



United States Department of Agriculture  
Office of Inspector General  
No. 68  
November 2012

OFFICE OF INSPECTOR GENERAL

# Semiannual Report to Congress

Second Half  
April 1, 2012–September 30, 2012



FISCAL YEAR **2012**

# KEY OIG ACCOMPLISHMENTS IN THIS REPORTING PERIOD— April-September 2012

## SUMMARY OF AUDIT ACTIVITIES

### Reports Issued

Number of Final Reports	41
Number of Fast Reports	1
Number of Final Report Recommendations	203
Number of Fast Report Recommendations	4

### Management Decisions Reached

Number of Reports	35
Number of Recommendations	196

### Total Dollar Impact of Reports with Management Decisions (Millions)

Questioned/Unsupported Costs	\$269.3
Funds To Be Put To Better Use	\$0.0

## SUMMARY OF INVESTIGATIVE ACTIVITIES

**Reports Issued** 189

### Impact of Investigations

Indictments	459
Convictions	320
Arrests	423

**Total Dollar Impact (Millions)** \$57.5

**Administrative Sanctions** 182

## OIG MAJOR USDA MANAGEMENT CHALLENGES (August 2012)

- 1) Interagency Communications, Coordination, and Program Integration Need Improvement  
*Related material can be found on pages 7 and 21-23.*
- 2) Strong, Integrated Internal Control Systems Still Needed  
*Related material can be found on pages 1-2, 7-8, 13-15, 19-21 and 28.*
- 3) Information Technology Security Needs Continuing Improvements  
*Related material can be found on page 20.*
- 4) Material Control Weaknesses in Civil Rights Should Be Mitigated  
*Related material can be found on page 6.*
- 5) Proactive, Integrated Strategy Is Necessary To Increase Agricultural Commerce and Trade  
*No work was reported during this period.*
- 6) Forest Service Management and Community Action Needed to Improve Forest Health and Reduce Firefighting Costs  
*Related material can be found on pages 27-29.*
- 7) Food Safety Inspection Systems Need Improved Controls  
*Related material can be found on pages 1-2.*
- 8) Efforts to Identify, Report, and Reduce Improper Payments Need To Be Strengthened  
*Related material can be found on pages 6-8 and 19-21.*
- 9) Planning Needed for Succession Planning and Reduced Staffing  
*Related material can be found on page 2.*

# Message from the Inspector General

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I am pleased to provide the Semiannual Report to Congress (SARC) for the Office of Inspector General (OIG), U.S. Department of Agriculture (USDA), for the 6-month period ending September 30, 2012. Overall, our audit and investigative work during this period has led to significant accomplishments, including 423 arrests, 320 convictions, \$57.5 million in investigative monetary results, 174 program improvement recommendations, and \$269.3 million in audit financial recommendations.

OIG continues to work with the Department, Congress, and other Federal agencies to ensure the integrity and efficiency of USDA programs, safeguard the taxpayers' investment in these programs, and pursue those who abuse them. In addition to our work on regular appropriations, we will shortly conclude our oversight of the \$28 billion in American Recovery and Reinvestment Act of 2009 (Recovery Act) funds Congress provided to USDA. Currently, we are completing our audits of the USDA programs and activities funded under the Recovery Act. For fiscal year (FY) 2013, we estimate that we will use approximately 4 percent of our audit resources to complete the 20 assignments by December 31, 2012. For Investigations, we estimate that 3 percent of our investigative resources will be devoted to Recovery Act oversight.

This report summarizes the most important OIG activities during the period, organized according to our strategic goals, as outlined in the OIG Strategic Plan for FYs 2007-2012:

- **Safety, Security, and Public Health**—OIG has recently finished another in its series of audits responding to congressional concerns regarding the efficacy of testing of beef for *Escherichia coli* O157:H7 (*E. coli*). Though the beef industry conducts thousands of tests daily, we found that the Food Safety and Inspection Service could provide the industry with more specific guidance concerning how plants should respond when they have multiple positive *E. coli* test results in a given day. An OIG investigation also found that a Texas meat manufacturer and Kansas food company conspired to defraud the Government by delivering more than 1 million pounds of adulterated and misbranded beef to Federal corrections institutions. The two companies were sentenced to pay more than \$480,000 in restitution and costs.
- **Integrity of Benefits**—Much of OIG's resources are directed to helping ensure the integrity of benefits paid to citizens. OIG has devoted 54 percent of its investigative resources to protecting the Supplemental Nutrition Assistance Program (SNAP) from those who would exploit it. In this SARC period, we have concluded 114 SNAP-related cases, resulting in a total of 220 convictions and more than \$32 million in restitution and other monetary results. Additionally, our audit of the Farm Service Agency's (FSA) Conservation Reserve Program—a program that provides annual payments to farmers who agree to maintain conservation practices—found that FSA did not adequately ensure the reasonableness of its rates and could not support \$127 million over the 10-year life of the contracts.
- **Management Improvement Initiatives**—We coordinated with the Government Accountability Office (GAO) to issue to Congress companion reports summarizing key findings and recommendations related to USDA programs from past OIG and GAO reports. We expect that these reports will be of interest to lawmakers as they deliberate on the 2012 Farm Bill. Additionally, OIG continues to work with the Department to address longstanding weaknesses in USDA's information technology (IT) security. One of our audits found that, although the Office of the Chief Information Officer (OCIO) received additional appropriated funds of \$66 million in FYs 2010 and 2011, OCIO did not effectively plan, prioritize, and manage its improvement initiatives. An OIG investigation resulted in a former FSA County Executive Director being sentenced for conspiracy to commit bank fraud. Ultimately, she was sentenced to 27 months' incarceration and ordered to pay \$948,555 in restitution.
- **Stewardship Over Natural Resources**—OIG also performs audit and investigative work intended to help USDA maintain fixed public assets, such as 193 million acres of national forests and grasslands. For example, the Recovery Act awarded the Forest Service (FS) \$50 million for wood-to-energy projects, but OIG found that FS did not ensure funds were used properly. Based on the grants reviewed, we statistically projected unsupported costs of about \$9 million.

As Inspector General, I am deeply appreciative of the dedicated work of OIG's professional staff. Without their commitment to ensuring the efficiency and effectiveness of the programs USDA provides, we could not present the results summarized in this SARC. I would also like to thank USDA Secretary Thomas J. Vilsack, Deputy Secretary Kathleen Merrigan, as well as interested Committees and Members of Congress, for their continued support of OIG's work.



Phyllis K. Fong  
Inspector General



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# Safety, Security, and Public Health

## OIG Strategic Goal 1:

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

To help USDA and the American people meet critical challenges in safety, security, and public health, OIG provides independent audits and investigations in these areas. Our work addresses such issues as the ongoing challenges of agricultural inspection activities, the safety of the food supply, and homeland security. Of particular concern is the safety of USDA employees. Since threats against USDA personnel can

potentially impact the Department's ability to carry out its mission, OIG places a high priority on such investigations.

In the second half of FY 2012, we devoted 10 percent of our total direct resources to Goal 1, with 96 percent of these resources assigned to critical-risk and high-impact work. A total of 100 percent of our audit recommendations under Goal 1 resulted in a management decision within 1 year, and 97 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued five audit reports under Goal 1 during this reporting period. OIG's investigations under Goal 1 yielded 24 indictments, 37 convictions, and about \$200,000 in monetary results during this reporting period.

### **Management Challenges Addressed Under Goal 1**

- Strong, Integrated Control Systems Still Needed (also under Goals 2, 3, and 4)
- Food Safety Inspection Systems Need Improved Controls
- Planning Needed for Succession Planning and Reduced Staffing

### **EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 1**

#### **The Animal and Plant Health Inspection Service (APHIS) Needs to Improve the Control Environment of Its Smuggling, Interdiction, and Trade Compliance (SITC) Unit**

APHIS' SITC unit works to prevent prohibited agricultural products that may harbor plant and animal pests, diseases, or invasive species from entering the country and being distributed. Based on a review of SITC activities, OIG found that SITC's control environment did not include a system of management accountability in order to foster efficiency, adequacy, or accuracy in either achieving the unit's mission or in reporting its results. For example, we found that 90 percent of the surveys SITC conducts at markets were not successful at either seizing a prohibited product or in capturing information used to identify the importer of a prohibited product. Low success rates increase the risk that prohibited products would not be identified and could move through the country, further spreading foreign plant disease and pests. The review also disclosed that SITC used an unapproved IT system for 3 years without informing APHIS' IT division of its existence

or ensuring that reports from that system were accurate and supported. APHIS took immediate actions following an alert we issued in 2011 regarding the unapproved IT system, which was generating overstated figures used in reports provided to Congress. However, SITC has not yet implemented the corrective actions necessary to ensure its reports to Congress are accurate and supported. APHIS agreed with our recommendations and now has a meaningful plan of action to improve SITC's accountability. (Audit Report 33601-0012-Ch, Effectiveness of the Smuggling, Interdiction, and Trade Compliance Unit)

#### **Food Safety and Inspection Service (FSIS) Needs To Improve *E. coli* Testing Policies and Procedures for Beef**

In November 2009, due to concerns regarding the efficacy of *E. coli* testing of beef trim products, OIG received a congressional request to investigate the scientific merits and potential shortcomings of the N-60 sampling design used to test beef trim products. We found that the beef industry was conducting thousands of tests daily and generally complying with the FSIS guidance for how to perform those tests. However, FSIS could provide the industry with more specific

guidance concerning how plants should respond when they have multiple positive *E. coli* test results in a given day. Currently, there is wide variation among different plants. Additionally, we found that FSIS needs to ensure that its own inspectors are performing tests consistently and according to FSIS' standards. Finally, FSIS needs to take steps to ensure that small plants regulated by State meat inspection agencies are being held to the same sanitary standards as the rest of the beef industry. FSIS agreed with our recommendations. (Audit Report 24601-0001-31, Application of Food Safety and Inspection Service Sampling Protocol for Testing Beef Trim for *E. coli* O157:H7)

### **FSIS Needs to Ensure Inspection Personnel Conduct Satisfactory Reviews**

FSIS employs about 7,800 in-plant inspection personnel to inspect more than 6,200 slaughter and processing establishments located throughout the United States and its territories. We assessed whether FSIS had sufficient inspection personnel to adequately monitor establishments that process meat and poultry products but, due to certain information not being tracked by FSIS, we were unable to evaluate the impact of inspection personnel shortages. We found that inspectors were not always able to comply with FSIS policy to visit processing establishments at least once per day and per operating shift. Although unexpected events such as inclement weather occur, we noted that FSIS had not established mitigating procedures for inspectors to use during subsequent visits. We also identified that FSIS lacked management controls to deter inspectors from misreporting their actions during inspections and that FSIS had also not implemented controls, such as unannounced supervisory reviews and requirements to document specific information that would deter inspectors from misstating inspection results. We recommended that FSIS develop mitigating procedures, enhance its ability to track and follow up after missed procedures, perform unannounced supervisory visits of inspectors, and enhance its data system. FSIS generally agreed with our recommendations. (Audit Report 24601-0011-Hy, Assessment of Food Safety and Inspection Service Inspection Personnel Shortages in Processing Establishments)

### **FSIS Adequately Handled Appeals of Humane Handling Noncompliances**

The Humane Methods of Slaughter Act requires that livestock be slaughtered only by humane methods. On December 22,

2010, the USDA Under Secretary for Food Safety requested that OIG review records of noncompliance items that FSIS records and the actions that plant management subsequently took to appeal to higher FSIS management levels. Based on our review of the 138 records and 13 enforcement actions that establishments appealed, we determined that FSIS' procedures were adequate and FSIS followed its established procedures to appropriately address appeals. Our analysis of the data also did not reveal any negative trends or systemic problems related to inconsistent treatment or unfounded actions to grant or deny appeals in particular establishments across the country. We did find that FSIS can improve how it tracks and monitors appeals of humane handling noncompliance records by citing the regulatory justification for any appeals that it grants, ensuring that noncompliance records are written adequately to support the violation, and tracking the time it takes to process appeals. We suggested that FSIS consider how its Public Health Information System could be utilized to track and monitor appeals of humane handling noncompliance records. (Audit Report 24601-0002-31, Food Safety and Inspection Service Review of Appeals of Humane Handling Noncompliance Records)

### **The Agricultural Marketing Service's (AMS) Controls Over the National Organic Program's List of Allowed and Prohibited Substances Are Adequate**

AMS maintains a national list of synthetic substances that can be used in organic production and handling, as well as non-synthetic substances that cannot be used. The National Organic Standards Board assists in developing the standards for such substances. In response to a congressional request regarding the board's processes for adding new substances to the national list, we reviewed AMS' controls over the list as well as a hotline complaint received during our audit. We found that AMS generally had adequate controls over its processes to either allow or prohibit the addition of new substances to the national list, as well as to determine when substances already included on the list need to be removed. We concluded that AMS followed its established process for evaluating the petitioned substance in question. Accordingly, we did not make any recommendations. (Audit Report 01601-0001-23, National Organic Program's List of Allowed and Prohibited Substances)

### **Texas Meat Manufacturer and a Kansas Food Company Reach Settlement Agreement in Beef Adulteration and Misbranding Case**

In May 2012, in U.S. District Court, Eastern District of Texas, a Kansas food company was convicted and sentenced to pay \$88,282 in restitution to the U.S. Bureau of Prisons for its role in the sale of misbranded meat products. The company's vice president was also convicted and fined \$1,000. In July 2012, a Texas meat manufacturer entered into a settlement agreement with the U.S. Attorney's Office, Eastern District of Texas, and FSIS. Under this agreement, the manufacturer will adopt additional procedures designed to ensure continued compliance with the Federal Meat Inspection Act and will review existing procedures, books, records, and policies to ensure such continued compliance. The manufacturer also agreed to pay \$392,000 to the U.S. Treasury General Fund as reimbursement for the cost of the investigation. This investigation was initiated in March 2009 as a result of an allegation that the manufacturer offered for sale 84,000 pounds of adulterated and misbranded beef trimmings. The investigation found that, from August 2006 through July 2007, the manufacturer caused more than 1 million pounds of beef trimmings to become adulterated and misbranded while being held for sale. The Kansas food company sold, transported in interstate commerce, and delivered the product to multiple end users and Federal correction institutions located in several States.

### **Oregon Man Sentenced to 27 Months in Prison for Selling Corn Falsely Labeled as USDA-Certified Organic**

In April 2012, an Oregon man who sold 4.2 million pounds of conventionally grown corn falsely labeled as USDA-certified organic corn was sentenced in U.S. District Court, District of Oregon, to 27 months in prison and 36 months of supervised release for wire fraud. The man, using several aliases and a complex shipping scheme, purchased more than 4.2 million pounds of corn from a number of conventional corn growers in Washington State. He then sold the conventional corn as USDA-certified organic corn to a company based in Minnesota. The Minnesota company then unknowingly sold the corn as USDA-certified organic corn to three Oregon-

based companies. The corn was ultimately used as feed for organic dairy and beef cattle. Much of the product produced by the dairy and beef cattle entered commerce and was sold to consumers as USDA-certified organic. As a result of selling the falsely labeled corn, the Oregon man received approximately \$193,000 to which he was not entitled.

### **Nursery Owners Conspire to Illegally Transport Quarantined Citrus Plants Through Interstate Commerce**

In April 2012, four Florida residents pled guilty to illegally transporting quarantined citrus plants through interstate commerce. Our investigation determined that, between May 2010 and March 2011, these individuals prepared false manifests and invoices to disguise Calamondin citrus plants (which are prohibited from being shipped out of Florida because they can carry citrus canker and citrus greening disease) as types of plants that were not subject to the interstate shipping prohibition. In July 2012, all four Florida residents were each sentenced in U.S. District Court for the Southern District of Florida to 12 months' probation. Additionally, two of the individuals were sentenced to 6 months of home detention and 100 and 50 hours of community service, respectively.

### **Iowa Farmer Sentenced to 180 Months in Prison for Threats**

An OIG investigation determined that a farmer made threats against an FSA County Executive Director (CED) in rural Iowa. The farmer was angry that FSA had not recognized his claim to leased land that the county court had given to the farmer's ex-wife in a divorce settlement. In a telephone conversation with the CED, the farmer threatened to "blow away" the CED and the county court. The farmer admitted to the OIG agent that he had made the statements to the CED and also told the OIG agent that he could "blow you away" if he wanted to. He said he wanted to get people's attention and figured it had worked. The farmer was charged in State court with making threats and harassment and, when arrested, made further threatening statements to local law enforcement officials. In May 2012, the farmer was found guilty by a jury, and in June was sentenced to 180 months in prison.

