

2014 Explanatory Notes

Office of Inspector General

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OFFICE OF INSPECTOR GENERAL

Purpose Statement

The Office of Inspector General (OIG) was established pursuant to the Inspector General Act of 1978 (5 U.S.C. app. 3). Its activities consist of two broad areas: audits and investigations.

The OIG appropriation funds activities which are authorized by the Inspector General Act of 1978 as amended. This Act expanded and provided specific authorities for the activities of the Office of Inspector General, which had previously been carried out under the general authorities of the Secretary of Agriculture. The Office of Inspector General:

- a. Provides policy direction and conducts, supervises, and coordinates all audits and investigations relating to programs and operations of the Department.
- b. Reviews existing and proposed legislation and regulations and makes recommendations to the Secretary and the Congress regarding the impact such initiatives will have on the economy, efficiency, and effectiveness of the Department's programs and operations and the prevention and detection of fraud, waste, and mismanagement in such programs.
- c. Recommends policies for and conducts, supervises, or coordinates other activities in the Department whose purposes are to promote economy and efficiency or prevent and detect fraud, waste, and mismanagement.
- d. Recommends policies for and conducts, supervises, or coordinates relationships between the Department and other Federal, State, and local government agencies in: (1) promoting economy, efficiency, and effectiveness; (2) preventing and detecting fraud, waste, and mismanagement; and (3) identifying and prosecuting individuals and groups involved in fraud, waste, and mismanagement.
- e. Keeps the Secretary and the Congress fully and currently informed about fraud, waste, mismanagement, deficiencies, and other serious problems in Department programs and operations; recommends corrective action; and reports on the progress made in correcting problems.

OIG is headquartered in Washington, D.C., with regional offices in the following cities: Beltsville, Maryland; Atlanta, Georgia; Chicago, Illinois; Temple, Texas; Kansas City, Missouri; and San Francisco, California. As of September 30, 2012, OIG had 531 permanent full-time employees, including 121 employees located in the Washington, D.C. metropolitan area and 410 located in the field.

OFFICE OF INSPECTOR GENERAL

Available Funds and Staff Years (SY)

(Dollars in thousands)

Item	2011 Actual		2012 Actual		2013 Estimate		2014 Estimate	
	Amount	SY	Amount	SY	Amount	SY	Amount	SY
Salaries and Expenses:								
Discretionary Appropriations.....	\$88,725	608	\$85,621	558	\$86,145	558	\$89,902	558
Rescission.....	-177	-	-	-	-	-	-	-
Supplemental Appropriations:								
Emergency Supp.....	50	-	10	-	-	-	-	-
Adjusted Appropriation.....	88,598	608	85,631	558	86,145	558	89,902	558
Balance Available, SOY.....	13,470	-	10,541	-	3,549	-	2,604	-
Other Adjustments (Net).....	351	-	-	-	-	-	-	-
Total Available.....	102,419	608	96,172	558	89,694	558	92,506	558
Lapsing Balances.....	-105	-	-48	-	-	-	-	-
Balance Available, EOY.....	-10,541	-	-3,549	-	-2,604	-	-2,604	-
Obligations.....	91,773	608	92,575	558	87,090	558	89,902	558
<u>Obligations under other USDA appropriations:</u>								
Risk Management Agency:								
Audit of Financial Statements.....	381	-	297	-	380	-	380	-
Food and Nutrition Services								
Audit of Financial Statements.....	1,020	-	1,020	-	1,020	-	1,020	-
Rural Development								
Audit of Financial Statements.....	1,000	-	1,000	-	1,000	-	1,000	-
OCFO/WCF Audits.....	800	-	800	-	800	-	800	-
Council of the Inspectors General on Integrity and Efficiency (CIGIE)								
(Legal Services).....	30	-	55	-	55	-	55	-
CIGIE - Admin Support Services.....	-	-	15	-	-	-	-	-
Foreign Agricultural Services - Afghanistan								
Audit of Financial Statements.....	11	-	55	-	55	-	55	-
Foreign Agricultural Services - Pakistan								
Audit of Financial Statements.....	29	-	72	-	72	-	72	-
Federal Housing Finance Agency.....	36	-	-	-	-	-	-	-
Total, Other USDA.....	3,307	-	3,314	-	3,382	-	3,382	-
Total, OIG.....	95,080	608	95,889	558	90,472	558	93,284	558

OFFICE OF INSPECTOR GENERAL
Permanent Positions by Grade and Staff Year Summary

Item	2011 Actual			2012 Actual			2013 Estimate			2014 Estimate		
	Wash.			Wash.			Wash.			Wash.		
	D.C.	Field	Total	D.C.	Field	Total	D.C.	Field	Total	D.C.	Field	Total
ES.....	1	-	1	1	-	1	1	-	1	1	-	1
SES.....	8	-	8	8	-	8	8	-	8	8	-	8
GS-15.....	14	14	28	14	14	28	12	14	26	12	14	26
GS-14.....	55	46	101	41	55	96	36	53	89	36	53	89
GS-13.....	30	166	196	25	176	201	25	167	192	25	167	192
GS-12.....	20	96	116	9	99	108	9	97	106	9	97	106
GS-11.....	10	42	52	5	47	52	5	48	53	5	48	53
GS-10.....	-	-	-	-	-	-	-	-	-	-	-	-
GS-9.....	12	28	40	15	17	32	15	17	32	15	17	32
GS-8.....	8	3	11	2	10	12	2	10	12	2	10	12
GS-7.....	8	21	29	4	21	25	4	21	25	4	21	25
GS-6.....	3	1	4	3	1	4	3	1	4	3	1	4
GS-5.....	4	3	7	2	2	4	2	2	4	2	2	4
GS-4.....	5	2	7	4	2	6	4	2	6	4	2	6
Total Perm. Positions.....	178	422	600	133	444	577	126	432	558	126	432	558
Unfilled, EOY	15	28	43	12	34	46	-	-	-	-	-	-
Total, Perm. Full-Time Employment, EOY.....	163	394	557	121	410	531	126	432	558	126	432	558
Staff Year Est.	163	445	608	163	395	558	126	432	558	126	432	558

OFFICE OF INSPECTOR GENERAL

Size, Composition, and Cost Motor Vehicle Fleet

The motor vehicles of the Office of Inspector General (OIG) are used for law enforcement purposes. These vehicles, which are issued to criminal investigators, are utilized in the pursuit and prevention of criminal activities, such as fraud in subsidy, price support, benefits, and insurance programs; significant thefts of government property of funds; bribery; extortion; smuggling; and assaults on employees. In addition, the vehicles are used for investigations involving criminal activity that affects the health and safety of the public, such as meat packers knowingly selling hazardous food products and individuals who tamper with food regulated by USDA. In addition, OIG criminal investigators are poised to provide emergency law enforcement response to USDA declared emergencies and suspected incidents of terrorism affecting USDA regulated industries, as well as USDA programs, operations, personnel, and installations, in coordination with Federal, State, and local law enforcement agencies, as appropriate.

Replacement of passenger motor vehicles. Any replacements will be funded from within the annual operating costs of the motor vehicle fleet.

