believe that it is erroneous. In a recent experiment, we
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 a 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.
Other new regulations are being drafted that would require State agencies to do a more thorough job of monitoring their own program and taking appropriate corrective action. The States would receive some administrative funding specifically for this activity. Funding has been provided for additional reviews conducted by independent State auditors and CPA firms. In addition, the Office of Inspector General will devote increased staff resources to these programs.

If these measures are to improve program administration rather than merely expose the same old problems on a broader scale, they must be backed up by some credible threat of fiscal sanctions.

While most of the problems occur at the local level, it is clear that the law places the responsibility for monitoring local operations and taking corrective action on the State education agencies. In FY 1975, the Department provided the State education agencies with $6.7 million to assist in covering their administrative expenses. For FY 1980, the Administration is requesting nearly $35 million for the same purpose. The Congress and the Department have a right to expect improved program administration as a result of these expenditures. Since 1974, the Department has had authority to withhold administrative funds from State agencies in the Food Stamp Program when the program is not operated efficiently and effectively. This tool has been used sparingly and effectively in cases where it was absolutely needed. Last year Public Law 95-627 gave the Department similar authority to withhold administrative funds from State agencies in the Special
Supplemental Food Program for Women, Infants and Children. There is an urgent need for similar authority in the Child Nutrition Programs if the State education agencies are to be held accountable for program deficiencies. On March 29, the Administration submitted proposed Child Nutrition legislation to the Congress. This is one of the most important provisions in that proposal.

Donated Commodities
We have also looked at the matter of donated commodities in the school food service programs. A substantial amount of the Federal support for the National School Lunch Program, $685 million in FY 1980, is provided in the form of donated commodities. After these commodities are given to the State commodity distributing agencies, a number of States turn over a portion of the commodities to processors who then give the schools a discount on a finished product. For example, hamburger is turned into patties and flour into rolls. The Food and Nutrition Service asked us to examine the program to see if there were any weaknesses. In a number of instances we found that State and local officials have exercised very loose control, and as a result processors have built up excessive inventories of donated commodities or have substituted lower quality food in the final product. For example, USDA choice hamburger with 20 percent fat was turned over to a processor. The schools got in return hamburger patties made from imported beef that was 30 percent fat. The higher quality donated meat was presumably diverted into commercial market channels.
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
for Food and Consumer Services, Carol Tucker Foreman, and Acting Food and Nutrition Service Administrator Robert Greenstein have worked closely with the Office of Inspector General in developing these proposals. The effectiveness of these changes would require better systems including additional fiscal sanction authority to help assure State accountability.

RURAL DEVELOPMENT PROGRAMS

The Farmers Home Administration provides financial assistance through about 20 loan and grant programs. The programs are designed to provide improved housing for low and moderate income rural residents, provide moderate cost rural rental housing to improve, develop, and finance rural businesses, provide community facility and emergency loans, and assist in a variety of farm ownership loans. At the beginning of this fiscal year the Farmers Home Administration was serving over 1 million individual and group accounts, with a principal indebtedness of $28.5 billion. Loan authorizations in 1978 alone exceeded $11 billion. A review of the 164 Farmers Home Administration audits during this reporting period, coupled with the findings of our audits during the past several years, leads us to the conclusion that the principal problem in the administration of the programs is the imbalance between the size and complexity of the Farmers Home Administration's programs and the size and skills of its staff. Almost all of the programs we have reviewed have suffered from many of the same
general problems such as inadequate application reviews and 
construction inspections. Loan servicing, including collections, 
handling delinquent accounts, graduating borrowers to commercial 
loans, and reviewing interest credit agreements to determine whether 
they need to be adjusted, also is inadequate. Finally, since the 
agency has problems managing existing programs, each time a new 
program is added, management effectiveness is further eroded.

Frequently we have made recommendations that the agency has concurred 
with but has been unable to carry out primarily due to staff limita-
tions. Some actions are being taken to resolve these problems. 
First, the agency is hiring specialists, such as part-time building 
inspectors on a "when actually employed" basis. This use of part-time 
assistance avoids some personnel ceiling limitation problems while 
giving local offices access to much needed expertise. Second, at the 
district level the agency is taking steps to train and hire personnel 
with the skills necessary to handle the more complex programs such as 
Community Facility and Rural Rental Housing loans. Third, they are 
undertaking a pilot project to test the feasibility of contracting 
with commercial banks or loan servicing companies to provide escrow 
service for Farmers Home Administration mortgage borrowers and at the 
same time perform routine collection and accounting services for such 
loans. Finally, the Farmers Home Administration is developing and 
installing a "Unified Management Information System" which will 
eventually permit more sophisticated analysis of problem areas and
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.
Rural Housing Program

During FY 1978 the Farmers Home Administration made over 110,000 single family Rural Housing loans for $2.7 billion. Rural housing loans are made to individuals who live in rural areas or in towns of not more than 10,000 population. Loans may also be made to individuals living in areas with 10,000 to 20,000 population that are not located within a standard metropolitan statistical area. To be eligible for the loans, the individuals must have low to moderate income (adjusted income of $15,600 or less), be unable to secure regular financing and be without decent, safe and sanitary homes of their own. Loans are made to build homes or to repair or improve dwellings to make them safe and sanitary or to remove health hazards to the families or to the community. Our audits and investigations have indicated a number of problems:

- Loans have been approved for houses located in subdivisions with inadequate water or sewer facilities, excess water run-off or inadequate community services such as fire protection. The Farmers Home Administration instructions clearly define the characteristics that must exist before a subdivision is eligible for loans.

- Construction inspections have not always been made, or when made, they have not disclosed defects which later lead to borrower dissatisfaction after occupying the dwelling. Borrowers often abandon their residences when construction deficiencies are severe. This has contributed to an inventory of acquired houses and subsequent losses on disposition. The inventory of acquired houses was 5,253 in 1978. Losses on annual sales increased from $2.7 million dollars in 1973 to $13.2 million in 1978. The amount of delinquent loans has also been increasing. In 1978, the outstanding principal on
delinquent loans was about $3 billion. The Farmers Home Administration is considering a home owners warranty program where builders would contribute to a pool to cover the repair of construction defects.

- Interest credit agreements are not adjusted if a borrower's income increases during the agreement period, nor are adjustments collected retroactively. An Office of Inspector General nationwide audit two years ago statistically projected excess interest credit of about $20 million due to income changes during the life of the two-year agreements. We believe the figure would be higher today since there are more borrowers receiving interest credit and there is no reason to believe that the payment of excessive subsidies has diminished. The Farmers Home Administration has proposed an interest credit subsidy recapture program when property is sold. However, the provisions of this program will not necessarily solve the above problems because the longer an individual holds a home, the less interest subsidy will be returned to the Government.

- One problem that affects all direct loans, but is more prevalent in Rural Housing loans, is the failure to "graduate" borrowers to commercial institutions when warranted by their improved financial status. The benefit of such graduation is a savings to the Government in interest costs due to reduced borrowing and the ability to redirect the loan funds to persons more needy. The Farmers Home Administration has not adequately emphasized loan graduation.

The problems of the Rural Housing Program are generally reflective of the deficiencies found in most of the financial assistance programs of the Farmers Home Administration. While individual corrective action is being taken on some of the problems, until management priorities which emphasize the performance of loan servicing as much as loan making are set, the underlying causes of most of the problems will not be alleviated.
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 incorrect information or had filed 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 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.

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<th>Agency</th>
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<td>Agricultural Stabilization &amp; Conservation Service</td>
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<td>Forest Service</td>
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<td>Multiple Agencies (two or more USDA agencies involved)</td>
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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.)