## GOVERNMENTWIDE ACTIVITIES—GOAL 1

### *Participation on Committees, Working Groups, and Task Forces*

- *The Federal Bureau of Investigation's (FBI) National and Local Joint Terrorism Task Forces.* One OIG special agent is assigned full time to the national task force, and other special agents work with local task forces. While the national task force special agent attends threat briefings and provides terrorist intelligence products to OIG and other USDA agencies and offices, local task forces work on matters that involve both the investigation of criminal activity and intelligence-gathering involving individuals or entities that may have connections to terrorist activity or may provide support for terrorist activity. Overall, OIG's participation provides an excellent conduit for sharing critical law enforcement intelligence and has broadened the FBI's and other law enforcement agencies' knowledge of how to conduct criminal investigations connected to food and agriculture.
- *The FBI's Joint Interagency Agroterrorism Working Group.* OIG's Emergency Response Team continues to participate in this working group, which develops protocols and procedures for the FBI, APHIS, and OIG to coordinate their response to agroterrorism.
- *U.S. Marshals Service Fugitive Task Forces.* OIG agents in Michigan, Minnesota, Mississippi, and North Dakota participate on these task forces, which were established under the Presidential Threat Protection Act of 2000. The purpose of these task forces is to locate and apprehend the most dangerous fugitives and assist in high-profile investigations. In addition to providing assistance in locating fugitives, task forces can provide help in serving warrants.
- *Arrowhead Counter-Terrorism Task Force.* OIG participates in a group of regional law enforcement and emergency response providers, led by the FBI field office in Duluth, Minnesota, which meets monthly for training sessions and sharing information on various terrorist organizations, as well as related topics, such as crisis response scenarios.
- *Anti-Terrorism Advisory Councils.* In many judicial districts, including the Northern District of Illinois, the Northern and Southern Districts of Iowa, the Eastern District of Michigan, the Eastern and Western

Districts of Missouri, the Eastern District of North Carolina, and the Districts of Colorado, Kansas, Minnesota, North Dakota, and South Dakota, OIG participates on Anti-Terrorism Advisory Councils. These councils are umbrella organizations including local, State, and Federal agencies and private-sector security representatives that work with the U.S. Attorney's Offices for their geographic areas to disrupt, prevent, and prosecute terrorism through intelligence-sharing, training, strategic planning, policy review, and problem-solving.

- *San Bernardino Rural Crimes Task Force and San Bernardino Animal Cruelty Task Force.* OIG is one of several law enforcement agencies participating on task forces to combat crimes in rural areas in southeastern California, with a special focus on animal-fighting investigations.

## ONGOING REVIEWS FOR GOAL 1

- USDA controls over shell egg inspections (FSIS, APHIS, AMS),
- *E. coli* testing of boxed beef (FSIS),
- inspection and enforcement activities at swine slaughterhouses (FSIS),
- oversight of research facilities (APHIS),
- verifying credentials of veterinarians employed or accredited by USDA (FSIS, APHIS),
- implementation of the Public Health Inspection System for domestic inspection (FSIS),
- Plant Protection and Quarantine Preclearance Program (APHIS),
- followup on APHIS' implementation of the Select Agent Program (APHIS),
- National Organic Program organic milk operations (AMS),
- food defense verification procedures (FSIS), and
- FSIS State inspection programs.

## ONGOING REVIEWS FOR GOAL 1 UNDER RECOVERY ACT FUNDS

- rehabilitation of flood control dams (Natural Resources Conservation Service (NRCS)).

# Integrity of Benefits

## OIG Strategic Goal 2:

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

OIG conducts audits and investigations to ensure or restore integrity in the various benefit and entitlement programs of USDA, including a variety of programs that provide payments directly and indirectly to individuals or entities. Some of these programs involve significant amounts of Federal funds: USDA's nutrition assistance programs accounted for \$107 billion in FY 2012, and USDA's farm and commodity programs accounted for \$19 billion in FY 2012. Intended beneficiaries of these programs include the working poor, hurricane and other disaster victims, and schoolchildren, as well as farmers and ranchers.

Under the Recovery Act, USDA received about \$28 billion in funding for programs in a number of areas, including farm loans, watershed programs, supplemental nutrition assistance, wildland fire management, and several rural development programs (such as rural housing, rural business, water and waste disposal, and broadband). The Recovery Act also provided OIG with \$22.5 million (to remain available until December 31, 2012) for "oversight and audit of programs, grants, and activities funded by this Act and administered by the Department of Agriculture."

Since the Recovery Act was enacted, OIG has been working with USDA and the Inspector General (IG) community, as well as GAO and the Recovery Accountability and Transparency Board (Recovery Board), to carry out oversight responsibilities. Our Recovery Act oversight plan includes proactive, short-term, and long-term audit and investigative work. It can be found on our website at <http://www.usda.gov/oig/recovery/OIGSTIMULUSPLAN.pdf>.

With Recovery Act funding for USDA programs and the additional oversight funds for OIG being expended, we are completing our audits of the USDA programs and activities funded under the Act. For FY 2013, we estimate that we will use approximately 4 percent of our audit resources to complete

the 20 assignments by December 31, 2012. For Investigations, we estimate that 3 percent of our investigative resources will be devoted to Recovery Act oversight. Many of our remaining projects review how USDA is reporting the results of its Recovery Act projects, especially the number of jobs created or saved.

OIG continues to work closely with the Recovery Board and other IG offices to coordinate analytical and investigative work of potential Recovery Act fraud. Since the passage of the Recovery Act in 2009, we have received more than 100 allegations of misuse of Recovery Act funds. We continue to assess the validity of the allegations and, when appropriate, initiate criminal investigations. As of this reporting period, we have several ongoing investigations involving potential misuse of Recovery Act funds.

In the second half of FY 2012, we devoted 47 percent of our total direct resources to Goal 2, with 95 percent of these resources assigned to critical/high-impact work. A total of 100 percent of our audit recommendations under Goal 2 resulted in management decision within 1 year, and 93 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued 17 audit reports and 1 *fast report* under Goal 2 during this reporting period. OIG's investigations under Goal 2 yielded 426 indictments, 271 convictions, and about \$56.5 million in monetary results during this reporting period.

#### **Management Challenges Addressed Under Goal 2**

- Interagency Communication, Coordination, and Program Integration Need Improvement (also under Goal 3)
- Strong, Integrated Internal Control Systems Still Needed (also under Goals 1, 3, and 4)
- Material Control Weaknesses in Civil Rights Should Be Mitigated
- Efforts to Identify, Report, and Reduce Improper Payments Need to Be Strengthened (also under Goal 3)

## EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 2

### USDA Needs To Ensure That Office of Advocacy and Outreach (OAO) Grants Are Awarded to the Most Meritorious Applicants

At the request of the Secretary of Agriculture, OIG performed an audit to evaluate the procedures used by OAO to select FY 2012 recipients of grants funded through the Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Program. Our results indicated that some of the 57 applicants selected by OAO for FY 2012 grants may not have been the most meritorious and deserving applicants. OAO officials did not adhere to the agency's draft policies and procedures, or to the guidelines cited in the Funding Opportunity Announcement, when selecting the FY 2012 applicants. The selection of less meritorious applicants could negatively impact assistance to socially disadvantaged farmers and ranchers and could expose the Department to unnecessary criticism and, potentially, even legal action. Given these concerns, we recommended OAO not award grants until an independent review panel could reevaluate the applications to ensure that the most deserving applicants will be awarded grants. Departmental officials agreed with our recommendations. (*Fast Report* Audit 91099-0001-21 (1), Controls over the Grant Management Process of the Office of Advocacy and Outreach—Section 2501 Program Grantee Selection for Fiscal Year 2012)

### The Office of the Assistant Secretary for Civil Rights (OASCR) Needs to Ensure It Adequately Documents Settlement Agreements

OASCR resolves civil rights complaints filed against USDA, closing an average of almost 1,000 program complaint cases per year since 2005, including 15 cases closed between 2008 and 2011 through settlement and conciliation agreements in which USDA awarded over \$10.5 million in damages to claimants. With a recently reorganized office and efforts to improve case handling and reduce backlogs, OASCR has significantly improved processes and management of settlement agreement case files. While our audit disclosed no issues with the decisionmaking process for conciliation agreements, we determined that OASCR needs to strengthen its procedures for settlement agreements so that it can maintain current improvements, support its decisions, process cases timely, and report them accurately. OIG recommended that OASCR develop and implement procedures for documenting settlement agreements to support that settling with complainants was

an appropriate course of action and to show that it awarded compensation appropriately. OASCR concurred with our recommendations. (Audit Report 60601-0001-23, Office of the Assistant Secretary for Civil Rights' Oversight of Agreements Reached in Program Complaints)

### The Food and Nutrition Service (FNS) Needs to Ensure It Checks That SNAP Participant Information Is Accurate

As reported in the *SARC, First Half of FY 2012*, we have completed a series of audits of SNAP participant databases in 10 States as part of our ongoing efforts to help minimize fraud, waste, and abuse within SNAP and, per Congressional request, to analyze FNS' tools used to prevent and detect fraud, and to promote the integrity of reporting. States are required to perform checks of SNAP participant information against Federal and State databases to ensure SNAP benefits go only to those most eligible and in need. The checks can identify if, for instance, participants were deceased or if people were using deceased individuals' Social Security numbers. Additional checks can also identify if, for example, participants are potentially receiving duplicate benefits in the same State or benefits from neighboring States.

In the second half of FY 2012, we concluded our planned series of reviews by issuing our summary analysis of FNS' SNAP fraud prevention and detection efforts, in addition to finalizing work in three States—Massachusetts, New Jersey, and New York. We found that in these States, a total of 13,564 participants were receiving potential improper payments totaling almost \$2 million per month. Combined with our findings from the 7 previously published reports, we identified a total of 27,044 potentially ineligible recipients and \$3.7 million in questioned monthly benefits:

	Recipients/Households Questioned	Estimated Benefits per Month
Alabama	1,639	\$207,989
Florida	2,689	\$380,225
Kansas	907	\$112,831
Louisiana	2,374	\$308,074
Massachusetts	908	\$117,767
Mississippi	1,009	\$123,643
Missouri	766	\$96,409
New Jersey	4,123	\$569,098
New York	8,533	\$1,268,260
Texas	4,096	\$523,551
<b>Total</b>	<b>27,044</b>	<b>\$3,707,847</b>

These potential improper payments amount to less than 0.2 percent of the total SNAP benefits paid in FY 2012. We also note that the States have taken rapid action to review the cases and are taking appropriate followup action.

In addition to recommending that FNS require the States to ensure they perform all necessary checks to ensure SNAP benefits are reaching only eligible recipients, we evaluated the tools FNS has at its disposal to prevent and detect SNAP fraud and also to evaluate the integrity of retailer and fraud reporting. While FNS and States do have tools for ensuring applicant eligibility and detecting fraud, we found that States either do not make full use of the tools or cannot rely on the data provided by the tools to take actions related to benefits. This occurred because FNS does not require States to use all the tools available to them. We also found that FNS does not have tools to effectively estimate a total SNAP fraud rate over time. We recommended that FNS specify a set of tools that States are required to use for fraud detection and improve how it estimates fraud in the program. Generally, FNS concurred, issued prompt corrective guidance, and acted to respond to OIG's recommendations. (Audit Report 27002-0011-13, Analysis of FNS' Supplemental Nutrition Assistance Program Fraud Prevention and Detection Efforts; Audit Report 27002-0008-13, Analysis of Massachusetts' Supplemental Nutrition Assistance Program Eligibility Data; Audit Report 27002-0009-13, Analysis of New Jersey's Supplemental Nutrition Assistance Program Eligibility Data; Audit Report 27002-0010-13, Analysis of New York's Supplemental Nutrition Assistance Program Eligibility Data)

### **FSA Needs to Ensure That Any Increases to Payment Limitations for Farming Operations Are Bona Fide**

FSA administers a variety of farm commodity, conservation, disaster, and loan programs that involve payments subject to limitations based on the total amounts that a "person" may receive each year. The 2008 Farm Bill made significant changes in how USDA would administer payment limits and determine who is eligible for payments. OIG initiated an audit to determine whether FSA's internal controls were adequate to oversee the changes introduced by the Farm Bill. However, we determined that FSA's data were not sufficiently reliable for us to test the controls and answer our objective. We provided FSA information on our concerns regarding the quality of its data system and other issues that arose during our review. FSA

acknowledged our concerns, took some corrective action during the audit, and generally stated that deployment of its new Web-based system would address data concerns. Accordingly, we did not make any recommendations to the agency. (Audit Report 03601-0050-Te, Farm Service Agency 2008 Farm Bill's Changes to Payment Limitations)

### **FSA Needs to Ensure It Pays Reasonable Soil Rental Rates for the Conservation Reserve Program (CRP)**

FSA administers the CRP, which provides annual payments to farmers who agree to maintain conservation practices, such as establishing grass cover on farms to prevent soil erosion and reduce chemical runoff. In 2010, FSA signed contracts involving 4.3 million acres and annual payments totaling \$200 million. Over the 10-year life of the contracts, FSA will pay more than \$2 billion. OIG reviewed whether FSA had effective controls to ensure that these payments were based on accurate and well-supported soil rental rates. We found that FSA did not adequately ensure the reasonableness of its soil rental rates, as FSA did not adequately document or justify not using the most recent NRCS soil productivity figures and did not adhere to its policies and regulations for using statistical data when computing the soil rental rates. Due to these problems, OIG questioned \$12.7 million in unsupported payments (\$127 million over the 10-year life of the CRP contracts) and recommended that, for future CRP signups, FSA ensure that it uses the best available data and require strong evidence for statistical changes. FSA generally agreed with our recommendations. (Audit Report 03601-0051-Te, Farm Service Agency, Conservation Reserve Program—Soil Rental Rates)

### **FSA Needs to Ensure County Employees Process Farm Storage Facility Loans Properly**

FSA operates the Farm Storage Facility Loan Program so that producers may have access to available funds for financing storage and handling facilities. Producers might use these loans to construct structures for grain, as well as hay, renewable biomass, fruits and vegetables, and cold storage facilities. Based on our review of how FSA approved and processed 30 loans (totaling \$4.89 million), as well as how the agency serviced 10 delinquent loans (totaling \$728,078), we found that FSA county employees did not always process, approve, and service these loans according to the agency's policies and procedures. These errors resulted in \$2.2 million in unsupported

disbursements. FSA agreed to implement new policies and procedures to strengthen the oversight and accountability of the program, including providing additional training. (Audit Report 03601-0001-32, Farm Service Agency Farm Storage Facility Loan Program)

### **FSA Needs to Develop Sufficient Management Controls to Operate the Biomass Crop Assistance Program**

In the 2008 Farm Bill, Congress established the Biomass Crop Assistance Program, a program that, in part, provided matching payments to the owners of renewable biomass to encourage them to collect, harvest, store, and transport (CHST) such material to a conversion facility that would produce heat, power, bio-based products, or advanced biofuels. In 2009, the program was emphasized as part of an effort to decrease the Nation's dependency on foreign oil. Accordingly, USDA expedited the program's implementation and began providing matching payments for the cost of CHST biomass. OIG reviewed \$30 million of \$243 million in CHST matching payments and found that, while USDA implemented the CHST matching payments program in accordance with statutory requirements and in compliance with the directed timeframe, the program was launched without sufficient management control structures needed to provide clear program direction and ensure program accountability. Without sufficient management controls, USDA can have little confidence that the funds expended during this first phase of the program contributed to expanding the use of new biomass sources for biofuels or helped decrease dependence on foreign oil. OIG also found that, without the management control structures that typically accompany effective Federal programs, USDA county office employees often made errors and inconsistently implemented the program. In total, OIG questioned over \$400,000 in payments issued to biomass material owners due to these various errors. OIG recommended that USDA take steps to establish an adequate management control structure for the program that will provide clear program direction, ensure program accountability, and resolve the errors we observed in the field. FSA agreed with all recommendations. This report includes findings addressed in two prior *Fast Reports*. (Audit Report 03601-0028-KC, Farm Service Agency Biomass Crop Assistance Program: Collection, Harvest, Storage, and Transportation Matching Payments Program)

### **Rural Development (RD) Needs to Improve Its Controls Over the Rural Rental Housing Program**

RD's Rural Housing Service (RHS) administers the Rural Rental Housing Program, which provides affordable multi-family rental housing to low- and moderate-income families, the elderly, and persons with disabilities living in rural areas. OIG determined that RHS needs to improve its controls to detect the misuse of program funds and to ensure that owners repair the physical deterioration of properties detected by agency inspections. OIG audits uncovered \$4.2 million in misused funds by 56 percent (18 of 32) of owners nationwide, but the agency reported nationwide noncompliance at a rate of just 0.4 percent. Further, we found deficiencies at 192 of 319 properties in our sample and determined that, although RHS officials had identified 44 of the deficiencies during prior year inspections, they were unable to compel owners to make required repairs. We recommended that the agency reduce the number of properties required to be examined each year and use a risk-based approach to select properties for attestation engagements. We also recommended that RHS clarify its guidance and enforce a graduated scale of penalties. RHS has agreed to the report's findings and recommendations. (Audit Report 04601-0018-Ch, Rural Development Rural Rental Housing Program Project Cost and Inspection Procedures)

### **The Risk Management Agency (RMA) Needs to Improve Controls Over the "New Producer" Crop Insurance Option**

To administer the Federal Crop Insurance Program, RMA partners with approved insurance providers (AIP) to provide crop insurance policies, including "new producer" policies for those insured persons who have no more than 2 years of history farming a specific crop. OIG assessed the administration of new-producer program procedures. For the 2007 and 2008 crop years, we identified 19,285 new-producer policies (13 percent) that had more than 2 years of information in Federal records. Based on a judgmental sample of these, we found that 154 of 176 policies were sold to insured producers who were not eligible for new-producer status. This occurred because AIPs did not fulfill their contractual responsibilities to verify whether the producers' information was accurate. As a result, RMA paid \$3.3 million in indemnities and associated costs for 57 of these 154 policies. We recommended that RMA deny reinsurance for the 57 improper policies, verify eligibility for

more than 6,000 new-producer policies with indemnities that were not part of our review, take appropriate corrective actions, and recover losses. Further, we recommended that RMA improve and implement additional controls over new-producer eligibility. RMA agreed to all our recommendations. (Audit Report 05099-0114-KC, RMA: Validity of New Producers)

### **Western Oklahoma Farmer Forges Name of USDA Official in Order to Convert Cotton and Wheat Production Payments Mortgaged to FSA**

In April 2012, in U.S. District Court, Western District of Oklahoma, a farmer was sentenced to 36 months' probation, 104 hours of community service, and ordered to pay fines totaling \$3,100 for conversion of mortgaged property. Prior to sentencing, he paid restitution in the amount of \$133,360 to FSA. Our investigation found he forged the name of an FSA official on cotton and wheat production sales checks made jointly payable without the knowledge or consent of FSA and deposited the production checks into his personal account.