Impediments to managing the motor vehicle fleet. There are no identified impediments to managing the motor vehicle fleet in the most cost-effective manner.

OFFICE OF INSPECTOR GENERAL

Size, Composition, and Annual Operating Costs of Vehicle Fleet

Fiscal Year	Number of Vehicles by Type *							Annual Operating Costs (\$ in 000) **	
	Sedans and Station Wagons	Light Trucks, SUVs, and Vans		Medium Duty Vehicles	Ambulances	Buses	Heavy Duty Vehicles		Total Number of Vehicles
		4x2	4x4						
2011	98	24	50	1	-	-	-	173	\$1,225
Change	-5	-1	-7	+1	-	-	-	-12	-275
2012	93	23	43	2	-	-	-	161	950
Change	-4	-1	-2	-	-	-	-	-7	+106
2013	89	22	41	2	-	-	-	154	1,056
Change	-	-	-	-	-	-	-	-	+13
2014	89	22	41	2	-	-	-	154	1,069

* Numbers include vehicles owned by the agency and leased from commercial sources or GSA.

** Excludes acquisition costs and gains from sale of vehicles as shown in FAST.

OFFICE OF INSPECTOR GENERAL

The estimates include appropriation language for this item as follows:

Salaries and Expenses:

For necessary expenses of the Office of Inspector General, including employment pursuant to the Inspector General Act of 1978, \$89,902,000, including such sums as may be necessary for contracting and other arrangements with public agencies and private persons pursuant to section 6(a)(9) of the Inspector General Act of 1978, and including not to exceed \$125,000 for certain confidential operational expenses, including the payments of informants, to be expended under the direction of the Inspector General pursuant to Public Law 95-452 and section 1337 of Public Law 97-98.

IG Reform Act of 2008

As directed by Section 8, submission of Budget Request to Congress, of the Inspector General Reform Act of 2008 (P.L. 110-409), USDA is providing additional information regarding the OIG budget request. The OIG request for 2014 is \$89,902,000. Of this amount, \$468,000 is to support the Council of the Inspectors General on Integrity and Efficiency (CIGIE).

Lead-Off Tabular Statement

2013 Estimate.....	\$86,145,000
Budget Estimate 2014.....	89,902,000
Change in Appropriation.....	<u>+ 3,757,000</u>

Summary of Increases and Decreases
(Dollars in thousands)

	<u>2011</u> <u>Actual</u>	<u>2012</u> <u>Change</u>	<u>2013</u> <u>Change</u>	<u>2014</u> <u>Change</u>	<u>2014</u> <u>Estimate</u>
Discretionary Appropriations:					
Office of Inspector General.....	\$88,548	-\$2,927	+\$524	+\$3,757	\$89,902

Project Statement
Adjusted Appropriations Detail and Staff Years (SY)
(Dollars in thousands)

Program	2011 Actual		2012 Enacted		2013 Budget		Inc. or Dec.		2014 Request		
	Amount	SY	Amount	SY	Amount	SY	Amount	SY	Amount	SY	
Discretionary Appropriations:											
Audit Staff.....	\$43,389	310	\$41,954	285	\$42,211	285	+\$1,841	(1)	-	\$44,052	285
Investigations Staff.....	45,159	298	43,667	273	43,934	273	+1,916	(2)	-	45,850	273
Subtotal.....	88,548	608	85,621	558	86,145	558	+3,757	-	-	89,902	558
Supplemental Appropriations:											
Emergency Supp.....	50	-	10	-	-	-	-	-	-	-	-
Rescissions and											
Transfers (Net).....	177	-	-	-	-	-	-	-	-	-	-
Total Appropriation.....	88,775	608	85,631	558	86,145	558	+3,757	-	-	89,902	558
Rescission.....	-177	-	-	-	-	-	-	-	-	-	-
Bal. Available, SOY.....	13,470	-	10,541	-	3,549	-	-945	-	-	2,604	-
Recoveries, Other (Net).....	351	-	-	-	-	-	-	-	-	-	-
Total Available.....	102,419	608	96,172	558	89,694	558	+2,812	-	-	92,506	558
Lapsing Balances.....	-105	-	-48	-	-	-	-	-	-	-	-
Bal. Available, EOY.....	-10,541	-	-3,549	-	-2,604	-	-	-	-	-2,604	-
Total Obligations.....	91,773	608	92,575	558	87,090	558	+2,812	-	-	89,902	558

Project Statement
Obligations Detail and Staff Years (SY)
(Dollars in thousands)

Program	2011 Actual		2012 Actual		2013 Estimate		Inc. or Dec.		2014 Estimate	
	Amount	SY	Amount	SY	Amount	SY	Amount	SY	Amount	SY
Discretionary Obligations:										
Audit.....	\$43,337	310	\$41,931	285	\$42,211	285	+\$1,841	-	\$44,052	285
Investigations.....	45,106	298	43,642	273	43,934	273	+1,916	-	45,850	273
Subtotal.....	88,443	608	85,573	558	86,145	558	+3,757	-	89,902	558
Supplemental Obligations:										
Emergency Supp.....	50	-	10	-	-	-	-	-	-	-
Recovery Act.....	3,280	-	6,992	-	945	-	-945	-	-	-
Subtotal.....	3,330	-	7,002	-	945	-	-945	-	-	-
Total Obligations.....	91,773	608	92,575	558	87,090	558	+2,812	-	89,902	558
Recoveries, Other (Net).....	-	-	-	-	-	-	-	-	-	-
Lapsing Balances.....	105	-	48	-	-	-	-	-	-	-
Bal. Available, EOY.....	10,541	-	3,549	-	2,604	-	-	-	2,604	-
Total Available.....	102,419	608	96,172	558	89,694	558	+2,812	-	92,506	558
Rescission.....	177	-	-	-	-	-	-	-	-	-
Bal. Available, SOY.....	-13,470	-	-10,541	-	-3,549	-	+945	-	-2,604	-
Other Adjustments (Net).....	-351	-	-	-	-	-	-	-	-	-
Total Appropriation.....	88,775	608	85,631	558	86,145	558	+3,757	-	89,902	558

OFFICE OF INSPECTOR GENERAL

Base funds will allow OIG to conduct and supervise audits and investigations to prevent and detect fraud, waste, and abuse and to improve the effectiveness of USDA programs and operations. As the law enforcement arm of USDA, OIG also investigates criminal activity involving the Department's programs and personnel.

Justification of Increases and Decreases

An increase of \$3,757,000 for the Office of Inspector General (\$86,145,000 and 558 staff years available in 2013).

- (1) A total increase of \$667,000 for pay costs which includes \$167,000 for annualization of the 2013 pay raise and \$500,000 for the anticipated 2014 pay raise.

This increase will allow OIG to continue to meet its objective of providing direction, supervision, and coordination of audits and investigations relating to USDA programs and operations. This critical increase is needed to support and maintain current staffing levels to meet the demands and statutory requirements of OIG. Approximately 86 percent of OIG's budget supports personnel compensation. The remaining 14 percent is expended for contract services and rental fees (7 percent); travel (4 percent); and supplies, equipment and telecommunications (3 percent).
- (2) A total increase of \$468,000 for the Council of the Inspector Generals on Integrity and Efficiency (CIGIE).