### **Farmer Obtains and Defaults on USDA-Guaranteed Loan After Pledging the Same Collateral on Multiple Loans**

In May 2012, in U.S. District Court, Western District of Oklahoma, a farmer was sentenced to 42 months' probation to include four consecutive weekends in jail, ordered to perform 104 hours of community service, and ordered to pay restitution in the amount of \$167,325 to FSA and a private financial institution. Our investigation found that, in June 2009, this farmer failed to notify FSA and the private financial institution that he had pledged \$225,000 in collateral that had been previously pledged as collateral on other loans. He subsequently defaulted on both his FSA-guaranteed loan and another loan with the private financial institution, leaving a principal unpaid balance of \$637,325.

### **Kansas Rancher Sells Mortgaged Cattle Under Fictitious Entities to Hide Sales From FSA**

In May 2012, in U.S. District Court, District of Kansas, a rancher was sentenced to 36 months' supervised release and ordered to pay \$83,973 in restitution to FSA after a jury found him guilty of conversion of mortgaged property. In the summer of 2009, FSA attempted to appraise the value of livestock the rancher had used to secure three delinquent loans and found the majority of cattle missing. The rancher

had formed a new entity and was conducting the majority of his cattle sales under that entity's name. When FSA personnel became aware of this new entity, they notified all the livestock sale barns in Kansas of their interest in the cattle. At that point the rancher formed yet another entity and attempted to continue to sell mortgaged livestock without FSA's knowledge. He was charged with one count of conversion of mortgaged property in June 2011.

### **Arizona Farmer and Wife Plead Guilty in USDA Farm Loan Case**

In April 2012, a Pinal County, Arizona, farmer and his wife were sentenced in U.S. District Court, District of Arizona, for theft of Government property. The farmer was sentenced to 21 months in prison, followed by 36 months of supervised release. His wife was sentenced to 36 months of supervised probation. Both were ordered to pay restitution of \$85,000. In April 2010, they received an operating loan for \$300,000 from FSA. After receiving an initial installment of \$120,000, the couple requested another installment of \$75,000 to cover expenses. OIG's investigation revealed that they spent the entire \$120,000 in one week. Bank records showed that the farmer and his wife spent \$85,000 of the \$120,000 on personal items, including a BMW car. The farmer also gave \$20,000 to a friend and spent approximately \$5,000 at strip clubs during that 1-week period. The couple was indicted for theft of Government property in July 2011, and both pled guilty in February 2012.

### **Iowa Producer Debarred From USDA Program Participation**

In September 2012, an Iowa producer who had previously been convicted of illegally selling grain that was pledged as collateral on Commodity Credit Corporation (CCC) loans was permanently debarred from participating in USDA programs and debarred for 36 months from participating in all other programs of the United States, with the exception of certain food assistance programs. He had previously been sentenced in U.S. District Court, Southern District of Iowa, to 12 months and 1 day of imprisonment and 36 months' supervised release, and was ordered to pay \$341,923 in restitution. Our investigation disclosed that the farmer obtained FSA loan funds for 70,000 bushels of corn and 36,000 bushels of soybeans, which he sold without authorization. The farmer has paid the restitution in full.

## Grain Elevator Owner Sentenced for Interstate Transportation of Stolen Commodities

In June 2012, the owner of a grain elevator was sentenced in U.S. District Court, Eastern District of North Carolina, for interstate transportation of stolen commodities. In September 2009, the owner entered into an agreement to store grain for a third party. The investigation revealed that, in early 2010, the third party discovered that more than 400,000 bushels of soybeans valued at \$7.2 million and more than 700,000 bushels of corn valued at \$2.8 million were missing from the grain elevator. The investigation further revealed that the grain had been stolen, transported across State lines, and sold by the elevator owner. The owner was sentenced to 60 months' probation and confined to his home for the first 12 months, and was ordered to pay \$6.9 million in restitution to the third party.

## Producer Claims False Loss on Corn Crop While Growing Marijuana

Based on a referral from RMA, OIG investigated an Illinois producer and found that the producer defrauded USDA by growing marijuana during the 2008 and 2009 crop years on acres insured under the Federal Crop Insurance Program. RMA's information disclosed that the producer grew marijuana on acres insured during crop years 2008 and 2009, although he certified the acres were planted to corn. He submitted a crop insurance claim for crop year 2008 and received an indemnity payment in the amount of \$186,950. He did not submit a crop insurance claim or receive an indemnity payment for crop year 2009. The producer was charged in September 2011, in U.S. District Court, Central District of Illinois, with two counts of making false statements, and in January 2012, he pled guilty to one of those counts. In July 2012, the producer was sentenced to 5 months' imprisonment, 5 months' home confinement, and 36 months' supervised release, and he was ordered to pay restitution to USDA in the amount of \$50,780.

## SNAP TRAFFICKING

A significant portion of OIG's investigative resources are dedicated to ensuring the integrity of SNAP by combating the practice of exchanging benefits for cash, which is known as "trafficking." In the second half of FY 2012, OIG has concluded the following SNAP-related investigations and prosecutions:

- **Eight Individuals in Georgia Sentenced to Prison Terms in a \$5 Million SNAP Fraud Conspiracy.** An OIG investigation revealed that an organized group of individuals opened 13 storefront operations in Georgia to defraud SNAP and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). From February 2009 to June 2011, this group illegally purchased over \$5 million in SNAP and WIC benefits. Program participants called the stores and offered their benefits for sale, providing their SNAP card numbers or WIC voucher codes to the store employees via telephone. After processing the transactions, store employees delivered the cash to the program participants. To date, 16 individuals have been charged in U.S. District Court, Southern District of Georgia, with conspiracy or theft of Government funds. In FY 2012, 13 individuals pled guilty in U.S. District Court in Savannah, Georgia. From March 2012 through July 2012, eight individuals were sentenced to incarceration periods ranging from 9 to 60 months and were ordered to pay \$5.6 million in restitution, jointly and severally with their co-conspirators.
- **Combination SNAP/Marijuana Trafficking Ring Dismantled in Detroit.** A joint investigation with the Michigan State Police uncovered a SNAP trafficking and marijuana distribution enterprise that operated from September 2007 through July 2010. During the course of the investigation, agents seized SNAP and drug trafficking proceeds, firearms, and marijuana packaged for distribution. In October 2011, the store owner pled guilty to wire fraud charges in U.S. District Court, Eastern District of Michigan. In May 2012, the subject was sentenced to 24 months' incarceration, 24 months' supervised release, and \$199,038 in restitution.
- **Michigan Retailer Convicted of SNAP Trafficking.** A SNAP trafficking investigation in Hamtramck, Michigan, led to the conviction of a retailer whose mother had been disqualified from the Food Stamp Program at the same location in 1996. During the most recent investigation, agents conducted numerous cash-for-SNAP benefit

transactions with the owner. In June 2010, with the assistance of the Internal Revenue Service (IRS) Criminal Investigation Division and Michigan State Police personnel, agents served a Federal search warrant at the establishment, resulting in the seizure of over \$30,000 in SNAP trafficking proceeds. The store owner ultimately pled guilty to access device fraud charges and, in May 2012, was sentenced in U.S. District Court, Eastern District of Michigan, to 1 month of incarceration, 9 months' confinement in a half-way house, 36 months' supervised release, and \$400,000 in restitution.

- **Central Texas Store Owner Sentenced to 33 Months' Imprisonment for Trafficking in SNAP Benefits.** In August 2012, in U.S. District Court, Western District of Texas, a storeowner was convicted of trafficking \$1.3 million in SNAP benefits in his central Texas convenience store and sentenced to serve 33 months' imprisonment and 36 months' supervised release and ordered to pay \$1.3 million in restitution. Our investigation determined that from October 2009 through June 2011, the storeowner purchased SNAP benefits for half of their true value and also allowed SNAP recipients to use their benefits to buy various ineligible items including gasoline, tobacco products, and alcohol. Some of the cash obtained by the recipients was used to play video poker at the store. To date, the local district attorney has accepted for State prosecution referrals of over 100 SNAP recipients who misused their benefits.
- **Louisiana Convenience Store Owner and Employees Involved in \$1.7 Million SNAP Fraud.** Our investigation of two stores in Lake Charles, Louisiana, disclosed the owner and two employees fraudulently redeemed over \$1.7 million in SNAP benefits from January 2007 through February 2010. The investigation also found the subjects used the fraudulently obtained funds to purchase several properties and sports cars, which were seized during the investigation. In July 2012, in U.S. District Court, Western District of Louisiana, the owner was sentenced to 78 months' incarceration and 36 months' probation, and ordered to pay \$1.7 million in restitution. In August 2012, one employee was sentenced to 36 months' probation and ordered to pay restitution totaling \$2,600, and the second employee was sentenced to 6 months' incarceration and 36 months' probation, and ordered to pay \$62,000 in restitution.
- **California SNAP Recipients Convicted After Fraudulently Applying for and Receiving Hurricane Katrina Disaster Relief Assistance.** In February 2008, agents of the U.S. Department of Homeland Security

OIG notified USDA OIG that they had identified several individuals who received Federal Emergency Management Agency (FEMA) disaster relief monies, which were available to Hurricane Katrina victims, even as they were concurrently receiving California SNAP benefits. As a result, three SNAP recipients were charged with varying violations, including theft of Government property and mail fraud. In February 2008, in U.S. District Court, Central District of California, one recipient was arrested, found guilty, and subsequently sentenced to 2 years' probation, and ordered to pay restitution in the amount of \$2,000. In January 2009, another recipient was indicted on 15 counts of mail fraud and was found guilty on all counts by a Federal jury. In April 2009, the recipient was sentenced to 12 months and 1 day of incarceration, assessed a total of \$1,500 in special assessment fees, and ordered to pay restitution in the amount of \$45,464. In January of 2006, a third recipient was indicted on eight counts of false statements, false claims, and theft of Government funds. In May 2012, the recipient pled guilty to one count of the indictment and, in June 2012, was sentenced to 5 months' imprisonment, followed by 5 months of home detention, and ordered to pay \$21,549 in restitution.

- **Washington SNAP Runner Sentenced to 6 Months' Imprisonment and \$190,000 in Restitution.** An OIG investigation assisted by FNS and the Seattle Police Department determined that two "runners" were directing recipients into authorized SNAP retailers in Seattle to traffic SNAP benefits. The recipients entered the stores with one of the two runners and provided their SNAP benefits in return for cash. The runner in turn received food, which was then sold to other stores and restaurants. In October 2010, the two runners were arrested and charged with several counts of SNAP fraud and wire fraud. In April 2012, one runner pled guilty in U.S. District Court, Western District of Washington, and was sentenced to 6 months' imprisonment and ordered to pay restitution of \$190,000. The other runner had previously been sentenced to 34 months' imprisonment and ordered to pay \$200,000 in restitution.
- **Two Washington Store Owners Pay \$739,480 Restitution for SNAP Fraud and Trafficking in Contraband Cigarettes.** In July 2011, in U.S. District Court, Western District of Washington, two Seattle store owners were charged with wire fraud and SNAP trafficking. In late March 2012, in U.S. District Court, Western District of Washington, the first store owner was sentenced to 18

months in prison, followed by 36 months of supervised release, and was ordered to pay restitution in the amount of \$200,000 (jointly and severally with the other subject) to USDA and \$39,480 to the Washington State Liquor Control Board. Also in March 2012, the second store owner was sentenced to 24 months in prison, followed by 36 months' supervised release, and was ordered to pay \$700,000 in restitution. The OIG investigation disclosed that the first store owner purchased SNAP electronic benefits transfer (EBT) cards from recipients at approximately 60 percent of their face value and then redeemed the EBT cards onsite using point of sale terminals that belonged to the grocery store owned by the second individual. The second store owner also purchased SNAP benefits directly from recipients at his own store. OIG is working with the Washington Department of Social and Health Services to take action against SNAP recipients who sold benefits to the stores. To date, the State has received 20 disqualification agreements from recipients, and has administrative action pending in 31 other cases.

- **Fugitive Store Owner Arrested in New York and Extradited to California for SNAP Fraud.** In June 2012, in the Superior Court of California, County of Sacramento, the co-owners of a store in Sacramento pled guilty to abusing SNAP. Both defendants were sentenced to 36 months' imprisonment, followed by 24 months of supervised release. The defendants each paid \$20,000 in restitution and were ordered to pay a combined additional amount of \$347,103 in restitution. In November 2009, OIG was contacted by the Sacramento County Department of Human Assistance, Investigations Division, to assist with the execution of a local county search warrant of the store that was being investigated for SNAP trafficking. One owner was arrested and the other became a fugitive. In December 2011, OIG agents arrested the fugitive in Levittown, New York, and he was transported to the Nassau County Police Department where he was extradited to California.

### **Alabama Store Owner Sentenced to Prison for WIC Fraud**

A joint investigation with the Alabama Office of the Attorney General and the FBI disclosed that the owner of a small market in Mobile, Alabama, fraudulently redeemed approximately \$350,000 worth of WIC vouchers from January 2007 to December 2010. In December 2011, the store owner was charged in U.S. District Court, Southern District of Alabama, with WIC fraud. The owner pled guilty and was sentenced

in June 2012 to 12 months and 1 day of imprisonment. He was also ordered to pay \$351,163 in restitution and ordered to forfeit \$7,967 in cash.

### **Daycare Provider Convicted of Defrauding Child and Adult Care Feeding Program (CACFP)**

In June 2009, a concerned citizen reported that for 6 years, a Northern Michigan daycare provider participating in CACFP had engaged in fraud by overstating the number of meals served to children attending the center, and claiming meals for children no longer in attendance. During a periodic review conducted by Michigan Department of Education personnel, the daycare owner admitted to over-reporting meals served at the center, thereby inflating the center's CACFP reimbursement. Our investigation determined that, between October 2007 and June 2009, the daycare owner submitted at least 18 false claims seeking reimbursement from CACFP, thereby defrauding the program of approximately \$35,000. In May 2012, the daycare owner pled guilty to fraud charges in U.S. District Court, Western District of Michigan. In August 2012, the individual was sentenced to 6 months' home confinement, 36 months' supervised release, 520 hours' community service, and \$35,825 in restitution. The Michigan Department of Education has initiated action to remove the daycare center from program participation.

### **Summer Food Service Program Vendor Sentenced for Billing False Meal Service Counts**

Our investigation of a Summer Food Service Program participant in Dearborn, Michigan, determined that although breakfast and dinners were billed and reimbursed, not a single meal was ever served to needy children. We determined that, from June 2009 through August 2009, the vendor purportedly served 7,062 meals at 5 community facilities and received \$22,862 in reimbursement. Representatives of the community facilities advised that they had no interaction with the subject and were never approached to use their facilities as part of the Summer Food Service Program. The subject pled guilty in Wayne County Circuit Court, Michigan, and was sentenced to 6 months' probation, 80 hours' community service, and \$22,862 in restitution. This case was prosecuted by the Michigan Attorney General's Office.

### **Management Agent Sentenced for Embezzlement Scheme**

Our investigation determined that, from 2003 through 2009, a Northern Michigan property management company employee

embezzled approximately \$124,000 from a bank account held by apartment complexes enrolled in RD's Direct Rental Housing Program. The employee issued 193 checks payable to herself from the property management company's checking account. In her attempts to conceal the embezzlement, the employee destroyed copies of issued checks, withheld certain payments to vendors, and shifted funds between various accounts. The RD Area Office referred the case to OIG for investigation. Most, if not all, of the funds were reimbursed to the projects through insurance reimbursements. In February 2010, the employee confessed to the embezzlement scheme, advising she used the stolen funds to pay personal and family debts, make mortgage payments, and purchase a substantial number of lottery tickets. In March 2012, the individual pled guilty to theft of Government funds in U.S. District Court, Eastern District of Michigan, and in July 2012, she was sentenced to 12 months and 1 day of imprisonment, 24 months' supervised release, and \$123,807 in restitution.

### **Rural Business-Cooperative Service (RBS) Guaranteed Loan Conspiracy Results in Millions in Restitution**

As we reported in the *SARC, First Half of FY 2012*, an OIG investigation found that multiple individuals participated in a scheme to inflate the value of live catfish inventory and other property on a Mississippi catfish farm, so that a Mississippi man could fraudulently obtain a \$9.5 million RBS Business and Industry guaranteed loan for the purpose of purchasing the farm. The loan exceeded the true value of the property by several million dollars. The investigation also led to charges against other conspirators, including the seller of the property, the buyer's attorney, the appraiser, a business consultant, a farm manager, and a former RD official. On June 21, 2012, in U.S. District Court, Northern District of Mississippi, the corporation involved was sentenced to 12 months' probation and ordered to pay \$4.25 million in restitution. The owner of the corporation tendered a \$4.25 million certified check to the U.S. District Court Clerk's Office to pay the ordered restitution in full. On June 28, 2012, in U.S. District Court, Northern District of Mississippi, the son of the owner of the farm was sentenced to 60 months' probation and ordered to pay \$5.9 million in restitution jointly with other defendants. The buyer's attorney is awaiting sentencing.