The Inspector General Reform Act (P.L. 110-409) was signed by the President on October 14, 2008. Section 6(f) (1) of the Inspector General Act 1978, 5 U.S.C. App.3, was amended to require certain specifications concerning OIG budget submissions each fiscal year. This funding will specifically support coordinated government-wide activities that identify and review areas of weakness and vulnerability in Federal programs and operations in respect to fraud, waste and abuse.
- (3) An increase of \$1,405,000 for Audit Staff (\$42,211,000 available in 2013).

This increase would be used in 2014 to support the additional field work involved in conducting audits that could, with statistical reliability, project the full dollar value of potential improper payments. Programs where statistical sampling could yield significant information on program-wide improper payments include Supplemental Nutrition Assistance, Crop Insurance, Pigford II, and Rural Development, which total about \$121¹ billion in expenditures each year.

 - (a) An increase of \$785,000 will enable OIG to conduct audits that would accurately project the extent of improper payments in USDA benefit program.

With the funding available under its annual appropriation, OIG has only been able to provide audit coverage to USDA benefit programs by utilizing audits based on judgmental samples, rather than the statistically valid random samples necessary to support program-wide loss projections. Using judgmental samples has meant, for instance, that when performing an audit of a USDA loan program, OIG would determine which and how many local offices to visit and loan records to review based primarily on which sites it could visit to cover the greatest number of loan records at the lowest cost. When the audit was done, OIG could assess how the program was handled at the sites visited; OIG could not, however, use the information collected to reliably project the extent of improper payments in the program, nationwide. So, while the use of judgmental samples enabled OIG to stretch its funds to cover audits of a greater number of USDA programs, it prevented OIG from reliably describing the full scope of improper payment problems that may exist in those programs.

With an increase in oversight funding, OIG will be able to fund extra staff hours and field work required to do random statistical sampling on additional programs. The most notable example of OIG's work was the recent audit of Rural Development's Single Family Housing Guaranteed Loan Program. Because OIG utilized random statistical sampling in deterring the sites and records to be reviewed in this audit, OIG could with full statistical

¹ The \$121 billion includes the 2013 budget authority of \$94.4 billion for SNAP and \$2.85 billion for Rural Development. It also includes \$22.9 billion for the Crop Insurance indemnity and subsidy payments for the 2012 crop year and \$1.25 billion which was included in the Pigford II Settlement Agreement.

validity, use the information it had collected during field work to project its findings onto the universe of all loans issued under Rural Development. By using this statistical method, OIG projected that approximately one-third of the guaranteed loans issued, with a total value of approximately \$4 billion, may have been improperly issued in violation of Rural Development guidelines.

With the funds requested, OIG will be able to perform necessary and statistically valid audit work in other USDA programs.

(b) An increase of \$620,000 will fund enhanced audit and investigations oversight of USDA's international programs.

Due to limited resources, OIG has not been able to perform significant oversight of USDA international programs for several years. OIG is seeking this increase to cover the increased staff hours and travel costs necessary to perform additional audits and investigations of USDA international programs, which continue to grow in terms of dollars and strategic importance. Examples of international USDA programs where OIG would provide additional oversight include the following:

- USDA international assistance programs include \$2.3 billion for the Food for Peace Program and \$5.3 billion for the Export Credit Guarantee programs. OIG has not done significant audit work in these areas in several years.
- The McGovern-Dole International Food for Education and Child Nutrition Program was established in the 2002 Farm Bill. Even though USDA has provided almost \$600 million to this program since 2008, OIG has neither reviewed nor audited the program because we could not fund the international field visits necessary to conduct a meaningful review or audit.
- In the last few years, USAID has transferred approximately \$73 million to USDA to be spent supporting the reconstruction and strengthening of agricultural and rural infrastructures in Afghanistan. Without the requested funds, OIG will not be able to provide the required oversight of the use of those funds.
- USDA's Export Credit Guarantee Programs would also benefit from greater OIG oversight. Currently, OIG has several ongoing investigations related to the above programs. These investigations are exceedingly costly and difficult to conduct because the subjects of the investigations are often located overseas. Limited funding restricts OIG's ability to conduct interviews or follow-up on information developed during such investigations.

OIG needs to increase its oversight role of USDA international programs to protect the integrity of the programs and prevent improper payment of funds. The need for OIG oversight of USDA international assistance programs will continue to grow as Congress and the Administration consider initiatives to reconstruct the agricultural and rural infrastructures of Iraq, Pakistan, and Afghanistan.

OIG audits and investigations of USDA's international programs could protect the integrity of the programs and prevent improper payment of funds by identifying necessary improvements in program internal control procedures and by identifying individuals and businesses who have attempted to defraud USDA programs – who could then be suspended or debarred from continuing to do business with any U.S. Government agency, and potentially be prosecuted criminally and/or civilly.

(4) An increase of \$1,217,000 for Investigations (\$43,934,000 available in 2013)

This increase would be used in 2014 to assist in funding investigative initiatives in the Supplemental Nutrition Assistance Program (SNAP). SNAP is USDA’s largest entitlement program. In 2011, SNAP provided almost \$70 billion in benefits to the American public. There has been a steady increase in work involving the SNAP during the past few years. In 2011, investigations spent approximately 46 percent of its time on SNAP related cases. The OIG investigative teams, in coordination with the Food and Nutrition Services, are moving forward on an initiative to establish a more targeted approach to address fraud in this program. The key components of this initiative include more actively engaging state and local authorities in our investigative work and pursuing prosecution of both the retailers and the recipients who engage in the trafficking of benefits. Any additional funding appropriated for Investigations will be used to enhance the initiative in this area.

Due to previous concerns regarding available resources, priority was placed upon conducting food safety related investigations and addressing threats against USDA employees. Investigations ensure that resources were available to conduct these high priority investigations. However, initiating these investigations led to little, if any, resources available to investigate allegations of potential criminal activity in other program areas. An overall increase in funding levels would allow Investigations to resume investigations, when appropriate, in all USDA program areas.