## **RECOVERY ACT REVIEWS**

### **RHS Needs to Improve Controls Over the Community Facilities Direct Loan and Grant Program**

Of the \$28 billion in loans, loan guarantees, and grants the Recovery Act provided to the RD mission area, Congress set aside \$1.1 billion for direct loans and \$61 million for grants as part of RHS' Community Facilities Direct Loan and Grant Program. This program provides loans and grants designed to build essential community facilities for public use in rural areas. Based on our review of a statistical sample of 81 loans and grants totaling \$18.3 million, we generally found that program participants and project purposes met eligibility requirements and that RD's internal controls were adequately designed and operating as prescribed. However, we identified three instances where RHS could enhance its controls over these grants and loans. First, RHS approved both a loan and a grant, totaling \$13.1 million, to construct a multi-function community center that featured a swimming pool, a use which was not in accordance with guidance provided by RHS. Second, RHS offices in two States disbursed two Recovery Act Community Facilities Program grants before the recipients had contributed the matching funds for their projects, as required by the agency's guidance. Third, RHS disbursed Recovery Act funds to three recipients who did not have required insurance coverage at the time of loan closing. We recommended that the agency develop controls to prevent these types of problems from recurring. RHS generally disagreed with our findings, but agreed to take measures to strengthen internal controls on all recommendations. (Audit Report 04703-0002-Hy, Controls over Eligibility Determinations for Rural Community Facilities Program Direct Loan and Grant Recovery Act Activities—Phase 2)

### **The Rural Utilities Service (RUS) Needs to Ensure It Follows the Recovery Act's Transparency and Accountability Requirements**

In order to improve the quality of life for rural residents while creating and saving jobs in rural communities, Congress designated \$3.8 billion in Recovery Act funds for the Water and Waste Disposal System Loan and Grants Program in rural areas. Our review of a sample of 22 projects totaling \$189 million in obligations found that RUS had effective controls in place to ensure the program provided loans and

grants to eligible participants, that the participants complied with requirements, and that the program funded infrastructure projects likely to contribute to economic growth in the future. However, the Recovery Act's stated goal of job preservation and creation was not yet fully met over 30 months after the Act was passed, as we found that projects expected to create or save 3,384 jobs experienced long periods between the obligation of funds and the start of construction, when most job creation occurs. The associated project recipients reported a total of only 415 actual jobs created or saved as of September 11, 2011. To improve transparency through disclosure of project timing, we recommended that RUS report on Recovery.gov the time needed to initiate construction of water and waste projects. The agency agreed with our recommendations and has posted additional information regarding construction timing on Recovery.gov as well as the RD Recovery Act Webpage. (Audit Report 09703-0001-AT, Rural Utilities Service's Controls Over Water and Waste Disposal Loan and Grant Program for the Recovery Act).

### **NRCS Needs to Improve Its Implementation of the Watershed Protection and Flood Prevention Operations Program**

The Recovery Act provided NRCS \$145 million for its Watershed Protection and Flood Prevention Operations Program. Based on a statistically selected sample of 21 projects, we determined that the projects provided benefits to local residents, businesses, and farms and that NRCS was adequately monitoring the progress of the projects reviewed. We noted, however that NRCS did not include necessary Recovery Act award terms in approximately two-thirds of award agreements because it did not issue formal guidance regarding required Recovery Act provisions for award agreements. Without specific guidance, contracting officers in some NRCS State offices overlooked the information and did not include all required provisions. Our review also found one instance in which NRCS did not require the local sponsors to pay their agreed-upon share of project costs, totaling nearly \$1.3 million. NRCS agreed with our recommendations to correct these issues. (Audit Report 10703-0004-KC, American Recovery and Reinvestment Act—Watershed Protection and Flood Prevention Operations Program—Field Confirmations)

### **RD Needs to Ensure That Grants Made Under the Rural Business Enterprise Grant (RBEG) Program Are Properly Documented**

Under RBEG, RD helps fund projects that facilitate the development of small and emerging rural businesses, a program that received an additional \$20 million in Recovery Act funding. OIG found that, for 49 percent of these RBEG grants, the files were missing documentation needed to support the applicant's eligibility. These unsupported rankings were then used by the national office, in part, to determine which applicants would receive RBEG program funding. We also found that State and area offices did not take sufficient steps to obtain applicants' financial or performance reports. We determined that 47 percent of applicants had not submitted all of their quarterly performance reviews and financial reports, even though these reports were required each quarter after the grants were obligated. To resolve these issues, we recommended that RBS ensure that points assessed on the score sheet are supported by the required documentation and that the national office ensure that all personnel in charge of overseeing RBEG program projects complete a formal, comprehensive training program that addresses reporting requirements and enforcement actions available to encourage compliance. RBS agreed with our recommendations. (Audit Report 34703-0002-KC, Rural Development—Rural Business-Cooperative Services—Rural Business Enterprise Grants Recovery Act Controls)

### **FNS Needs to Ensure It Mitigates Known Weaknesses in SNAP and Reports Fund Use Appropriately**

To strengthen food assistance during the economic recession, the Recovery Act provided additional funding for SNAP benefits—approximately \$12 billion of the \$71.8 billion spent in FY 2011—to provide benefits to approximately 44.7 million participants. We evaluated FNS' and State agencies' initial planning to implement the Recovery Act's provisions for SNAP and determined whether FNS' internal controls ensured that States provided Recovery Act SNAP benefits timely and effectively to eligible participants. Overall, we concluded that FNS took timely actions to implement the Recovery Act provisions for SNAP. However, we found that FNS did not mitigate known program access weaknesses, specifically long waits for application processing; inappropriate decisions on the denial, suspension, or termination of benefits; and issues with

some States' development of online application systems. We also found that States did not always appropriately disclose the use of Recovery Act funds for SNAP, and we alerted FNS that it needed to timely report significant Recovery Act budget changes on public Websites. We recommended that FNS develop a comprehensive risk assessment of SNAP's existing program weaknesses, update public Websites, and ensure that Recovery Act SNAP benefits reports are compliant. FNS generally agreed with our recommendations. (Audit Report 27703-0002-At, Recovery Act Impacts on the Supplemental Nutrition Assistance Program)

### **RD Needs to Improve Guidance and Training on Single-Family Housing Direct Loan Eligibility**

RD received over \$1.56 billion in Recovery Act funds to provide single-family housing direct loans to borrowers for FYs 2009 and 2010. Based on a sample of Recovery Act direct loans, OIG determined that RD field personnel did not always comply with internal control procedures to ensure that homes and program participants met eligibility guidelines. We questioned whether all borrowers had a history of stable and dependable income, adequate credit history or adequate ability to meet repayment guidelines, and whether all properties met eligibility guidelines. Given issues with the loans in our statistical sample, we projected that loans worth \$208 million (22 percent) may have issues similar to those we identified. These issues occurred because field-level personnel were not sufficiently trained on how to either conduct or adequately document proper determinations, did not have an effective second-party review process in place to catch errors, and did not have sufficient guidance on property eligibility. We also tested RD's automated IT system and found that, in some critical fields, over 10 percent of the entries did not match

with information in the loan files. We recommended that RD ensure that it consistently updates its handbook, effectively publicizes the updates, and maintains ongoing training for field staff. Agency officials agreed. (Audit Report 04703-0003-KC, Single-Family Housing Direct Loans Recovery Act Controls—Compliance Review)

### **Two Idaho Construction Companies Act as Shell Companies and File False Statements to Receive Recovery Act Money**

In June and July 2012, two Idaho construction company owners were sentenced in U.S. District Court, District of Idaho, for their role in the submission of false statements to the Agricultural Research Service (ARS), the Small Business Administration (SBA), and the U.S. Department of the Interior. The companies claimed to be Historically Underutilized Business Zone (HUBZone) small business firms so that they could obtain special contracts. The owner of one of the Idaho construction companies was sentenced in June 2012 to 36 months of probation, during which time the company can conduct no business activities, and was ordered to pay a \$65,000 fine for her role in the submission of false statements and certifications to ARS and SBA. In March 2012, she was charged with one count of wire fraud and one count of making false statements in connection with a total estimated fraud amount on four different contracts totaling \$1.4 million. She pled guilty to one count of wire fraud and one count of making false statements, and admitted she made a false certification to ARS and SBA. In July 2012, the second Idaho construction company owner was sentenced to 36 months of probation and ordered to pay a \$5,000 fine for his role in falsely claiming to be a HUBZone small business entity.

## GOVERNMENTWIDE ACTIVITIES

### *Review of Legislation, Regulations, Directives, and Memoranda*

- *Office of Management and Budget: Draft Proposed Uniform Guidance for Grants and Cooperative Agreements.* OIG reviewed and commented on the draft proposed guidance for grants and cooperative agreements. The proposed guidance would exempt entities that expend under \$1 million from comprehensive single audit coverage. OIG commented that such a threshold would: (1) impact our ability to use single audits to identify program vulnerabilities and areas of potential audit coverage; and (2) negatively affect assurance that relevant Federal awards are expended in accordance with program requirements.

### *Participation on Committees, Working Groups, and Task Forces*

- *Operation Talon.* OIG began Operation Talon in 1997 to catch fugitives, many of them violent offenders, who are current or former SNAP recipients. Since its inception, Operation Talon has led to the arrests of thousands of fugitive felons. During the second half of FY 2012, Talon operations were conducted in 5 States, resulting in more than 200 arrests. OIG combined forces with Federal, State, and local law enforcement agencies to arrest fugitives for such offenses as arson, assault, blackmail, robbery, sex offenses, weapons violations, drug charges, and offenses against family and children.
- *Bridge Card Enforcement Team.* OIG investigators work with this team to investigate criminal SNAP and WIC violations. Team members include the Michigan State Police and IRS investigators. During this reporting period, we have also worked with the Lansing Police Department's Special Operations Division and the Kent County Sheriff's Department, Grand Rapids, Michigan. The FBI and U.S. Immigration and Customs Enforcement personnel also helped during search warrant operations. Since 2007, our teamwork has resulted in 128 arrests and 203 search warrants served. The U.S. Attorney's Office for the Eastern

and Western Districts of Michigan and the Michigan Attorney General's Office are pursuing multiple criminal prosecutions, with cases so far resulting in 109 guilty pleas. Sentences have included lengthy incarceration periods and \$23.5 million in court-ordered fines and restitution. The U.S. Attorney's Office has initiated forfeitures totaling over \$4.1 million.

- *Ohio Organized Crime Investigations Commission Task Force.* An OIG investigator is participating on the Ohio Organized Crime Investigations Commission Task Force in Dayton. The task force provides assistance to local law enforcement agencies in the investigation of organized criminal activity. OIG investigators have participated on the task force since 1996 and have conducted investigations involving welfare recipients, food stamp trafficking, mortgaged farm equipment stolen from farmers, stolen property trafficking, illegal drugs, and dog fighting.
- *Suspicious Activity Reports Review Teams.* OIG agents in Alabama, Iowa, Kentucky, Maine, Massachusetts, Michigan, Minnesota, Mississippi, New Hampshire, North Carolina, North Dakota, Oregon, South Carolina, South Dakota, and Washington State participate on suspicious activity review teams, which are coordinated by the U.S. Department of Justice through the U.S. Attorney's Offices. These review teams systematically review all reports of suspicious activity that affect a specific geographic jurisdiction, identify individuals who may be engaged in criminal activities, and coordinate and disseminate leads to appropriate agencies for followup. These teams generally include representatives from law enforcement and various regulatory agencies, with the U.S. Attorney's Office and IRS Criminal Investigations typically in lead roles. OIG focuses specifically on reports of suspected criminal activities by business entities and individuals involved in USDA programs, including SNAP and WIC violations, stolen infant formula, and farm-related cases. Coordination among the respective agencies results in improved communication and more efficient resource allocation.
- *Mortgage Fraud Task Forces.* OIG investigators participate in mortgage fraud task forces in California,

Michigan, Minnesota, New Hampshire, and North Carolina, in addition to a national mortgage fraud working group that meets monthly in Washington, D.C. These task forces identify trends, share information, and coordinate investigations related to mortgage fraud. They are working to improve efforts across the Federal executive branch and, with State and local partners, investigate and prosecute significant mortgage crimes, combat discrimination in the lending and financial markets, and recover proceeds for victims of financial crimes. The task forces are headed by representatives from U.S. Attorney's Offices and the FBI. They are strategically placed in locations identified as high-threat areas for mortgage fraud. They include participants from Federal program agencies and regulatory agencies including the U.S. Department of Housing and Urban Development, the IRS, the Social Security Administration, local district attorney's offices, and police departments.

- *Organized Retail Theft Task Forces.* As a member of the Retail Merchants Association of North Carolina Retail Theft Initiative, OIG agents coordinate, plan, and meet regularly with various retail merchants in North Carolina to discuss a proactive investigative strategy to develop cases involving retail theft. This working group coordinates investigations of convenience stores and retail outlets that may be involved in the theft and resale of infant formula, electronics, and other retail items. As members of the Bay Area Organized Retail Crime Association, OIG agents work with San Francisco Bay Area law enforcement agencies and organized retail crime investigators from major retailers to identify and coordinate action against organized retail theft rings, as well as to identify retail items susceptible to theft by such organized groups.
- *The Guardians.* USDA OIG is a member of this task force in Montana consisting of other OIGs and the FBI, which was convened by the U.S. Attorney's Office to coordinate and synchronize law enforcement efforts among various Departments that have a significant financial commitment in Native American communities in Montana. The participating agencies join forces; share assets and responsibilities; promote

citizen disclosure of public corruption, fraud, and embezzlement in Federal programs, contracts, and grants; and investigate, prove, and prosecute crimes against Montana's Native American communities.

- *Western Regional Inspectors General Councils and Intelligence Working Groups.* OIG investigators work with various councils and groups to develop Recovery Act training, share information, discuss ongoing and potential work of mutual interest, and strengthen working relationships. In addition, Western Region OIG investigators organize and participate in meetings to enhance coordination among Federal, State, and local law enforcement agencies in the Pacific Northwest. Inspectors General councils meeting in other regions of the country also include OIG representatives.
- OIG agents participated in other task forces and working groups related to benefits fraud, including:
  - *Northern California Financial Fraud Investigators Association,*
  - *Disaster Fraud Working Group* in the Northern District of Alabama,
  - *Social Services/Welfare Fraud Working Groups* in Oregon and Washington State,
  - *SNAP fraud joint investigative groups* in Arizona and California, including a *Secret Service High Tech Crimes Task Force,* and
  - *Somali Working Group* in Southern California.
- *Small Business Innovative Research (SBIR) Working Group.* OIG investigators and auditors participated in an SBIR Working Group hosted by the National Science Foundation Office of Inspector General. The SBIR Working Group is focused on addressing Congress' concerns about the persistence of fraud in the SBIR program. Topics include IG annual reporting requirements on its work in the SBIR program area under the FY 2012 National Defense Authorization Act. To address the new reporting requirements for IGs, we are working with the Department's SBIR program staff.

### ONGOING REVIEWS FOR GOAL 2

- reduction of inconsistent yields (RMA),
- oversight of organic crop insurance (RMA),
- controls over prevented planting (RMA),
- vendor management and participant eligibility in WIC (FNS),
- controls for authorizing SNAP retailers (FNS),
- procurement controls (RD),
- controls over the grant management process (OAO),
- USDA Strikeforce Initiative (OAO),
- National School Lunch and Breakfast Programs (FNS), and
- National School Lunch Program, food service management companies (FNS).

### ONGOING REVIEWS FOR GOAL 2 UNDER RECOVERY ACT FUNDS

- Floodplain Easements and Watershed Operations Programs—effectiveness review (NRCS),
- Emergency Watershed Protection Program floodplain easements—field confirmations (NRCS),
- Recovery Act impacts on SNAP—Phase 2 (FNS),
- Business and Industry Guaranteed Loan Program (RBS),
- Trade Adjustment Assistance for Farmers Program (FSA, Foreign Agricultural Service (FAS), National Institute of Food and Agriculture (NIFA)),
- Recovery Act Single-Family Housing Direct and Guaranteed Loans—effectiveness review (RHS), and
- controls over Recovery Act water and waste loans and grants expenditures and effectiveness review (RUS).

# Management Improvement Initiatives

## OIG Strategic Goal 3:

### Support USDA in implementing its management improvement initiatives

In recent years, the complexity of USDA's programs and the demand for them has increased, even as the Department has seen a decrease in its staffing. In response, USDA has sought to identify areas and activities that offer the potential for greater efficiency and to streamline its administrative service, IT, finance, human resources, procurement, and property management functions. As part of this effort, OIG conducts audits and investigations that are intended to help USDA improve how it manages its assets.

In the second half of FY 2012, we devoted 38 percent of our total direct resources to Goal 3, with 99 percent of these resources assigned to critical/high-impact work. A total of 99 percent of our audit recommendations under Goal 3 resulted in management decision within 1 year, and 94 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued 14 audit reports under Goal 3 during this reporting period. OIG's investigations under Goal 3 yielded 8 indictments, 11 convictions, and \$800,000 in monetary results during this reporting period.

#### Management Challenges Addressed Under Goal 3

- Interagency Communication, Coordination, and Program Integration Need Improvement (also under Goal 2)
- Strong, Integrated Internal Control Systems Still Needed (also under Goals 1, 2, and 4)
- Information Technology Security Needs Continuing Improvement
- Efforts to Identify, Report, and Reduce Improper Payments Need to Be Strengthened (also under Goal 2)

#### EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 3

##### FSA Should Improve Reviews of Manually Calculated Payments

As part of OIG's audit of USDA's FY 2010 and 2011 consolidated financial statements, OIG reviewed a statistical sample of 122 payments totaling \$5.2 million that FSA made in FY 2011. We identified errors in 14 of the payments and determined the resulting \$54,000 in improper payments occurred because FSA's controls over the manual payment calculation process used for the Supplemental Revenue Assistance Payments Program were not effective. We estimate that FSA made improper payments totaling about \$28 million, a figure lower than in FY 2010. We recommended that FSA further strengthen controls to review data for input errors. FSA agreed to take corrective action to address the recommendation. (Audit Report 03401-0001-11, Farm Service Agency Fiscal Year 2011 Farm Assistance Program Payments)

##### NRCS Needs to Improve Its Guidance and Methodology for Reporting Improper Payments

NRCS must estimate and report its improper payments under the Improper Payments Elimination and Recovery Act of 2010 (IPERA), as well as report high-dollar overpayments associated with these programs under an executive order. OIG looked closely at 17 payments that NRCS had already reviewed and concluded were correct. We found that 11 of the 17 payments did not have sufficient documentation to support the determination that the participant was eligible. For 7 of the 11 cases, NRCS did not review eligibility at all; for the other 4 cases where NRCS did review eligibility, the agency did not review adequate documents to support its determination. Apart from developing a general IPERA review form, NRCS had not developed formal guidance for the IPERA review process and forms that reflect programs' unique document requirements. We questioned the accuracy of NRCS' FY 2011 improper payment estimate of \$11 million, and believe that it is understated by at least \$9 million. We also found that, because NRCS used multiple manual methods to track improper payments and high-dollar overpayments, NRCS' national office could not effectively monitor improper payments to ensure accurate reporting and tracking. We recommended that NRCS correct these issues and NRCS

agreed. (Audit Report 10024-0001-11, Natural Resources Conservation Service Fiscal Year 2011 Improper Payment Review)

### **NRCS Should Ensure That Controls Over the Migratory Bird Habitat Initiative Are Effective**

In response to the April 2010 oil spill in the Gulf of Mexico, NRCS created the Migratory Bird Habitat Initiative. To create or enhance habitats and food sources for birds migrating to and through 470,000 acres of land in the affected region, NRCS entered conservation program contracts with landowners to provide approximately \$38.6 million to implement conservation practices. OIG found, however, that NRCS did not have controls in place to maximize these conservation efforts—some landowners received more in combined Federal and non-Federal payments than the average cost of implementing the conservation practices. If NRCS prevented such duplication, the agency would have been able to apply more than \$900,000 in program funds more widely and conserve an estimated 14,000 additional acres. We recommended that NRCS implement controls to better leverage limited resources and provide greater impact with future program funding. Although NRCS did concur with four other recommendations related to program payments, it did not agree on this issue. OIG and NRCS continue to work to reach agreement on all recommendations. (Audit Report 10704-0001-32, Migratory Bird Habitat Initiative: NRCS' Response to Issues Caused by the Deepwater Horizon Oil Spill)

### **OCIO Must Adequately Protect Traffic on Its Telecommunications Network**

OCIO coordinates information technology within the Department. Like other organizations, USDA and its agencies rely on Domain Name System (DNS) servers to route Internet traffic through the telecommunications network. DNS is a data communication mechanism that translates numerical addresses into easy-to-understand Website names, but it is susceptible to various security vulnerabilities. We evaluated the Department's management and security controls over DNS and determined that USDA's security over DNS did not meet all required standards. OCIO generally agreed with our recommendations and is taking action to correct the issues. (Audit Report 50501-0001-12, Office of the Chief Information Officer: USDA's Configuration, Management, and Security over Domain Name System Servers)

### **OCIO Needs to Improve Efforts to Strategically Plan, Prioritize, and Manage Security Enhancements**

To enhance the security of USDA's IT posture, Congress increased OCIO's baseline appropriations by a total of \$66 million for FYs 2010 and 2011. Through assessment of OCIO's use of funds for 16 projects, we found that, although OCIO has made progress in addressing USDA's security concerns, OCIO's efforts should have been strategically planned, prioritized, and managed in order to be more effective. Several of OCIO's projects did not meet the purposes outlined in the Congressional request for funding or address the Department's most critical IT security concerns. Some projects were not completely implemented, while others were not sufficiently coordinated, including projects with duplicate objectives. To address these challenges, OIG recommended that OCIO document how it prioritizes projects Department-wide, develop detailed internal control procedures for project management, and strengthen communication and coordination among OCIO management, project managers, account managers, and contractors. OCIO concurred with the report's recommendations. (Audit Report 88401-0001-12, Office of the Chief Information Officer: FYs 2010 and 2011 Funding Received for Security Enhancements)

### **FAS Should Implement Monitoring and Oversight Controls Over U.S. Agency for International Development (USAID) Funds Transferred to Pakistan**

In support of the U.S. Government's objective of helping the Pakistani people overcome political, economic, and security challenges, USDA is working with the Government of Pakistan to increase agricultural productivity, improve its capacity to provide agricultural services, and improve rural livelihoods. In 2010 and 2011, USAID transferred a total of \$39 million to USDA's FAS to build Pakistan's capacity for better marketing and productivity in the agricultural sector. To assess USDA agencies' controls to monitor and provide oversight over USAID-transferred funds, we reviewed three priority projects that received \$25 million. We determined that the \$10.9 million spent by May 2012 was used properly; however, because the sampled projects were just being implemented at the time of our review, we were unable to verify whether total obligations accorded with agreements. We noted that USDA is taking steps to establish controls to monitor and provide oversight over capacity-building projects in Pakistan, but has not yet implemented the relevant processes and procedures.

As FAS is working to develop and implement them, we are currently unable to fully assess the adequacy of monitoring and oversight controls. Accordingly, we did not make any recommendations to the agency, and we will continue to monitor FAS' implementation of these processes during the next phase of our audit. (Audit Report 50601-0001-16, Section 632(a) Transfer of Funds for Pakistan from USAID to USDA)

### **USDA Improved Its Quarterly High-Dollar Reporting, but Further Actions Are Needed**

To intensify efforts to eliminate payment error, waste, fraud, and abuse in Federal programs, Federal agencies must submit quarterly reports on any high-dollar overpayments identified in their high-risk programs, including information about agency actions and strategies to recover and prevent the overpayments. Overall, in FY 2011, USDA reported overpayments totaling approximately \$11.7 million. Through our second annual review of USDA's compliance with this requirement, we found that USDA made significant improvements in identifying and reporting high-dollar overpayments within its 16 high-risk programs. However, we noted that the component agencies' submissions to the Department did not always completely and accurately account for high-dollar overpayments and corrective actions and that the Department did not submit these reports until 23 to 99 days after the required due date. Although component agencies and the Department have implemented some corrective actions, continued actions are needed to further improve the Department's compliance. We recommended that the Office of the Chief Financial Officer (OCFO) provide additional oversight to ensure component agencies appropriately consider cumulative payments and use a uniform process for identifying reportable high-dollar overpayments. OCFO agreed with the findings and recommendations. (Audit Report 50024-0002-11, Executive Order 13520, Reducing Improper Payments, Fiscal Year 2011 High-Dollar Report Review)

### **OCIO's National Information Technology Center (NITC) Needs to Implement Additional Controls**

OCIO/NITC provides information technology solutions to achieve effective mission performance and program delivery to customers internal and external to USDA, including OCFO's National Finance Center (NFC). Financial data processed by NFC, along with additional agency-specific

financial systems hosted by OCIO/NITC, are material to the financial statements; therefore, controls over those systems play an integral part in assessing the completeness, accuracy, and integrity of USDA financial data. Through our review of selected controls over the EmpowHR application, we found that OCIO/NITC had not developed formal written policy and procedures for incident response; did not create, track, and mitigate critical vulnerabilities identified during monthly scans; and did not adequately protect its computers from water damage at an alternate processing site. We recommended that OCIO/NITC develop and implement formal documented incident response policy and procedures to address these issues. OCIO/NITC concurred with the finding and recommendations included in the report. (Audit Report 88401-0001-11, Review of Selected Controls at the National Information Technology Center)

### **OCFO/NFC Controls Were Suitably Designed and Operating Effectively**

Based on the criteria described in OCFO/NFC assertions, we found the agency's descriptions of controls fairly present the systems that OCFO/NFC implemented. Also, the controls related to the control objectives stated in the descriptions were suitably designed and operating effectively to provide reasonable assurance that the control objectives would be achieved. (Audit Report 11401-0004-11, Statement on Standard for Attestation Engagements No. 16, Report on Controls at the National Finance Center)

### **NFC Generally Reported Employee Benefits, Withholdings, and Contributions Correctly to the Office of Personnel Management (OPM)**

As required annually by the Office of Management and Budget (OMB), we assisted OPM in assessing the reasonableness of retirement, health, and life insurance withholdings and employee data submitted by OCFO and NFC. We found no differences that exceeded the allowable OPM thresholds. However, when verifying Combined Federal Campaign deductions made by the payroll providers, we identified differences where the deductions were sent to different campaign areas than those designated by OPM. OCFO/NFC noted the low error rate overall when considered on a percentage basis and attributed most of the differences to human error by personnel at various agencies. (Audit Report 11401-0003-11, Agreed-Upon Procedures: Retirement, Health

Benefits, and Life Insurance Withholdings/Contributions and Supplemental Semiannual Headcount Report Submitted to OPM)

### **FSA Employee and Spouse Devise Schemes to Fraudulently Receive Nursery Disaster Program Payments**

In May 2012, a Federal grand jury returned an 11-count indictment charging a former FSA county committee member and her husband with conspiracy to defraud USDA. The couple stole the identities of unsuspecting parties and submitted false and fraudulent claims. During the course of their scheme, they caused FSA to make approximately \$1 million in fraudulent payments. The couple used the majority of the funds to purchase property in Costa Rica. Also in May 2012, both individuals pled guilty to the entire indictment in U.S. District Court, Southern District of Florida. In August 2012, the former FSA county committee member was sentenced to 52 months in prison. Her husband was sentenced to 57 months in prison. Both sentences will be followed by 36 months of supervised release. In addition, the husband and wife were jointly and severally ordered to pay \$802,490 in restitution.

### **Former Montana FSA CED Sentenced to 27 Months' Incarceration After Pleading Guilty to Bank Fraud**

In August 2012, a former CED was sentenced in U.S. District Court, District of Montana, to 27 months' incarceration, ordered to pay \$948,555 in restitution (\$403,295 to FSA and \$545,260 to a bank), and given 36 months of probation. In January 2010, a referral from the Montana State FSA office alleged that the CED and her husband had converted cattle and provided false information. The investigation confirmed these facts and revealed that the FSA employee had also submitted a false travel voucher. In January 2012, both defendants were indicted on 23 counts, including conspiracy to commit bank fraud and bank fraud. The employee pled guilty in February 2012. The employee had been indicted on the false travel voucher; however, in August 2012, based on her plea, those charges were dismissed. The employee resigned from her position. Her husband is awaiting sentencing.

### **Two FS Employees Sentenced for Conspiracy to Defraud the Government**

In October 2007, FS notified OIG that an administrative support assistant allegedly misused her purchase card authority

by issuing Government Purchase Card Program convenience checks to individuals not authorized to receive them. An OIG investigation revealed that she issued at least 129 convenience checks, totaling \$272,750, to herself and other individuals. In May 2010, in U.S. District Court, Eastern District of California, the administrative support assistant was charged with 12 counts of conspiracy to defraud the Government. In addition, 13 other defendants were charged, including another FS employee who received approximately \$20,000 in unauthorized convenience checks. In April 2012, the employee who issued the checks was sentenced to 26 months in Federal prison and 36 months of supervised release. She was also ordered to pay restitution of \$272,750 jointly and severally with other co-defendants. In August 2012, the employee who received the checks was sentenced to 15 months in Federal prison, followed by 36 months of supervised release, and was ordered to pay \$19,150 in restitution.

### **FS Employee in Arizona Pleads Guilty to Theft of Recreation Funds**

In April 2012, an FS employee pled guilty to theft of Government property and was sentenced to 60 months' supervised probation and ordered to pay \$5,104 in restitution. An OIG investigation revealed that the FS employee embezzled recreation fees and misused his Government-issued credit card while working in the Coronado National Forest. The employee was responsible for depositing recreation fees collected from all the campgrounds within the district where he worked. Agents discovered that the employee would remove the cash and keep it for his own personal use. The employee took approximately \$5,100 in cash. Agents also learned that the employee charged \$2,887 to his Government-issued credit card, without authorization, for his personal use. He used the cash to gamble and the Government credit card to stay in hotels or rent cars.

## **RECOVERY ACT REVIEWS**

### **FNS Should Improve Guidance and Oversight of the Emergency Food Assistance Program (TEFAP) Activities**

FNS operates TEFAP, which supplements the diets of low-income Americans by providing emergency food and nutrition assistance at no cost. In FYs 2009 and 2010, TEFAP received approximately \$600 million in general appropriations and \$178 million in additional Recovery Act funds to purchase

commodities and administer the program. Based on reviews of FNS' use of funds and FNS' State-level oversight in nine States, we concluded that FNS and States should take additional steps to strengthen their guidance and oversight of Recovery Act reporting, food inventories, and financial compliance activities. We determined that eight States did not monitor expenses appropriately; five States lacked adequate controls to ensure the prevention of damage, spoilage, or loss of food at TEFAP storage facilities; and three States inaccurately reported the number of jobs TEFAP created and retained with Recovery Act funds. We recommended that FNS develop its management evaluation process and ensure the accuracy of reporting, and develop guidance for States regarding a risk-based review process. FNS agreed with our nine recommendations and is taking corrective action. (Audit Report 27703-0003-At, Food and Nutrition Service—Review of the Food and Nutrition Service's Controls Over the Emergency Food Assistance Program—Phase 2)

### **ARS Needs to Improve Oversight of Recovery Act Construction Contracts**

The Recovery Act provided ARS with \$176 million to reduce the backlog of critical deferred maintenance projects at facilities. To repair the facilities at laboratory buildings at the Invasive Plant Research Laboratory, located in Fort Lauderdale, Florida, ARS awarded a construction contract for \$446,340 to a private firm. To ensure that the transparency and accountability requirements of the Recovery Act are met and activities are performed in accordance with regulations, guidance, and Recovery Act requirements, OIG contracted with Regis & Associates, PC, to assist in reviewing ARS' Recovery Act procurement activities. We determined that the contracting officer's representative did not fully comply with policies and procedures relating to conflict of interest disclosure and found weaknesses in the invoice approval and payment processes. In addition, although ARS developed new Recovery Act recipient reporting procedures, we found an instance of inaccurate recipient reporting and failure to report contractor information on Recovery.gov. To address our recommendations, ARS is currently drafting a new standard operating procedure for processing invoices and has sent out a reminder to personnel of their responsibility to maintain adequate and effective contract oversight when transitioning work. (Audit Report 02703-0001-10, Procurement Oversight Audit of the Invasive Plant Research Laboratory Contract)

### **ARS Should Ensure That Recovery Act Funds Are Used Appropriately**

ARS applied a portion of the \$176 million allocated by the Recovery Act for critical deferred maintenance projects by contracting with a private firm to renovate a wing of the National Center for Agricultural Utilization Research, located in Peoria, Illinois. To assist in ensuring that procurement activities for critical deferred maintenance projects are compliant, OIG contracted with Regis & Associates, PC, to conduct a review. During the review, the auditors noted that ARS' Facilities Division did not always use Recovery Act funds only for Recovery Act items, and did not always include adequate language in contract modifications. ARS agreed to take the necessary measures to ensure that Recovery Act funds are used for Recovery Act items and to correct the modifications by adding the appropriate language. (Audit Report 02703-0007-HQ, Agricultural Research Service Procurement Oversight Audit of National Center for Agricultural Utilization Research Contract)

### **ARS Needs to Disclose Adequate and Timely Information About Project Contracts**

With the \$176 million the Recovery Act provided to ARS to reduce a backlog of critical deferred maintenance projects at facilities, ARS awarded a contract to a private firm to make updates at the Red River Valley Agricultural Research Center located in Fargo, North Dakota. OIG contracted with Regis & Associates, PC, to assist in ensuring that ARS' Recovery Act procurement activities for maintenance projects are performed in accordance with regulations and guidance. Based on a review of the Recovery Act contracting activities, the auditors found that an ARS contracting officer did not complete all required statements in a timely manner and that ARS did not adequately review information reported by the contractor on Recovery.gov. ARS agreed to take the necessary measures to inform procurement personnel to complete the Conflict of Interest and Financial Disclosure statements within the required timeframe and to ensure contractor reporting is sufficiently reviewed and accurately reported. The auditors also noted that ARS did not request a legal review of the solicitation. As this issue was previously reported to ARS, OIG made no additional recommendations. (Audit Report 02703-0002-10, Agricultural Research Service Procurement Oversight Audit of Red River Valley Agricultural Research Center Contract)

## GOVERNMENTWIDE ACTIVITIES

### *Review of Legislation, Regulations, Directives, and Memoranda*

- *2012 Farm Bill.* In anticipation of upcoming congressional deliberations and drafting of the 2012 Farm Bill, GAO and OIG coordinated and agreed to issue companion reports to Congress and to the Department. GAO and OIG closely coordinated and worked together to structure and then draft the companion reports, which were intended to summarize key findings and recommendations from previously issued GAO and OIG reports and provide Congress with principles useful in guiding consideration of the 2012 Farm Bill sections. Those principles included the following: relevance, distinctiveness, targeting, affordability, effectiveness, and oversight. GAO and OIG believed that such summaries would help Congress make well-informed decisions about program design, while continuing to maintain the safety and security of the Nation's food supply, promote U.S. exports, support renewable energy and conservation, and enhance economic growth in rural communities. On April 23, 2012, GAO and OIG issued the companion reports. (Report 50099-0001-10, Farm Bill: Issues to Consider for Reauthorization)
- *S.1409, The Improper Payments Elimination and Recovery Act of 2012 (IPERA).* On August 1, 2012, the Senate passed this revised bill incorporating the provisions of the Presidential memorandum enhancing payment accuracy through a "Do Not Pay List" dated June 18, 2010, and the Presidential memorandum regarding finding and recapturing improper payments, dated March 10, 2010. OMB requested agencies to review and comment whether the bill would affect direct spending or receipts for the purposes of the Statutory Pay-As-You-Go Act of 2010. On August 6, 2012, OIG noted that IPERA contains provisions to improve accountability for improper payments and help prevent future occurrences. Such measures would further assist in OIG's work and, as such, we support IPERA. Also, we do not believe IPERA would affect direct spending or receipts pursuant to the Pay-As-You-Go Act of 2010.