Geographic Breakdown of Obligations and Staff Years (SY)

(Dollars in thousands)

State/Territory	2011 Actual		2012 Actual		2013 Estimate		2014 Estimate	
	Amount	SY	Amount	SY	Amount	SY	Amount	SY
California.....	\$10,113	61	\$10,286	62	\$9,677	62	\$9,989	62
Georgia.....	9,660	73	9,788	59	9,208	59	9,506	59
Illinois.....	9,811	72	9,290	56	8,740	56	9,022	56
Maryland.....	12,982	85	12,942	78	12,174	78	12,567	78
Missouri.....	18,264	122	19,909	120	18,729	120	19,334	120
Texas.....	11,019	52	10,120	61	9,521	61	9,828	61
District of Columbia.....	19,924	143	20,240	122	19,041	122	19,656	122
Obligations.....	91,773	608	92,575	558	87,090	558	89,902	558
Lapsing Balances.....	105	-	48	-	-	-	-	-
Bal. Available, EOY.....	10,541	-	3,549	-	2,604	-	2,604	-
Total, Available.....	102,419	608	96,172	558	89,694	558	92,506	558

OFFICE OF INSPECTOR GENERAL

Classification by Objects

(Dollars in thousands)

	2011	2012	2013	2014
	<u>Actual</u>	<u>Actual</u>	<u>Estimate</u>	<u>Estimate</u>
Personnel Compensation:				
Washington D.C.....	\$8,226	\$8,298	\$7,917	\$8,665
Field.....	46,616	47,023	44,861	45,327
11 Total personnel compensation.....	54,842	55,321	52,778	53,992
12 Personal benefits.....	19,788	19,961	18,988	19,241
13.0 Benefits for former personnel.....	10	10	10	10
Total, personnel comp. and benefits.....	74,640	75,292	71,776	73,243
Other Objects:				
21.0 Travel and transportation of persons.....	3,137	3,163	2,977	3,050
22.0 Transportation of things.....	192	194	182	186
23.1 Rental payments to GSA.....	76	76	72	73
23.2 Rental payments to others.....	451	455	428	439
23.3 Communications, utilities, and misc. charges..	2,072	2,090	1,966	2,015
24.0 Printing and reproduction.....	120	121	114	116
25.1 Advisory and assistance services.....	1,210	1,221	1,148	1,177
25.2 Other services from non-Federal sources.....	978	987	928	951
25.3 Other purchases of goods and services from Federal sources.....	1,966	1,982	1,550	1,911
25.4 Operation and maintenance of facilities.....	1,481	1,494	1,091	1,440
25.5 Research and development contracts.....	750	757	712	729
25.6 Medical care.....	753	759	714	732
25.7 Operation and maintenance of equipment.....	1,411	1,426	1,027	1,375
25.8 Subsistence and support of persons.....	88	89	83	85
26.0 Supplies and materials.....	570	575	541	555
31.0 Equipment.....	1,595	1,609	1,513	1,550
42.0 Insurance & Indemnities.....	283	285	268	275
Total, Other Objects.....	17,133	17,283	15,314	16,659
99.9 Total, new obligations.....	91,773	92,575	87,090	89,902
Position Data:				
Average Salary (dollars), ES Position.....	\$165,000	\$170,000	\$171,000	\$173,000
Average Salary (dollars), GS Position.....	\$120,000	\$135,000	\$136,000	\$137,000
Average Grade, GS Position.....	14.6	15.4	15.4	15.5

OFFICE OF INSPECTOR GENERAL

STATUS OF PROGRAM

The Office of Inspector General (OIG) is operationally independent of other agencies of the Department. OIG has the responsibility to (1) supervise, coordinate, and provide policy direction for audit and investigative activities relating to programs and operations of the Department; (2) review existing and proposed legislation and regulations relating to its programs and operations and make recommendations concerning the impact of such on the Department; (3) recommend policies and conduct, supervise, or coordinate other activities of the Department for the purpose of promoting economy and efficiency and preventing and detecting fraud, waste, and mismanagement in its programs and operations; (4) keep the Secretary and Congress informed of fraud, waste, and deficiencies relating to the administration of programs and operations of the Department; and (5) recommend corrective action and report on progress made in obtaining management's agreement to implement such action.

During Fiscal Year (FY) 2012, OIG issued 331 investigative reports and 76 audit reports. Audit and Investigative results totaled \$1,545.5 million. OIG investigations resulted in 793 indictments and 538 convictions. The period from indictment to trial or other court action varies widely; therefore, the 538 convictions are not necessarily related to the 793 indictments. Our return on investment is \$18.05 for every dollar invested in OIG in FY 2012.

During 2012, OIG also issued six *Fast Reports*,² which could result in \$17.6 million in savings when the final audit reports are issued.

Audit Monetary Results: During 2012, management decisions were reached on 69 audit reports, which include both current and prior year audit reports. At the time of the management decision, the monetary values agreed to by agencies were:

	<u>(in millions)</u>
Questioned and unsupported costs and loans	\$1,438.4
Recommended recovery	29.4
Not recommended recovery	1,409.0
Funds to be put to better use	<u>0.8</u>
Total audit monetary results	1,439.2

<u>Investigative Monetary Results:</u>	<u>(in millions)</u>
Claims established	\$1.6
Recoveries and collections	12.3
Cost avoidance (USDA program payments not made due to OIG investigations)	4.7
Fines	1.2
Asset forfeitures	6.9
Administrative penalties	0.5
Restitutions	<u>79.1</u>
Total investigative monetary results	106.3

² A *Fast Report* is an interim report submitted to the action agency during an ongoing audit so USDA program managers can take corrective action as soon as problems are identified.

OIG's audit and investigative work for 2012 is summarized below in four main challenge areas. These areas are: – (1) safety and security measures to protect public health and resources; (2) integrity of benefits and entitlements programs; (3) USDA's management improvement initiatives, and (4) stewardship of natural resources – serve as both a roadmap for OIG's audit and investigative work and as the main groupings for this Status of Program Report.

SAFETY, SECURITY, AND PUBLIC HEALTH – Strengthen USDA's ability to implement safety and security measures to protect the public health as well as agricultural and Departmental resources.

USDA ensures, as a part of its mission, that the Nation's commercial supply of imported and domestic meat, poultry, and egg products is safe, wholesome, and correctly labeled. Challenges to this include food-borne illnesses and the unintentional or intentional adulteration of meat and other food products. Protection of America's animal and plant resources requires that they are safeguarded from exotic invasive pests and that trade issues relative to animal and plant health are resolved. However, the greater challenge is to ensure that the programs are working and properly administered so that the safety risk to those who consume the food products is minimized. The challenge is associated with ensuring a safe, secure, and healthy American agricultural system and economy.

Safety and security of computer and building assets are also a major concern within USDA to ensure accidental or intentional breaches are quickly identified and remedied. OIG must also immediately investigate, in cooperation with other appropriate law enforcement and regulatory agencies, when there are specific threats made against USDA employees in the performance of their official duties.

Highlights of current and planned OIG audits and investigations, as well as select examples of recent progress accomplished through OIG audits and investigations, are described below:

Highlights of Current Audit Work:

Implementation of the Public Health Information System (PHIS), Domestic Inspection. The Food Safety and Inspection Service (FSIS) implemented PHIS in an effort to collect, consolidate and analyze data to improve public health. We are analyzing the implementation of the domestic inspection module of PHIS, including whether PHIS addresses key mission elements, to determine if it adequately captures establishment profile data and was implemented within established timeframes.

FSIS *E.coli* Testing of Boxed Beef. Our objectives are to examine whether: (1) FSIS is sampling boxed beef products as required in agency procedures; (2) FSIS is entering plant profile data correctly into PHIS to ensure that the plant is eligible for trim or bench trim sampling requests; (3) industry's trace back documentation is adequate and used effectively to determine the source when *E.coli* is found; and (4) industry is identifying or labeling boxed beef product with "not intended for grinding" and the impact of such actions on food safety.

National Organic Program (NOP) – Organic Milk Operations. We plan to evaluate the implementation of the amended access to pasture and grazing rules for organic milk operations and to assess organic milk producers' compliance with NOP standards.

Plant Protection Quarantine (PPQ) Preclearance Program. Our overall objective is to evaluate the controls and processes governing the Preclearance Program. We will examine the PPQ Preclearance Program to (1) assess the effectiveness of the program in detecting and eradicating problematic pests and plants; and (2) determine whether the Animal and Plant Health Inspection Service (APHIS) has facilitated safe trade by monitoring the movement of risky material, protecting against the introduction of pests, regulating the import of plants, fruits, and vegetables, and adequately assisting exporters in meeting the entry requirements of other countries. We will also follow up on recommendations made in OIG's report 33099-0002-HY, International Programs Preclearance Process.

FSIS Inspection and Enforcement Activities at Swine Slaughterhouses. We will evaluate FSIS controls to ensure swine slaughterhouses are in compliance with food safety requirements.

Highlights of Current and Planned Investigation Work:

- Food Safety and Defense. Our most critical work involves protecting the safety of America's food supply, from farm to table. Among the specific tasks OIG will concentrate on in regard to this goal are:
- Food Safety Issues. OIG will continue to investigate individuals who engage in criminal behavior which endanger the wholesomeness of the food supply within USDA's purview.
- NOP Violations. Due to concerns regarding the wholesomeness of organic products as the result of such acts as mislabeling and use of non-organic materials in the NOP, OIG will continue outreach to USDA agencies and State agriculture departments as appropriate to ensure a coordinated approach towards investigating potential criminal violations in the NOP. OIG will continue to work with the appropriate agencies to ensure a successful conclusion to these investigations.
- Smuggling of Prohibited Items. OIG continues to investigate allegations involving the smuggling of prohibited poultry, meat, or other items into the United States that pose a threat to American agriculture and the safety of American consumers. Among the potential dangers caused by smuggled goods is the introduction of foreign plant and animal pests which have no natural enemies in the U.S. (e.g., the emerald ash borer and the Asian long-horned beetle), which can result in the devastating destruction of native species. We will also investigate smuggling and other improprieties involving the export of adulterated or unsafe poultry, meat, and other USDA-regulated items.

Homeland Security. OIG has an essential role in working with other governmental agencies to protect our Nation's agricultural resources, as well as its meat and poultry production facilities and research laboratories. Under the National Response Framework, Emergency Support Function #11, "Agriculture and Natural Resources," OIG is required to respond to an Agroterrorism event which threatens the agriculture infrastructure.

Emergency Response Program (ERP). Within the next year, the Emergency Response Team (ERT), a component of the ERP, will meet all training and certification requirements to ensure a constant state of readiness in the event ESF #11 is activated in response to a deliberate attack against the agriculture infrastructure. To maximize OIG's ability to respond to such an event, the ERT will continue to partner with other Federal agencies to ensure our interoperability with one another to act as a force multiplier. Our ERT continues to work with the Federal Bureau of Investigation (FBI) and USDA agencies such as APHIS and FSIS to facilitate a coordinated interagency response to an agro-terrorism event. Specifically, ERT will continue to develop its capabilities to respond to agricultural incidents involving biological and radiological components by developing joint training opportunities with APHIS, the Agricultural Research Service, and FSIS. We will support the FBI's National Joint Terrorism Task Force (NJTTF) by continuing to supply resources to the national task force, as well as regional JTTFs.

Threats to USDA Employees and Facilities. We vigorously investigate threats or harm to USDA employees and facilities, whether by a disgruntled employee, an unhappy USDA client, or individuals and outside organizations attempting to influence policy through intimidation or violence. We work with other cognizant Department and law enforcement agencies to proactively protect our employees and facilities and to investigate, with speed and efficiency, when USDA employees are threatened or harmed in the course of their duties.

Selected Examples of Recent Audits:

Application of FSIS Sampling Protocol for Testing Beef Trim for *E.coli* O157:H7. 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 FSIS guidance on 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.

Effectiveness of the 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.

Assessment of FSIS Inspection Personnel Shortages in Processing Establishments. 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 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.

Follow Up on APHIS' Implementation of the Select Agent or Toxin Regulations. To follow up on our prior audits and assess whether APHIS' new controls were effective, we assessed whether registered entities (which are licensed and regulated by APHIS) comply with regulations governing the possession, use, and transfer of dangerous biological agents and toxins, referred to as "select agents." We selected 7 out of a total of 59 registered entities and assessed APHIS' oversight of the entities. Although APHIS has made progress since our last audit, we found that it needs to strengthen internal controls over critical program areas related to monitoring the movement of select agents to alternate facilities, controlling access to select agents, ensuring that individuals handling select agents have up-to-date security clearances, and ensuring that responsible officials are adequately trained. The control deficiencies occurred because APHIS did not always (1) ensure effective monitoring of ongoing activities, (2) fully address identified risks, or (3) ensure effective communication within the select agent program. As a result, potentially dangerous violations went undetected at entities handling select agents, such as anthrax (*Bacillus anthracis*) and the plague (*Yersinia pestis*). While no safety incidents actually occurred from these violations, there is increased risk of the inadvertent or deliberate misuse of select agents. We recommended that APHIS revise its inspection procedures, establish policies and procedures for handling select agent transfers in special circumstances provide guidance to clarify the restricted access requirements, communicate more effectively on expirations of employee security assessments, and develop and conduct training for entity supervisors. Although APHIS did not agree with all of our 12 recommendations, it proposed corrective actions that address the concerns we identified. We are working with APHIS to resolve the remaining open recommendations.

USDA's Configuration, Management, and Security over Domain Name System (DNS) Servers. The Office of the Chief Information Officer (OCIO) coordinates information technology within the Department. Like other organizations, USDA and its agencies rely on 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.

Controls Over Shell Egg Inspections. In August 2010, the Department of Health and Human Services' Food and Drug Administration (FDA) posted a voluntary recall of over 500 million shell eggs nationwide that were potentially contaminated with *Salmonella enteritidis* (SE), which were reportedly linked to more than 1,900 illnesses in 11 States. We evaluated USDA's controls to detect and report SE in shell eggs and USDA's coordination within the Department and with FDA to ensure that shell eggs are fit for human consumption. Although we were unable to determine the specific cause which led to the August 2010 recall, we did determine that the lack of coordination within USDA and with FDA prevented crucial information from getting to the agencies that could have potentially limited the scope of that recall and related illnesses. Furthermore, USDA agencies' refrigeration and grademark policies and enforcement efforts would not ensure that shell eggs potentially contaminated with SE do not reach consumers.

To address these issues, we recommended that FSIS coordinate with FDA to implement a plan to ensure a seamless farm-to-table approach to shell egg safety within USDA and ensure crucial information related to shell egg safety is collected and shared within USDA and with FDA. We also recommended that FSIS implement a scientific-based policy on shell egg refrigeration, and a process to take progressively stronger enforcement actions against companies that repeatedly violate its policy. For the Agricultural Marketing Service (AMS), we recommended that it take the necessary steps to prevent the USDA grademark from being placed on shell eggs potentially contaminated with SE. We reached resolution on recommendations addressed to AMS. Since report issuance, we have met with FSIS officials to discuss their follow up response and their efforts to achieve management decision on recommendations addressed to the agency.