- *Section 308, H.R. 2146, The Digital Accountability and Transparency Act of 2012.* OIG reviewed and provided comments on the proposed new Section 308 ("Limits and Transparency for Travel and Conference Spending") to H.R. 2146, the Digital Accountability and Transparency Act, and on the U.S. Department of Justice's (DOJ) comments on the provisions. We concurred with DOJ's concerns that Section 308 may be overly broad and may have a negative impact on law enforcement agencies' ability to perform their missions. Specifically, OIG commented that the Section's definition of "conference" was very broad and could be read to require that law enforcement operational meetings would need to be publicly reported. OIG also shared DOJ's concern that Section 308 would require sensitive materials from meetings or training events falling within the broad definition of "conference" to be posted publicly; we noted that disclosure of such materials, which might include privileged information, information about law enforcement techniques, or information about fraud indicia, could be harmful to oversight efforts by agencies such as OIG.

### *Participation on Committees, Working Groups, and Task Forces*

- *Financial Fraud Enforcement Task Force (formerly National Procurement Fraud Task Force).* OIG is a member of this task force, formed by DOJ in October 2006 as a partnership among Federal agencies charged with investigating and prosecuting Government contracting and grant illegalities. The purpose of the task force has been expanded to include a wider variety of financial crimes, from securities fraud to identity theft crimes. The task force is working to better allocate resources, improve coordination in financial fraud cases, and accelerate their investigation and prosecution. OIG Investigations field offices in all OIG regions participate in procurement fraud task forces initiated by the local U.S. Attorney's Offices.
- *The FBI's Heart of America Regional Computer Forensics Laboratory.* OIG's Technical Crimes Division currently details one examiner to the FBI's Heart of America Regional Computer Forensics Laboratory in Kansas City, Missouri. Our analyst works with the laboratory

and has helped us obtain direct access to regional laboratories, training, samples of applicable policies and procedures, and, when needed, FBI assistance for OIG computer forensic work.

- *The FBI's Public Corruption Working Group.* An OIG agent is a member of this group, which is focused on combating corruption by Government officials and employees. Other member agencies include the U.S. Department of Housing and Urban Development OIG, the Mississippi Attorney General's Office, and Internal Affairs of the Jackson, Mississippi, Police Department.
- *Recovery Act Lessons Learned Review.* By law, USDA OIG is a member of the Recovery Board and is thus actively participating in a joint Recovery Board/IG initiative to document the lessons learned from the implementation of the Recovery Act. The objective of the Lessons Learned Review is to identify which actions, processes, and mechanisms were beneficial and which pose challenges to agencies, departments, and their respective OIGs in meeting the requirements of the Recovery Act. Sixteen OIGs are participating in the review. USDA OIG was involved in fieldwork from March through July 2012. The report is being drafted.
- *Agency Verification of Recovery Act Funds.* USDA OIG is working with RATB to coordinate with USDA Department and agency managers in reviewing and confirming Recovery Act expenditures.
- *Intra-Departmental Coordinating Committee on International Affairs.* OIG auditors continue to participate in this committee's meetings. Headed by FAS, the purpose of the committee (which includes most USDA agencies) is to coordinate USDA's international activities. Some of the committee's activities include USDA's role in implementing the President's National Export Initiative, country strategy statements, reconstruction and capacity-building activities in Pakistan and Afghanistan, and international food security and assistance.
- *Afghanistan Country Team.* OIG auditors continue to participate in the Afghanistan country team meetings, during which we learned that the Department was receiving funds from USAID under the Foreign Assistance Act of 1961 to help Afghanistan revitalize

its agricultural sector. Section 632(a) of the Act transfers audit and fiduciary responsibilities over the transferred funds to USDA OIG; therefore, during this semiannual period, we initiated two separate reviews of capacity-building activities in Afghanistan to ensure accountability and oversight for grants and agreements receiving these funds—one review is evaluating the grant awarded to a non-government organization, the other review is evaluating the Department's activities.

- *USDA Credit Reform Workgroup.* The Financial Audit Operations Division of OIG participates in this workgroup, which is composed of representatives from all USDA credit agencies. The purpose of this workgroup is to address accounting, auditing, budgeting, and reporting issues encountered by agencies subject to the Federal Credit Reform Act of 1990.
- *Financial Statement Audit Network (FSAN) Workgroup.* OIG auditors are members of the FSAN workgroup, whose main purpose is to share ideas, knowledge, and experience concerning Federal financial statement audits. In conjunction with FSAN, OIG annually hosts a financial statement audit conference for the Federal financial community.

### *Reviews Coordinated With Other Government Entities*

- *Special Inspector General for Afghanistan Reconstruction (SIGAR) Coordination Efforts.* SIGAR notified USDA OIG that it plans to initiate a financial audit of USDA's large-dollar funded agreements and grants for reconstruction activities in Afghanistan. To avoid potential duplication of efforts, OIG auditors coordinated with SIGAR staff to discuss OIG's current work on capacity-building activities in Afghanistan. Due to this coordination, we have agreed to focus our review of a non-government organization's activities on program performance while relying on SIGAR's financial audit of the non-government organization.
- *USAID's Quarterly Progress and Oversight of Civilian Assistance Efforts in Pakistan.* USAID OIG publishes a quarterly report on the progress and oversight of civilian assistance efforts in Pakistan in association with U.S. Departments of State and Defense OIGs.

To acknowledge USDA's civilian assistance activities in Pakistan, OIG auditors provided USAID with information related to our current oversight review of those activities to include in its quarterly report, as of June 30, 2012.

### *Testimony Delivered*

- *Deputy Inspector General David R. Gray Testifies Before the House Committee on Energy and Commerce Subcommittee on Communications and Technology.* On May 16, 2012, Deputy Inspector General Gray presented testimony on OIG's work to help improve oversight of USDA's broadband grant and loan programs. The testimony described OIG's audit work to assess RUS' administration of the programs to ensure they meet their intended purposes and benefit those needing broadband service. OIG has identified RUS' policies that allow overlapping broadband coverage as an area of concern, as the practice could lead to RUS encouraging competition rather than expanding service to areas without any broadband access. OIG is committed to working with RUS to ensure these broadband programs and operations fulfill their important missions as intended.

### **ONGOING REVIEWS FOR GOAL 3**

- Review of FSA's accounting for FY 2012—improper payment reporting (FSA),
- USDA and its agencies' financial statements for FY 2012 (OCFO),
- review of selected controls of the eAuthentication system (OCIO),
- NRCS' oversight and compliance activities (NRCS),
- Pigford 2—distribution of settlement funds for discrimination litigation (USDA),
- overlap and duplication in FNS' nutrition programs (FNS),
- review of USDA's bank purchase and travel card data (USDA),
- review of the Procurement Operations Division (OCIO),

- Section 632(a) transfer of funds for Afghanistan from USAID to USDA (FAS, NIFA),
- review of a non-governmental organization in Afghanistan (FAS),
- private voluntary organization grant fund accountability (FAS),
- international trade policy and procedures (FAS, FSIS, ARS, APHIS, FS, AMS),
- FS' firefighting cost-share agreements with non-Federal entities (FS),
- FY 2012 Federal Information Security Management Act report (OCIO),
- beef research and promotion board activities (AMS), and
- USDA controls over Economy Act transfers and Greenbook Program charges (OCFO).

### **ONGOING REVIEWS FOR GOAL 3 UNDER RECOVERY ACT FUNDS**

- ARS' contract closeout process (ARS),
- procurement oversight of the Invasive Plant Research Laboratory contract (ARS),
- Federalreporting.gov March 2011 data quality review (USDA),
- data quality review of jobs reported as created or saved by USDA Recovery Act programs (USDA),
- Broadband Initiative Program—pre-approval controls (RUS),
- Broadband Initiative Program—post-approval controls (RUS),
- procurement oversight audit of South Building modernization project (phase 4a, wing 5) (Departmental Management),
- Recovery Act performance measures for SNAP (FNS),
- Rural Business Enterprise grants Recovery Act confirmations (RBS), and
- FS' use of funds for hazardous fuels reduction (FS).

# Stewardship Over Natural Resources

## OIG Strategic Goal 4:

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

OIG's audits and investigations focus on USDA's management and stewardship of natural resources, including soil, water, and recreational settings. Our work in this area is vital because USDA is entrusted with hundreds of billions of dollars in fixed public assets, such as 193 million acres of national forests and grasslands. USDA also provides scientific and technical knowledge for enhancing and protecting the economic productivity and environmental quality of the estimated 1.5 billion acres of forests and associated rangelands in the United States.

In the second half of FY 2012, we devoted 5 percent of our total direct resources to Goal 4, with 100 percent of these resources assigned to critical/high-impact work. A total of 100 percent of our audit recommendations under Goal 4 resulted in management decision within 1 year, while 100 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued five audit reports under Goal 4 during this reporting period. OIG's investigations under Goal 4 yielded one indictment, one conviction, and about \$50,000 in monetary results during this reporting period.

#### Management Challenges Addressed Under Goal 4

- Strong, Integrated Internal Control Systems Still Needed (also under Goals 1, 2, and 3)
- Forest Service Management and Community Action Needed to Improve Forest Health and Reduce Firefighting Costs

## EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 4

### RECOVERY ACT REVIEWS

#### FS Should Include Required Provisions in Contracts to Remediate Abandoned Mines

The Recovery Act authorized \$22.7 million for FS to remediate abandoned mines on National Forest System land. Based on reviews of 12 of the 16 total abandoned mine remediation projects, OIG determined that laws and regulations pertaining to Recovery Act funding were not always complied with. While the agency established four specialized operation centers to execute and manage FS' Recovery Act awards in a consistent manner, FS did not always include required Recovery Act provisions in the contracts it used because the agency did not have a standard template specific to Recovery Act contracts. Also, in a prior *Fast Report*, we reported that personnel were not performing reviews of 10 percent of their contracts, as required. After our *Fast Report* was issued, FS disbanded the specialized operation centers and shifted the responsibility to conduct quality assurance reviews to the regions. However, we found that the standardized template regions use did not contain any guidance on how regions were to conduct quality assurance reviews for the Recovery Act contracts. To address these issues, we previously recommended that FS immediately modify its contract templates to include the necessary Recovery Act provisions. We also recommended that FS develop a supplement to the standardized plan template, informing the regions of their responsibility for conducting quality assurance reviews for all Recovery Act contracts. FS concurred with our recommendations. (Audit Report 08703-0006-SF, Forest Service—American Recovery and Reinvestment Act Forest Service Capital Improvement and Maintenance Projects Abandoned Mine Remediation)

#### FS Needs to Improve Guidance and Reviews Related to Trail Project Grants

Of the \$650 million the Recovery Act provided FS for its capital improvement and maintenance fund, FS allocated \$99 million to trail projects. We reviewed 24 of the 90 total trail projects and determined that FS needs to take corrective action to address issues related to compliance with laws and regulations, as we previously reported to agency officials. Specifically, FS awarded a \$9 million youth employment grant

with funds from three FS programs without specifying to the grantee the conditions associated with the use of each program's funds. As a result, we found that subgrants, totaling \$317,741, included activities unrelated to the three FS programs. FS also arbitrarily allocated over \$1.65 million of grant expenditures because the grantee was not required to track the expenditures to the three FS programs separately. We also found that FS program managers at two national forests did not adequately review payment requests from program recipients to ensure that project expenses claimed were for actual and allowable costs. Instead, program managers relied on the recipients to submit accurate claims. As a result, FS overpaid \$64,096 in labor costs to one recipient, and reimbursed another \$24,697 in questionable costs. We recommend that FS provide its grantee with specific direction, recover all unallowable costs, and work with the grantee to allocate actual grant expenditures appropriately. FS generally concurs with the report's findings and recommendations. (Audit Report 08703-0004-SF, American Recovery and Reinvestment Act—Forest Service Capital Improvement and Maintenance Projects—Trail Maintenance and Decommissioning)

### **FS Needs to Ensure That Grant Costs Are Supported and in Accord With Agreements**

The Recovery Act awarded FS \$50 million for wood-to-energy projects that promote increased utilization of biomass from Federal, State, and private lands. Based on a statistical sample of 9 of the 21 wood-to-energy projects FS funded, we found that the selected projects met eligibility and program requirements and that reporting requirements were met. However, the agency did not ensure that funds were used properly. FS accepted and approved payments to grant recipients without obtaining and reviewing documentation to support the use of Recovery Act funds or ensuring work was completed per the terms of the grant agreement. Based on the results from our sample, we statistically projected unsupported costs of about \$9 million. Since FS used the same controls to monitor Recovery Act and non-Recovery Act grants, our findings apply to both Recovery Act and non-Recovery Act grants. In response to our earlier issued *Fast Reports*, FS agreed to obtain documentation from four grant recipients to verify the use of funds and to recover any unallowable payments and interest received by these recipients. In addition, FS will require the grant recipients to provide supporting documentation and will also amend the specific grant agreements to provide clarity. We recommended FS review

grant recipients' documentation for the remaining wood-to-energy projects to ensure the use of Recovery Act funds was supported and in accordance with the terms and provisions of the grant agreement. FS concurred. (Audit Report 08703-0001-SF, American Recovery and Reinvestment Act—Forest Service—Wildland Fire Management—Wood to Energy Projects)

### **FS Needs to Improve Guidance and Monitoring of Facility Project Contractors**

The Recovery Act provided FS with \$246 million for facility projects. OIG conducted an audit to determine whether FS complied with laws and regulations pertaining to the Recovery Act, selected facility projects that met eligibility and program requirements, completed facility projects timely and effectively, and supported the information it reported to measure program performance. We found that FS did not have adequate controls in place to ensure contracts met Recovery Act and other Federal laws and regulations, which we also noted in prior reports. For example, FS contracting officials did not adequately review contractors' payrolls and materials on some projects before issuing payments. Due to control deficiencies, several projects violated Federal requirements, two cardholders made purchases exceeding the \$3,000 micro-purchase threshold, and contractors were not informed of their contractual requirements for the 17 facility contracts, totaling \$2.9 million. To address these weaknesses, FS needs to improve its monitoring of contractors' payrolls and materials, ensure they follow applicable laws and regulations, and issue specific guidance on how to do so. FS should also ensure that its cardholders follow existing controls over the use of purchase cards by issuing written guidance to remind all cardholders of its policies. FS concurred with our recommendations. (Audit Report 08703-0002-SF, American Recovery and Reinvestment Act—Forest Service Capital Improvement and Maintenance Projects—Facility Improvement, Maintenance, and Rehabilitation)

### **FS Needs to Improve Field-Level Control Systems for Its Wildland Fire Management Program Operations**

To fund program activities on Federal lands, such as hazardous fuels reduction, forest health protection, and woody biomass utilization, the Recovery Act provided FS' Wildland Fire Management Program with an additional \$250 million. Through reviews of the four largest dollar national projects with 52 associated contracts, agreements, and grants—including biomass utilization grants—we determined that FS needs to

improve its field-level control systems for monitoring contractor and grantee compliance with requirements. Grantees need to verify that their employees are legally authorized to work in the United States, inform and pay workers mandated wages and benefits, and accurately track and monitor the use of grant funds. Without effective procedures to ensure compliance and oversee grantees, FS increases its risk that contractors may employ unauthorized workers on Federal contracts. FS also did not discern wage problems that existed, such as underpayments to employees, as well as whether one company used \$2.5 million grant funds for the intended purpose. Thus, we recommended that FS develop and implement policies, procedures, and guidance related to the use of a verification system, determine if corrective actions are needed, and ensure that underpaid employees are reimbursed. FS generally agreed with our recommendations. (Audit Report 08703-0001-At, Forest Service's Use of Recovery Act Funds for Wildland Fire Management on Federal Lands)

### North Carolina Individual Sentenced for Unauthorized Fill of a Wetland

A joint investigation with the Eastern District of North Carolina's Environmental Crimes Working Group determined that an individual enrolled his farm in FSA's Conservation Reserve Enhancement Program, which requires compliance with wetland conservation rules as outlined in the 1985 Food Security Act. The individual pled guilty in U.S. District Court, Eastern District of North Carolina, to one count of unauthorized fill of a wetland. In April 2012, the individual was sentenced to 3 years' probation with the first 6 months being served as home confinement, was fined \$15,000, and was required by the plea agreement to withdraw from the conservation program and forgo future payments.

#### GOVERNMENTWIDE ACTIVITIES—GOAL 4

##### *Participation on Committees, Working Groups, and Task Forces*

- *Environmental Crimes Working Groups.* OIG agents continue to participate in working groups convened by U.S. Attorney's Offices in the District of New Hampshire, the Eastern District of North Carolina, and the Western District of Washington State to improve cooperation and coordination among local, State, and Federal law enforcement agencies enforcing environmental laws, as well as to exchange information and provide prosecutorial support and training opportunities. An OIG agent also continues to participate in an environmental and natural resources law enforcement working group in Arizona, which has similar goals of improving training and coordination for investigators working on natural resources cases.

- *Minnesota Pest Risk Committee.* OIG participates in this committee, which is composed of Federal, State, and local representatives who focus on efforts used in Minnesota to intercept and control invasive plants, insects, and animals that are detrimental to the State.

#### ONGOING REVIEWS FOR GOAL 4

- management of oil and gas resources on National Forest System land (FS).

#### ONGOING REVIEWS FOR GOAL 4 UNDER RECOVERY ACT FUNDS

- performance measures for Recovery Act projects (FS), and
- hazardous fuels reduction and ecosystem restoration on non-Federal lands (FS).

# Gauging the Impact of OIG

## Measuring Progress Against the OIG Strategic Plan

The first way we gauged our impact was by measuring the extent to which our work focused on the key issues under our FY 2010 goals. These are:

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

## Impact of OIG Audit and Investigative Work on Department Programs

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

## For audits we show:

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

## For investigations we show:

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

### PERFORMANCE RESULTS TOTALS UNDER OUR STRATEGIC GOALS

Performance Measures	FY 2011 Actual	FY 2012 Target	FY 2012 2nd Half Actual	FY 2012 Full Year Actual
OIG direct resources dedicated to critical-risk and high-impact activities.	97.2%	92%	97.3%	97.7%
Audit recommendations where management decisions are achieved within 1 year.	90.1%	90%	99%	96.8%
Audits initiated where the findings and recommendations are presented to the auditee within established or agreed-to timeframes.	100%	90%	91.2%	91.9%
Closed investigations that resulted in a referral for action to the Department of Justice, State or local law enforcement officials, or relevant administrative authority.	82.5%	70%	91.3%	88.8%
Closed investigations that resulted in an indictment, conviction, civil suit or settlement, judgment, administrative action, or monetary result.	70.4%	65%	73.2%	71.2%

**RECOVERY ACT PERFORMANCE RESULTS TOTALS UNDER OUR STRATEGIC GOALS**

<b>Performance Measures</b>	<b>FY 2011 Actual</b>	<b>FY 2012 Target</b>	<b>FY 2012 2nd Half Actual</b>	<b>FY 2012 Full Year Actual</b>
Notify USDA agency managers of significant audit findings related to Recovery Act programs along with recommendations for corrective action within 30 days after identification.	86.7%	85%	N/A	100%
Respond to Recovery Accountability and Transparency Board-sponsored requests and projects within established schedules or agreed-to timeframes.	100%	85%	85.7%	94.4%
An investigative determination to accept or decline an allegation of whistleblower retaliation is made within 180 days of receipt.	100%	100%	N/A	100%
Whistleblower retaliation allegations are investigated and reported within 180 days of receipt.*	N/A	75%	N/A	N/A
Timely and accurate monthly Recovery Act funds reports submitted to the Recovery Board.	100%	95%	100%	100%

\*No whistle blower retaliation allegations were investigated.

## Recognition of OIG Employees by the Secretary and IG Community

### SECRETARY'S HONOR AWARD

#### *Management Excellence*

Audit and Investigations Recovery Act Team

*Audit and Investigations*

#### *The President's Volunteer Service Award*

Elizabeth Gurklies

*Audit*

Kathy Hammer

*Management*

### COUNCIL OF THE INSPECTORS GENERAL ON INTEGRITY AND EFFICIENCY (CIGIE) AWARDS

#### *Awards for Excellence*

USDA Country of Origin Labeling Team

*Audit*

Michigan Bridge Card Enforcement Team

*Investigations*

**SUMMARY OF AUDIT ACTIVITIES—APRIL-SEPTEMBER 2012**

<b>Reports Issued: 41</b>	Audits Performed by OIG	38
	Audits Performed Under the Single Audit Act	0
	Audits Performed by Others	3
<b>Management Decisions Made</b>	Number of Reports	35
	Number of Recommendations	196
<b>Total Dollar Impact (Millions) of Management- Decided Reports: \$269.3 million</b>	Total Questioned/Unsupported Costs	\$269.3 <sup>a, b</sup>
	-Recommended for Recovery	\$15.4
	-Not Recommended for Recovery	\$253.9
	Funds To Be Put to Better Use	\$0

<sup>a</sup> These were the amounts the auditees agreed to at the time of management decision.

<sup>b</sup> The recoveries realized could change as auditees implement the agreed-upon corrective action plan and seek recovery of amounts recorded as debts due the Department.

**SUMMARY OF FAST REPORTS ISSUED—APRIL-SEPTEMBER 2012**

<b>Ongoing OIG Assignments Containing Fast Reports Issued to the Agency: 1<sup>a</sup></b>	<i>Fast Reports</i> Issued	1
	Number of Recommendations Made	4
<b>Total Dollar Findings (Millions) of Fast Reports Issued: \$0<sup>b</sup></b>	Total Questioned/Unsupported Costs	\$0
	-Recommended for Recovery	\$0
	-Not Recommended for Recovery	\$0
	Funds to Be Put to Better Use	\$0

<sup>a</sup> *Fast Reports* are quick turnaround reports intended to alert management to immediate issues during the course of an ongoing audit assignment.

<sup>b</sup> Monetary findings identified in *Fast Reports* are included in Table 3, Summary of Audit Activities. (Final report could occur in future SARC reporting periods).

### SUMMARY OF INVESTIGATIVE ACTIVITIES—APRIL-SEPTEMBER 2012

<b>Reports Issued: 189</b>	Cases Opened	243
	Cases Referred for Prosecution	232
<b>Impact of Investigations</b>	Indictments	459
	Convictions <sup>a</sup>	320
	Searches	227
	Arrests	423
<b>Total Dollar Impact (Millions): \$57.5</b>	Recoveries/Collections <sup>b</sup>	\$2.8
	Restitutions <sup>c</sup>	\$47.9
	Fines <sup>d</sup>	\$0.9
	Asset Forfeitures <sup>e</sup>	\$2.0
	Claims Established <sup>f</sup>	\$0.6
	Cost Avoidance <sup>g, i</sup>	\$2.9
	Administrative Penalties <sup>h</sup>	\$0.4
<b>Administrative Sanctions: 182</b>	Employees	13
	Businesses/Persons	169

<sup>a</sup> Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 320 convictions do not necessarily relate to the 459 indictments.

<sup>b</sup> Includes money received by USDA or other Government agencies as a result of OIG investigations.

<sup>c</sup> Restitutions are court-ordered repayments of money lost through a crime or program abuse.

<sup>d</sup> Fines are court-ordered penalties.

<sup>e</sup> Asset forfeitures are judicial or administrative results.

<sup>f</sup> Claims established are agency demands for repayment of USDA benefits.

<sup>g</sup> Consists of loans or benefits not granted as the result of an OIG investigation.

<sup>h</sup> Includes monetary fines or penalties authorized by law and imposed through an administrative process as a result of OIG findings.

<sup>i</sup> Includes an Office of Compliance and Integrity cost avoidance.

**FULL FY 2012 RESULTS IN KEY CATEGORIES—OCTOBER 1, 2011-SEPTEMBER 30, 2012**

<b>SUMMARY OF AUDIT ACTIVITIES</b>	
<b>Reports Issued:</b>	
Number of Reports	76
Number of Recommendations	350
<b>Management Decisions Made:</b>	
Number of Reports	69
Number of Recommendations	404
<b>Total Dollar Impact (Millions) of Management-Decided Reports</b>	<b>\$1,439.2</b>
Questioned/Unsupported Costs	\$1,438.4
Funds To Be Put To Better Use	\$0.8

<b>SUMMARY OF INVESTIGATIONS ACTIVITIES</b>	
<b>Reports Issued</b>	<b>331</b>
Indictments	793
Convictions	538
Arrests	684
<b>Total Dollar Impact (Millions)</b>	<b>\$106.3</b>
<b>Administrative Sanctions</b>	<b>329</b>

**INVENTORY OF AUDIT REPORTS WITH QUESTIONED COSTS AND LOANS—  
APRIL-SEPTEMBER 2012**

CATEGORY	NUMBER	QUESTIONED COSTS AND LOANS	UNSUPPORTED <sup>a</sup> COSTS AND LOANS
Reports for which no management decision had been made by April 1, 2012. <sup>b</sup>	10	\$297,496,671	\$3,739,135
Reports which were issued during the reporting period.	15	\$280,600,339	\$24,054,758
<b>Total reports with questioned costs and loans</b>	<b>25</b>	<b>\$578,097,010</b>	<b>\$27,793,893</b>
Of the 25 reports, those for which management decision was made during the reporting period.	align="center">15	<i>Recommended for recovery</i>	\$15,370,335
		<i>Not recommended for recovery</i>	\$253,947,512
		<i>Costs not disallowed</i>	\$15,831,119
Of the 25 reports, those for which no management decision has been made by the end of this reporting period.	10	\$294,024,926	\$16,532,770
<b>Total current reports for which no management decision was made within 6 months of issuance.<sup>b</sup></b>	<b>3</b>	<b>\$263,182,214</b>	<b>\$1,039,135</b>

<sup>a</sup>Unsupported values are included in questioned values.  
<sup>b</sup>Carried over from previous reporting periods.

**INVENTORY OF AUDIT REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

CATEGORY	NUMBER	DOLLAR VALUE	
Reports for which no management decision had been made by April 1, 2012. <sup>a</sup>	0	\$0	
Reports which were issued during the reporting period.	3	\$117,124,151	
<b>Total reports with recommendations that funds be put to better use</b>	<b>3</b>	<b>\$117,124,151</b>	
Of the 3 reports, those for which management decision was made during the reporting period.	align="center">0	<i>Disallowed costs</i>	\$0
		<i>Costs not disallowed</i>	\$0
Of the 3 reports, those for which no management decision has been made by the end of this reporting period.	3	\$117,124,151	
<b>Total current reports for which no management decision was made within 6 months of issuance.<sup>a</sup></b>	<b>0</b>	<b>\$0</b>	

<sup>a</sup>Carried over from previous reporting periods.

## PROGRAM IMPROVEMENT RECOMMENDATIONS

While some audit recommendations carry no monetary value per se, their impact can be immeasurable in terms of safety, security, and public health. They can also contribute considerably toward economy, efficiency, and effectiveness in USDA's programs and operations. During this reporting period, we issued 176 program improvement recommendations, and management agreed to implement a total of 174 that were issued this period or earlier. Examples of those issued this period include the following (see the main text of this report for a summary of the audits that prompted these recommendations):

- FSIS officials agreed to provide the beef processing industry with clearer guidance regarding how plants should respond to sudden increases in positive *E. coli* tests.
- Departmental officials agreed to ensure that grants awarded by OAO were awarded to the most meritorious applicants.
- FNS agreed that it should make better use of its existing tools for detecting fraud, waste, and abuse in SNAP.
- OCIO agreed that it needs to improve how it prioritizes and funds IT security improvements.

## AUDIT AND INVESTIGATION PEER REVIEWS

- During the current semiannual reporting period, the Environmental Protection Agency (EPA) OIG conducted an audit peer review of USDA OIG's audit organization. The EPA OIG peer review team has completed its fieldwork; the exit conference is scheduled for October 2012, and EPA OIG plans to issue its report and letter of comments with USDA OIG's response shortly thereafter.
- Because peer reviews are performed on a 3-year cycle, no peer reviews of OIG's investigation organization were performed during the current semiannual reporting period. Our most recent review was conducted in 2010 by the Department of Homeland Security OIG. The report, issued November 10, 2010, contained no recommendations and determined that OIG is in compliance with the quality standards established by CIGIE and the Attorney General.

## AUDIT REPORTS

From April through September 2012, OIG issued 41 audit reports, including 3 performed by others. During this same period, one *Fast Report* was issued. The following is a summary of those audit products by agency:

<b>AUDIT AND <i>FAST REPORT</i> TOTALS</b>	
Total funds that can be put to better use	\$117,124,151
Total questioned costs and loans <sup>a, b</sup>	\$280,600,339
<sup>a</sup> Unsupported values of \$24,054,758 are included in the questioned values.	
<sup>b</sup> Includes <i>Fast Report</i> monetary values of \$0. (Final reports could occur in future SARC reporting periods).	

<b>SUMMARY OF AUDIT AND <i>FAST REPORTS</i> RELEASED FROM APRIL-SEPTEMBER 2012</b>				
<b>AGENCY TYPE</b>	<b>AUDITS RELEASED</b>	<b>QUESTIONED COSTS AND LOANS<sup>a, c</sup></b>	<b>UNSUPPORTED COSTS AND LOANS</b>	<b>FUNDS TO BE PUT TO BETTER USE</b>
SINGLE AGENCY AUDIT	39	\$280,600,339	\$24,054,758	\$117,124,151
MULTIAGENCY AUDIT	3	\$0	\$0	\$0
TOTAL COMPLETED UNDER CONTRACT <sup>b</sup>	3			
ISSUED AUDITS COMPLETED UNDER THE SINGLE AUDIT ACT				
<sup>a</sup> Unsupported values of \$24,054,758 are included in the questioned values.				
<sup>b</sup> Audits performed by others.				
<sup>c</sup> Includes <i>Fast Report</i> monetary values of \$0 for one <i>Fast Report</i> issued during this period. Final report could occur in future SARC reporting periods.				

<b>AUDIT AND FAST REPORTS RELEASED AND ASSOCIATED MONETARY VALUES FROM APRIL-SEPTEMBER 2012</b>						
<b>AUDIT TOTALS BY AGENCY</b>	<b>AUDIT NUMBER</b>	<b>RELEASE DATE</b>	<b>TITLE</b>	<b>QUESTIONED COSTS AND LOANS</b>	<b>UNSUPPORTED COSTS AND LOANS</b>	<b>FUNDS TO BE PUT TO BETTER USE</b>
<b>Agricultural Marketing Service: 1</b>	01601-0001-23	07/20/12	National Organic Program's National List of Allowed and Prohibited Substances			
<b>Agricultural Research Service: 3</b>	02703-0001-10	09/07/12	Procurement Oversight Audit of the Invasive Plant Research Laboratory Contract			
	02703-0002-10	06/18/12	Procurement Oversight Audit of Red River Valley Agricultural Research Center Contract			
	02703-0007-HQ	06/07/12	Procurement Oversight Audit of National Center Agricultural Utilization Research Contract			
<b>Animal and Plant Health Inspection Service: 1</b>	33601-0012-CH	08/20/12	Effectiveness of the Smuggling, Interdiction, and Trade Compliance Unit			
<b>Departmental Management: 1</b>	<b>91099-0001- 21(1)</b>	<b>05/18/12</b>	<b><i>Fast Report: Controls Over the Grant Management Process of the Office of Advocacy and Outreach--Section 2501 Program Grantee Selection for Fiscal Year 2012</i></b>			
<b>Farm Service Agency: 5</b>	03401-0001-11	05/14/12	Review of Farm Service Agency Accounting for Fiscal Year 2011	\$28,100,000		
	03601-0001-32	06/18/12	Farm Storage Facility Loan Program	\$2,199,728	\$2,199,728	
	03601-0028-KC	05/30/12	Biomass Crop Assistance Program: Collection, Harvest, Storage, and Transportation Matching Payments Program	\$379,169		
	03601-0050-TE	06/20/12	2008 Farm Bill's Changes to Payment Limitation			
	03601-0051-TE	07/25/12	Conservation Reserve Program--Soil Rental Rates	\$12,729,539	\$12,729,539	\$114,565,851
<b>Food and Nutrition Service: 6</b>	27002-0008-13	04/30/12	Analysis of Massachusetts' Supplemental Nutrition Assistance Program Eligibility Data	\$117,767		
	27002-0009-13	04/19/12	Analysis of New Jersey's Supplemental Nutrition Assistance Program Eligibility Data	\$569,098		

<b>AUDIT AND FAST REPORTS RELEASED AND ASSOCIATED MONETARY VALUES FROM APRIL-SEPTEMBER 2012</b>						
<b>AUDIT TOTALS BY AGENCY</b>	<b>AUDIT NUMBER</b>	<b>RELEASE DATE</b>	<b>TITLE</b>	<b>QUESTIONED COSTS AND LOANS</b>	<b>UNSUPPORTED COSTS AND LOANS</b>	<b>FUNDS TO BE PUT TO BETTER USE</b>
<b>Food and Nutrition Service: 6</b>	27002-0010-13	06/14/12	Analysis of New York's Supplemental Nutrition Assistance Program Eligibility Data	\$1,268,260		
	27002-0011-13	09/28/12	Analysis of FNS' Supplemental Nutrition Assistance Program Fraud Prevention and Detection Efforts			
	27703-0002-AT	06/01/12	Recovery Act Impacts on Supplemental Nutrition Assistance Program—Planning Phase One			
	27703-0003-AT	06/07/12	Recovery Act: The Emergency Food Assistance Program, Phase II			
<b>Food Safety and Inspection Service: 3</b>	24601-0001-31	05/09/12	Application of FSIS Sampling Protocol for Testing Beef Trim for <i>E. coli</i> O157:H7			
	24601-0002-31	04/05/12	Review Appeals of Humane Handling Noncompliance Records			
	24601-0011-HY	04/30/12	Assessment of FSIS Inspection Personnel Shortages in Processing Establishments			
<b>Forest Service: 5</b>	08703-0001-AT	09/28/12	Forest Service's Use of Recovery Act Funds for Wildland Fire Management on Federal Lands			\$1,500,000
	08703-0001-SF	06/15/12	Recovery Act: Forest Service Wildland Fire Management—Wood-to-Energy Projects	\$9,061,395	\$9,061,395	
	08703-0002-SF	07/03/12	Recovery Act: Forest Service Capital Improvement and Maintenance Projects—Facility Improvement, Maintenance, and Rehabilitation	\$8,089		
	08703-0004-SF	07/03/12	Recovery Act: Forest Service Capital Improvement and Maintenance Projects—Trail Maintenance and Decommissioning	\$406,534	\$64,096	