National Organic Program's List of Allowed and Prohibited Substances. 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.

Additional completed work can be accessed by linking to OIG's Webpage <http://www.oig.usda.gov/>.

Selected Examples of Recent Investigations:

Food Safety and Defense: Adulteration. In May 2012, 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 under which it 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.

Food Safety and Defense: Illegal Transport of Citrus Plants. 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 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.

Food Safety and Defense: NOP. 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 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 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.

Food Safety and Defense: NOP. In November 2012, a Canadian businessman who falsified information about the ingredients in purportedly organic fertilizer was sentenced to 12 months in jail, followed by 36 months of probation (including 6 months to be served in a half-way house), was ordered to pay a fine of \$125,000 and a \$200 special assessment, and was ordered to perform 1,000 hours of community service in the organic industry. He was also banned from participating in all USDA programs. Our investigation disclosed that, between April 2000 and December 2006, he falsely represented that fertilizer produced by his company contained only true organic materials, when in fact the fertilizer was manufactured using ammonium chloride and, later, ammonium sulfate, which do not qualify as organic substances under NOP list of approved substances. The man was charged in June 2010 with eight counts of mail fraud, one count of conspiracy to commit mail fraud, and two counts of false statements. At that time, he had returned to his home in Canada. He was arrested in October 2010 upon re-entering the United States. In July 2011 a superseding indictment was filed. In February 2012, he pled guilty to two counts of mail fraud in connection with the sale of the fertilizer that was falsely represented to meet organic standards.

Homeland Security: ERT and Agro-terrorism Preparation. Recent agro-terrorism and national response exercises included a table top exercise to prepare for a radiological/nuclear incident in the farming and ranching community within the State of Arizona; Radiological Response Training with USDA-APHIS for incidents involving radiological material from its irradiators; numerous table top exercises and presentations regarding threats to the food and agriculture sectors; and a continuance to the Select Agent Program tabletop exercise with APHIS, Centers for Disease Control and Prevention (CDC), and the FBI that simulated an ERT response to a joint APHIS and CDC facility after a natural disaster. ERT also conducted a full-team training and exercise demonstrating its response to threats in USDA facilities containing select agents. OIG agents belong to other regional working groups and are members of Anti-Terrorism Advisory Councils in a number of U.S. Attorney Districts.

Threats to USDA Employees. An OIG investigation determined that a farmer made threats against a Farm Service Agency 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 threatened the OIG agent that he could "blow you away" if he wanted to. He said he expressed a desire to get people's attention and figured it had worked. The farmer was charged 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.

INTEGRITY OF BENEFITS AND ENTITLEMENTS PROGRAMS – Reduce program vulnerabilities and strengthen program integrity in the delivery of benefits to program participants.

USDA works to harness the Nation’s agricultural abundance with a goal of ending hunger and improving nutrition and health throughout the country and the world. Benefit and entitlement programs in USDA include many programs that provide payments directly to those individuals or entities in need of support in order to achieve the goals of USDA.

In addition, USDA helps rural communities develop, grow, and improve their quality of life by targeting financial and technical resources to areas of greatest need. Programs include those that help build competitive businesses and community facilities and low-to moderate-income housing. Other programs establish and sustain agricultural cooperatives, and provide modern, affordable utilities. There is potential for misuse of the funds that USDA administers by organizations and individuals. USDA’s challenge is to ensure the integrity of these entitlements and benefits programs, particularly those related to nutrition, farm programs, and rural communities.

Highlights of current and planned OIG audits and investigations, as well as select examples of recent progress accomplished through OIG audits and investigations, are described below:

Highlights of Current Audit Work:

Recovery Act: Loss Claims Related to Single Family Housing (SFH) Guaranteed Loans. We will evaluate the Rural Housing Service’s (RHS) internal controls over issuing loss claim payments involving Recovery Act funds to lenders participating in the SFH Guaranteed Loan Program. We also plan to assess whether RHS properly determined why the loans failed and whether RHS properly denied, reduced, or recovered loss claims from lenders who violated program requirements.

Controls Over Prevented Planting. Our objective is to assess the Risk Management Agency’s (RMA) management controls over the prevented planting provisions of the Federal Crop Insurance Program. Specifically, we will evaluate whether RMA established adequate policies and procedures for approved insurance providers (AIP) to implement and administer the prevented planting provisions to meet the intended purpose and goals of the program.

National School Lunch Program Food Service Management Companies (FSMC) and Cost-reimbursable Contracts. In response to a Congressional request to the Secretary, we are determining whether school districts that signed cost-reimbursable contracts with FSMCs under the Food and Nutrition Service’s (FNS) National School Lunch Program are receiving all purchase discounts, rebates, and the value of donated commodities from their FSMC. We are following up on FNS’ implementation of recommendations identified in previous audit reports.

Vendor Management and Participant Eligibility in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). We are evaluating vendor management under WIC to assess implementation of new regulations and corrective actions regarding improper payments.

Controls Over the Grant Management Process of the Office of Advocacy and Outreach (OAO). We are reviewing and evaluating OAO’s policies, procedures, and internal controls related to its grant management process.

Highlights of Current and Planned Investigation Work:

OIG continues to look into the most significant criminal violations involving benefits/entitlement fraud in the wide array of programs administered by USDA agencies. These include FNS programs that operate in every county of the Nation, including the largest cities; FSA programs that support farmers; and many other programs. We will focus our investigative efforts on fraud involving the following programs:

FNS Supplemental Nutrition Assistance Program (SNAP) and Women, Infants and Children (WIC) Program.

Participation in SNAP has reached record numbers in the last several years. OIG has seen an increase in its investigations of fraud in this program. OIG will continue to use all available investigative tools to aggressively investigate SNAP fraud. We will leverage financial information and other tools, as well as explore trends in fraudulent SNAP activities by electronic benefit transfer (EBT), to determine vulnerabilities, critical risks, and gaps in program controls. Whenever possible, we will use asset forfeiture to disrupt and dismantle organized SNAP fraud/money laundering activities. OIG will continue to work closely with FNS, as well as State and local law enforcement entities that have a joint interest, to investigate these violations.

Additionally, OIG plans to focus its investigative resources on fraud in the WIC Program. As several States begin to transition from the traditional paper vouchers to EBT, OIG plans to work closely with FNS and those States to identify ways the new technology will assist in our investigations to ensure the integrity of the WIC Program.

FSA Programs. Within the last year, farmers throughout the US experienced significant droughts resulting in crop and livestock loss. FSA has provided financial assistance to farmers through several Disaster Assistance programs. Investigations will allocate resources as needed to investigate potential fraud in Disaster Assistance programs.