<b>AUDIT AND FAST REPORTS RELEASED AND ASSOCIATED MONETARY VALUES FROM APRIL-SEPTEMBER 2012</b>						
<b>AUDIT TOTALS BY AGENCY</b>	<b>AUDIT NUMBER</b>	<b>RELEASE DATE</b>	<b>TITLE</b>	<b>QUESTIONED COSTS AND LOANS</b>	<b>UNSUPPORTED COSTS AND LOANS</b>	<b>FUNDS TO BE PUT TO BETTER USE</b>
<b>Forest Service: 5</b>	08703-0006-SF	05/03/12	Recovery Act: Forest Service Capital Improvement and Maintenance Projects—Abandoned Mine Remediation			
<b>Multi-agency: 3</b>	50024-0002-11	09/28/12	Fiscal Year 2011 Executive Order 13520, Reducing Improper Payments, High Dollar Overpayment Report Review			
	50501-0001-12	04/19/12	USDA's Configuration, Management, and Security Over Domain Name System Servers			
	50601-0001-16	09/27/12	Section 632(a) Transfer of Funds from U.S. Agency for International Development to USDA—Pakistan			
<b>Natural Resources Conservation Service: 3</b>	10024-0001-11	05/18/12	Fiscal Year 2011 NRCS Improper Payment Review			
	10703-0004-KC	07/24/12	Recovery Act: Watershed Protection and Flood Prevention Operations Program, Field Confirmations	\$1,285,000		
	10704-0001-32	08/09/12	Migratory Bird Habitat Initiative: NRCS' Response to Issues Caused by the Deepwater Horizon Oil Spill	\$86,760		\$1,058,300
<b>Office of the Chief Financial Officer: 2</b>	11401-0003-11	09/25/12	Agreed-Upon Procedures: Employee Benefits, Withholdings, Contributions, and Supplemental Semiannual Headcount Reporting Submitted to the U.S. Office of Personnel Management			
	11401-0004-11	09/27/12	Statements on Standards for Attestation Engagement No. 16 Report on Controls at the National Finance Center			

<b>AUDIT AND FAST REPORTS RELEASED AND ASSOCIATED MONETARY VALUES FROM APRIL-SEPTEMBER 2012</b>							
<b>AUDIT TOTALS BY AGENCY</b>	<b>AUDIT NUMBER</b>	<b>RELEASE DATE</b>	<b>TITLE</b>	<b>QUESTIONED COSTS AND LOANS</b>	<b>UNSUPPORTED COSTS AND LOANS</b>	<b>FUNDS TO BE PUT TO BETTER USE</b>	
<b>Office of Adjudication and Compliance: 1</b>	60601-0001-23	08/09/12	Review of the Office of the Assistant Secretary for Civil Rights' Oversight of Agreements Reached in Program Complaints				
<b>Office of the Chief Information Officer: 2</b>	88401-0001-11	09/26/12	Review of Selected Controls at the National Information Technology Center				
	88401-0001-12	08/02/12	Audit of OCIO's Fiscal Years 2010 and 2011 Funding Received for Security Enhancements				
<b>Risk Management Agency: 1</b>	05099-0114-KC	08/13/12	RMA: Validity of New Producers	\$3,310,000			
<b>Rural Business- Cooperative Service: 1</b>	34703-0002-KC	09/05/12	Recovery Act: Rural Development's Controls Over Rural Business Enterprise Grants				
<b>Rural Housing Service: 3</b>	04601-0018-CH	09/27/12	Rural Development's Rural Rental Housing Program Maintenance Costs and Inspection Procedures				
	04703-0002-HY	09/28/12	Recovery Act: Internal Controls Over the Rural Community Facilities Direct Grant and Loan Programs (Phase II)				
	04703-0003-KC	06/13/12	Single-Family Housing Direct Loans Recovery Act Controls-Compliance Review	\$221,000,000			
<b>Rural Utilities Service: 1</b>	09703-0001-AT	07/24/12	Recovery Act: RUS Controls Over Water and Waste Disposal Loan and Grant Program	\$79,000			
	<b>Grand Total</b>			<b>42</b>	<b>\$280,600,339</b>	<b>\$24,054,758</b>	<b>\$117,124,151</b>

<sup>a</sup> Unsupported values are included in questioned values.

NOTE: Upon final report issuance, *fast report* monetary values will be reflected in the inventory of audit reports.

In total, OIG has seven audits without management decision. Their details are provided in the tables below:

<b>NEW FOR THIS REPORTING PERIOD</b>				
<b>Agency</b>	<b>Date Issued</b>	<b>Title of Report</b>	<b>Total Value at Issuance (in dollars)</b>	<b>Amount With No Mgmt Decision (in dollars)</b>
Multi-agency	11/15/11	Fiscal Year 2011 Federal Information Security Management Act (50501-0002-12)	\$0	\$0
<b>Total New For This Reporting Period: 1</b>				

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

<b>AUDIT REPORTS PREVIOUSLY REPORTED BUT NOT YET RESOLVED</b>				
<b>Agency</b>	<b>Date Issued</b>	<b>Title of Report</b>	<b>Total Value at Issuance (in dollars)</b>	<b>Amount With No Mgmt Decision (in dollars)</b>
FSA	02/02/09	Hurricane Relief Initiatives: Livestock and Feed Indemnity Programs (03601-0023-KC)	\$1,866,412	\$427,276
Multi-agency	09/30/03	Implementation of the Agricultural Risk Protection Act (50099-0012-KC)	0	0
	08/16/10	Effectiveness and Enforcement of Debarment and Suspension Regulations in USDA (50601-0014-AT)	0	0
RMA	03/04/09	RMA's 2005 Emergency Hurricane Relief Efforts in Florida (05099-0028-AT)	\$217,256,417	\$217,256,417
	09/16/09	RMA Compliance Activities (05601-0011-AT)	0	0
	09/07/11	Citrus Crop Indemnity Payments from Hurricane Wilma in Florida (05099-0029-AT)	\$44,059,385	\$44,059,385
<b>Total Previously Reported But Not Yet Resolved: 6</b>				

## AUDITS WITHOUT MANAGEMENT DECISION— NARRATIVE FOR NEW ENTRIES

### Fiscal Year 2011 Federal Information Security Management Act (FISMA) Audit Report 50501-0002- 12), issued November 15, 2011

OIG found that USDA and its agencies have taken actions to improve the security over their IT resources; however, additional actions are still needed to establish an effective security program. In our FISMA audits for FYs 2009 and 2010, OIG made 33 recommendations for improving the overall security of USDA's systems. By the end of FY 2011, the Department had adequately remediated and closed 6 recommendations, leaving 27 to be addressed. OIG made an additional 10 recommendations to the Department and its agencies in our current report. We have achieved management decision on 3 of the 10 recommendations contained in the report and continue to work with OCIO to reach management decision on the remaining recommendations.

## INDICTMENTS AND CONVICTIONS

From April through September 2012, OIG completed 189 investigations. We referred 232 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 459 indictments and 320 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 320 convictions do not necessarily relate to the 459 indictments. Fines, recoveries/collections, restitutions, claims established, cost avoidance, and administrative penalties resulting from our investigations totaled about \$57.5 million. The following is a breakdown, by agency, of indictments and convictions for the reporting period.

### INDICTMENTS AND CONVICTIONS—APRIL-SEPTEMBER 2012

Agency	Indictments	Convictions*
AMS	0	2
APHIS	8	30
ARS	3	2
FAS	0	0
FNS	387	234
FS	3	3
FSA	17	21
FSIS	13	4
GIPSA	0	4
Multi	1	0
NRCS	2	2
RBS	4	4
RHS	14	11
RMA	6	3
RUS	1	0
<b>Totals</b>	<b>459</b>	<b>320</b>

\* This category includes pretrial diversions.

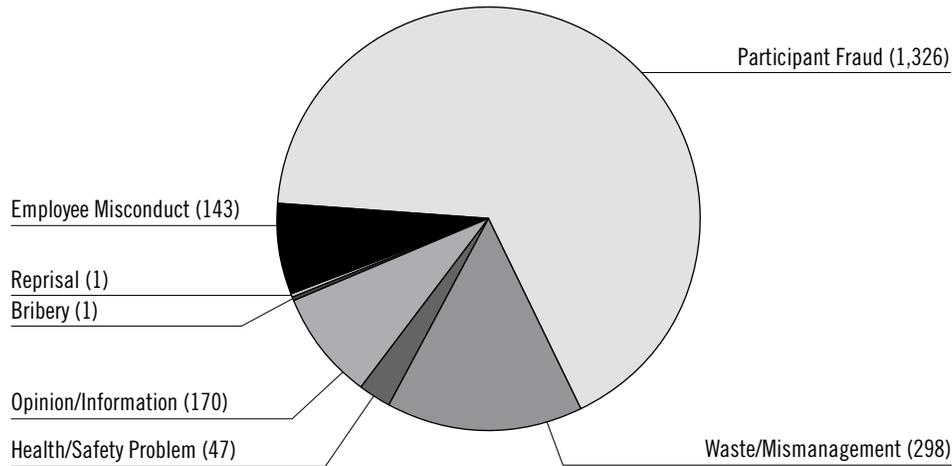
### OFFICE OF INSPECTOR GENERAL HOTLINE

The OIG hotline serves as a national intake point for reports from both employees and the general public of suspected incidents of fraud, waste, mismanagement, and abuse in USDA programs and operations. During this reporting

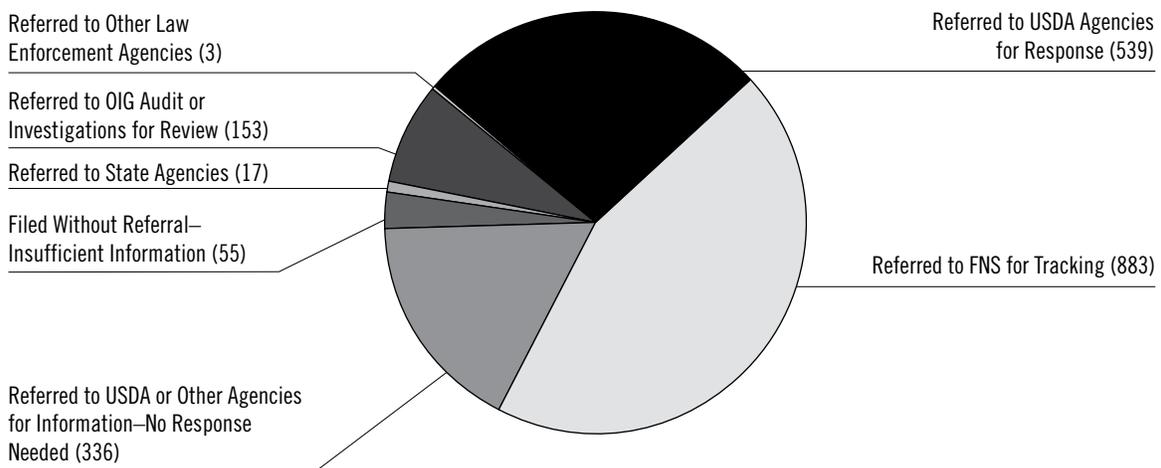
period, the hotline received 1,986 complaints, which included allegations of participant fraud, employee misconduct, and mismanagement, as well as opinions about USDA programs. The following tables are a summary of the Hotline complaints for the second half of FY 2012.

Hotline Complaints Summary—FY 2012, 2 <sup>nd</sup> Half	
Total Number of Complaints Received	1,986

**Figure 1. Volume and Type**



**Figure 2. Disposition of Complaints Received**



**FREEDOM OF INFORMATION ACT (FOIA) AND PRIVACY ACT (PA) REQUESTS  
FOR THE PERIOD APRIL-SEPTEMBER 2012**

Categories	Type	Number
<b>FOIA/PA Requests Received/Processed</b>	<b>FOIA/PA Requests Received</b>	<b>69</b>
	Granted	4
	Partially Granted	17
	Not Granted	8
	<b>Total FOIA/PA Requests Processed</b>	<b>57</b>
<b>Reasons for Denial</b>	No Records Available	14
	Referred to Other Agencies	2
	Requests Denied in Full Exemption 5	0
	Requests Denied in Full Exemption 7(A)	8
	Requests Denied in Full Exemption 7(C)	0
	Request Withdrawn	4
	Fee-Related	1
	Not a Proper FOIA Request	0
	Not an Agency Record	0
	Duplicate Request	0
	Other	7
<b>Requests for OIG Reports From Congress and Other Government Agencies</b>	Received	3
	Processed	3
<b>Appeals</b>	<b>Appeals Received</b>	<b>5</b>
	<b>Appeals Processed</b>	<b>7</b>
	Completely Upheld	4
	Partially Reversed	0
	Completely Reversed	2
	Fee-related reason	1
Other	1	
	<b>OIG Reports/Documents Released in Response to Requests</b>	<b>16</b>

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

NOTE 2: During this 6-month period, **38** audit reports were posted online on the OIG Website: <http://www.usda.gov/oig>

## Abbreviations

Abbreviation	Full Name
AIP	Approved Insurance Provider
AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
CACFP	Child and Adult Care Food Program
CCC	Commodity Credit Corporation
CED	County Executive Director
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CHST	collect, harvest, store, and transport
CRP	Conservation Reserve Program
DNS	Domain Name System
DOJ	U.S. Department of Justice
<i>E. coli</i>	<i>Escherichia coli</i> O157:H7
EBT	electronic benefits transfer
EPA	U.S. Environmental Protection Agency
FAS	Foreign Agricultural Service
FBI	Federal Bureau of Investigation
FEMA	Federal Emergency Management Agency
FISMA	Federal Information Security Management Act
FNS	Food and Nutrition Service
FOIA	Freedom of Information Act
FS	Forest Service
FSA	Farm Service Agency
FSAN	Financial Statement Audit Network
FSIS	Food Safety and Inspection Service
FY	fiscal year
GAO	Government Accountability Office
GIPSA	Grain Inspection, Packers and Stockyards Administration
IG	Inspector General
IPERA	Improper Payments Elimination and Recovery Act
IRS	Internal Revenue Service
IT	information technology

Abbreviation	Full Name
NFC	National Finance Center
NIFA	National Institute of Food and Agriculture
NITC	National Information Technology Center
NRCS	Natural Resources Conservation Service
OAO	Office of Advocacy and Outreach
OASCR	Office of the Assistant Secretary for Civil Rights
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OIG	Office of Inspector General
OPM	Office of Personnel Management
PA	Privacy Act
RBEG	Rural Business Enterprise Grant Program
RBS	Rural Business-Cooperative Service
Recovery Act	American Recovery and Reinvestment Act of 2009
Recovery Board	Recovery Accountability and Transparency Board
RD	Rural Development
RHS	Rural Housing Service
RMA	Risk Management Agency
RUS	Rural Utilities Service
SARC	Semiannual Report to Congress
SBA	Small Business Administration
SBIR	Small Business Innovative Research
SIGAR	Special Inspector General for Afghanistan Reconstruction
SITC	Smuggling, Interdiction, and Trade Compliance
SNAP	Supplemental Nutrition Assistance Program
TEFAP	The Emergency Food Assistance Program
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture
WIC	Special Supplemental Nutrition Program for Women, Infants, and Children





## EXAMPLES OF PROGRAM IMPROVEMENT RECOMMENDATIONS MANAGEMENT AGREED TO DURING THIS REPORTING PERIOD (174 TOTAL)

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- FSIS officials agreed to provide the beef processing industry with clearer guidance regarding how plants should respond to sudden increases in positive *E. coli* tests.
- Departmental officials agreed to ensure that grants awarded by OAO were awarded to the most meritorious applicants.
- FNS agreed that it should make better use of its existing tools for detecting fraud, waste, and abuse in SNAP.
- OCIO agreed that it needs to improve how it prioritizes and funds IT security improvements.

## OIG MISSION

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

## OIG STRATEGIC GOALS

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

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

To learn more about OIG, visit our website at [www.usda.gov/oig/index.htm](http://www.usda.gov/oig/index.htm)

## How To Report Suspected Wrongdoing in USDA Programs

### Fraud, Waste, and Abuse

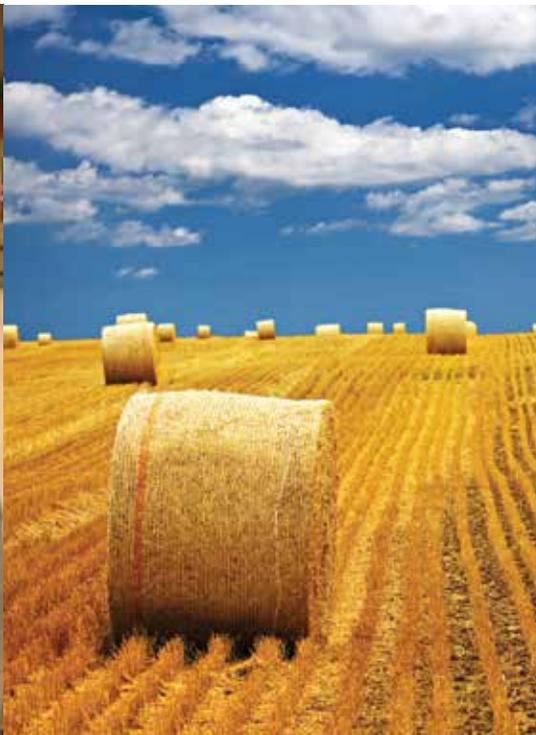
In Washington, DC 202-690-1622

Outside DC 800-424-9121

TDD (Call Collect) 202-690-1202

### Bribes or Gratuities

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