Selected Examples of Recent Audits:

Single-Family Housing Direct Loans Recovery Act Controls—Compliance Review. Rural Development (RD) received over \$1.56 billion in Recovery Act funds to provide SFH direct loans to borrowers for 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 information in the loan files. We recommended that RD ensure that it consistently update its handbook, effectively publicizes the updates, and maintains ongoing training for field staff. Agency officials agreed.

FSA Biomass Crop Assistance Program: Collection, Harvest, Storage, and Transportation Matching Payments 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.

Conservation Reserve Program (CRP)—Soil Rental Rates. FSA administers 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 Natural Resources Conservation Services (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.

Validity of New Producers. To administer the Federal Crop Insurance Program, RMA partners with AIPs 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 with all our recommendations.

Analysis of FNS’ SNAP Fraud Prevention and Detection Efforts. 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 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 participants are potentially receiving duplicate benefits in the same State or benefits from neighboring States.

In total, our individual State reports identified 27,044 potentially ineligible recipients and \$3.7 million in questioned monthly benefits (see chart below):

	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
Total	27,044	3,707,847

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

Additional completed work can be accessed by linking to OIG's Webpage <http://www.oig.usda.gov/>. Other completed work under the Recovery Act is cited under other exhibits in our status of program submission.

Selected Examples of Recent Investigations:

FSA Fraud-False Statements. As the result of an OIG investigation, in December 2011 a California businessman was sentenced for submitting false statements on several FSA loan applications and making false representations to a bank. He was ordered to serve 50 months in prison, followed by 60 months of supervised released, and ordered to pay a total of \$800,000 in restitution to FSA and the bank he defrauded. The man submitted the false information on behalf of a company he controlled to obtain FSA loans and a line of credit from the bank. In December 2010, he was charged with making a false statement to a government agency, bank fraud, and aggravated identity theft. He pled guilty in July 2011 to the first two charges.

FSA Fraud- Theft of Government Property. In April 2012, an Arizona farmer and his wife were sentenced 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.

FSA Fraud- Transport of Stolen Commodities. In June 2012, the owner of a North Carolina grain elevator was sentenced for interstate transportation of stolen commodities. In September 2009, the owner entered into an agreement to store grain for a third party. The OIG 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.

RMA Crop Insurance. In August 2010, the Internal Revenue Service (IRS) arrested an Illinois farmer for bankruptcy fraud and money laundering because he used the names of shell companies to sell corn and avoid liens that banks held against his assets. After his arrest, RMA and OIG conducted a joint investigation into his activities. We determined that the farmer had underreported his crop production in 2009 and 2010, thus defrauding the government of more than \$500,000. The farmer pled guilty to money laundering and bankruptcy fraud. In February 2012, he was sentenced to 51 months in Federal prison and ordered to pay restitution totaling \$1.8 million to a private bank and to his father. The farmer also accepted a debarment agreement under which he will be voluntarily disqualified from all USDA programs for 5 years.

RMA Crop Insurance. 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 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.

Rural Housing Service Fraud. In March 2012, a Mississippi woman who embezzled funds from a company that managed apartment complexes was sentenced to 89 months in prison, followed by 60 months' supervised release, and was ordered to pay \$507,000 in restitution. The OIG investigation disclosed that this woman embezzled over \$390,000 from the company by transferring money out of business bank accounts, altering business bank records to conceal the theft, and fraudulently obtaining and using a business credit card for her personal use. The company oversaw the management and maintenance of apartment complexes throughout Mississippi, including 11 complexes which were constructed under RHS' Multi-Family Housing Program. Of the \$390,000 stolen, \$70,000 were Federal funds held as security by RD for the Multi-Housing Program loan. The woman was charged in June 2011 with two counts of bank fraud, one count of theft of public money, and one count of aggravated identity theft. She pled guilty in October 2011 to one count of bank fraud and one count of aggravated identity theft.

SNAP EBT- Trafficking Fraud.

Two South Carolina Convenience Stores Exchanged SNAP Benefits for Cash, Cigarettes, and Clothing. An OIG investigation resulting from escalation of a USDA FNS retailer investigations case and an FNS referral, and conducted jointly with the Richland County, South Carolina, Sheriff's Office, and IRS-CI, found that between January 2009 and October 2011 two convenience stores owned by a man and his nephew illegally exchanged more than \$4 million in SNAP benefits for cash and ineligible products, such as cigarettes and clothing. Both store owners, as well as two employees, have been charged with and pled guilty to Federal trafficking violations. In February 2012, one of the store owners was sentenced to 41 months in prison and was ordered to pay \$2.3 million in restitution, while one of the employees was sentenced to 5 years' supervised probation, including 8 months of electronic monitoring. In March 2012, the other store owner was sentenced to 60 months in prison and ordered to pay \$1.6 million in restitution. Another employee was sentenced to 18 months in prison.

Central Texas Store Owner Sentenced to 33 Months' Imprisonment for Trafficking in SNAP Benefits. In August 2012 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. The OIG investigation determined that from October 2009 through June 2011, the store owner 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. An OIG investigation of two stores in Lake Charles, Louisiana, disclosed that 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, 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.

WIC Fraud. The OIG investigation, which was conducted jointly 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 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.

FNS Child and Adult Care Feeding Program. 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. The OIG 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 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.

MANAGEMENT IMPROVEMENT INITIATIVES – Support USDA in implementing its management improvement initiatives.

To strengthen management through more efficient program operations that offer improved customer service, OIG works with USDA agencies to (1) improve human capital and real property management; (2) improve financial management; (3) expand electronic government; (4) eliminate improper payments; and (5) enhance research and development criteria as they pertain to programs and agencies within USDA.

Highlights of current and planned OIG audits and investigations, as well as select examples of recent progress accomplished through OIG audits and investigations, are described below:

Highlights of Current Audit Work:

NRCS Oversight and Compliance Activities. We are determining if NRCS' oversight and compliance activities are adequate to achieve effective and efficient operations, ensure compliance with laws and regulations, and ensure government resources are used to achieve intended program results.

Recovery Act: Broadband Initiative Program (BIP) Pre-Approval and Post Award Controls. In our first phase of this audit, we plan to assess the Rural Utilities Service's (RUS) internal controls over the approval of BIP loan and grant applications (pre-approval controls). We will determine if: (1) RUS' corrective actions addressed prior OIG and U.S. Government Accountability Office broadband audit recommendations as they relate to BIP, (2) RUS' controls were adequate to ensure BIP participants and projects met eligibility requirements, (3) RUS established effective controls over contractor reviews of BIP applications, (4) RUS effectively coordinated BIP with the National Telecommunications and Information Administration and Federal Communications Commission, (5) RUS took actions to mitigate the risks of overbuilding in service areas, and (6) RUS' definitions of "unserved" and "underserved" areas met the intent and purpose of the Recovery Act.

In the second audit phase, our objectives are to assess RUS' controls over BIP awardees' fulfillment of their grant and loan/grant agreements (post-award controls). We will also evaluate the effectiveness of BIP in meeting/attaining the goals of the Recovery Act.

USDA's 2012 Compliance with the Improper Payments Elimination and Recovery Act of 2010. We will review USDA's 2012 agency financial report (AFR) and accompanying information to determine whether the agency is compliant with the Improper Payment Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act, within 120 days of the AFR issuance.

In Re Black Farmers Discrimination Litigation. The 2008 Farm Bill permitted any claimant who had submitted a late-filing request under Pigford I and who had not previously obtained a determination on the merits of his or her claim to petition in Federal Court to obtain such a determination. These complaints were consolidated into a single case, In re Black Farmers Discrimination Litigation (commonly referred to as Pigford II), and an agreement was reached to settle these complaints. Through passage of the Claims Resolution Act of 2010³, Congress appropriated \$1.15 billion to settle the claims.⁴ The Act also provided that USDA OIG shall, within 180 days of the initial adjudication of claims, and subsequently as appropriate, perform a performance audit based on a statistical sampling of adjudicated claims. We have statistically selected a sample of claims and are currently reviewing the adjudication process.

Effectiveness of the Department's Recent Efforts to Enhance Agricultural Trade. We are evaluating USDA's efforts to enhance agricultural trade in response to the President's March 2010 National Export Initiative. We are also following up on corrective actions taken by the Foreign Agricultural Service (FAS) on our 2007 audit on international trade.

USDA's Consolidated and Agencies' Financial Statements. We will conduct our annual audits of 2012/2013 and 2014 USDA consolidated financial statements and the financial statements of the six stand-alone agencies and entities—FNS, Forest Service (FS), NRCS, RD, the Federal Crop Insurance Corporation, and the Commodity Credit Corporation.

Federal Information Security Management Act Review. We will perform our mandated annual reviews for 2013 and 2014 of the security over USDA's IT resources to ensure that it complies with the Federal Information Security Management Act of 2002.

Beef Research and Promotion Board Activities. We will determine if AMS' internal controls are adequate to ensure that beef check-off funds are collected and used in accordance with the Beef Research and Information Act and the Beef Promotion and Research Order.

Highlights of Current and Planned Investigation Work:

OIG will support USDA in implementing its management improvement initiatives, focusing on areas such as IT security; the management of IT systems to mitigate inappropriate disclosure, modification, or deletion of data; and enhancement of cyber security through increased awareness of system security threats and risks. In addition, OIG is continuing its long and successful history of investigating public corruption, with our investigations leading to the prosecution and removal of USDA, State, and contractor employees who have defrauded USDA programs to obtain personal benefit.

Technical Crimes Division (TCD). OIG's TCD will continue to provide investigative technology assistance to ongoing investigations by securing and applying advanced forensic tools to obtain and document evidence of an alleged crime. The TCD continues to provide forensic support as needed to USDA agencies.

Public Corruption. OIG will continue to investigate allegations against current and former USDA employees who are alleged to have abused their positions, embezzled funds, stolen property, misused government equipment, or violated ethics rules.

Selected Examples of Recent Audits:

Federal Information Security Management Act (FISMA) Report 2012. In the 2012 audit, we reported that while improvements have been made in the Department's IT security in the last decade, many longstanding weaknesses remain. As in the previous year's FISMA audit, we noted that the Department should rethink its policy of

³ Public Law 111-291, signed December 8, 2010.

⁴ This is in addition to the \$100 million provided through the 2008 Farm Bill.

attempting to simultaneously achieve numerous goals in short timeframes. To mitigate the continuing material weakness, USDA and its agencies should work together to define and accomplish a manageable number of critical objectives before proceeding to the next set of priorities. The Department needs to develop plans, with realistic timeframes, to resolve the 29 outstanding recommendations from the 2009-2011 FISMA audit reports and the 6 recommendations in the 2012 report. OCIO agreed with the findings in this report.

Oversight of Federally Authorized Research and Promotion Board Activities. At AMS' request, OIG reviewed how the agency oversees the activities of the various research and promotion boards that producers, growers, and other stakeholders have created for agricultural commodities. We found that AMS could strengthen internal controls related to its oversight of board activities. Prior to November 2010, AMS had not provided sufficient clarity about its role and responsibilities in overseeing funds used by these boards. In addition, AMS did not always ensure that boards provided critical information needed to accurately assess their activities. The revised guidelines that AMS released in November 2010 clarified the agency's oversight role by reinforcing its management reviews of research and promotion boards and strengthening policies on various administrative functions, among other improvements. We recommended that AMS could further improve its processes by developing standard operating procedures to ensure consistency in staff oversight responsibilities and by developing and implementing periodic internal reviews of the agency's program areas that oversee the boards. AMS agreed with our findings and recommendations.

Migratory Bird Habitat Initiative: NRCS' Response to Issues Caused by the Deepwater Horizon Oil Spill. 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 its limited resources and achieve greater impact with future program funding. Since NRCS did not agree with OIG on this issue, OIG has elevated this issue to the to the Under Secretary's office for a decision.

USDA's 2011 Improper Payments Elimination and Recovery Act (IPERA) of 2010—Compliance Review. Congress enacted IPERA to increase agency efforts to report, reduce, monitor, and resolve the problems that cause improper payments. IPERA requires OIG to determine whether USDA has complied with the Act annually, starting with 2011. This is OIG's first IPERA report.

USDA reported to Congress several of its 16 "high risk" programs have considerably reduced their improper payment rates. In 2009, USDA estimated that, overall, these programs made 5.92 percent of their payments in error; in 2010, USDA reported that it reduced that rate to 5.37 percent. However, when we evaluated the improper payment information the Office of the Chief Financial Officer (OCFO) reports annually for USDA, we found that USDA did not fully comply with four of seven requirements. USDA did not always report complete information about programmatic corrective actions and meet annual reduction targets. As for the two other reported issues, USDA did not report any estimate for 1 of the 16 high-risk programs and, USDA reported error rates in excess of the 10 percent threshold for 2 of the 16 high-risk programs.

Because internal controls over USDA's improper payment reporting have not been fully developed, USDA's improper payment estimates may be understated, and USDA may have provided inaccurate information to Congress about its progress made to prevent and eventually eliminate improper payments. We recommended that OCFO enhance internal controls, including guidance, oversight, and second-party reviews over the improper payment reporting process. OCFO agreed with our recommendations.

OCIO's 2010 and 2011 Funding Received for Security Enhancements. To enhance the security of USDA's IT posture, Congress increased OCIO's baseline appropriations by a total of \$66 million for 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.

USDA's Consolidated and Agencies' Financial Statements—2012 Audit Opinions. The USDA Consolidated Financial Statement audit report and the Rural Development, Commodity Credit Corporation, Forest Service, FNS, and RMA/Federal Crop Insurance Corporation Financial Statement audit reports were issued with unqualified opinions for 2012 and 2011. The NRCS audit resulted in a disclaimer of opinion for 2012; however, the errors were determined not to be material to the USDA consolidated financial statements, taken as a whole.

The NRCS disclaimer of opinion was the result of NRCS' inability to provide timely and competent evidential material to enable the independent public accountant to perform audit procedures to determine that the amounts included in NRCS financial statements as of and for the year ended September 30, 2012, are complete and free of material misstatement. In addition, the independent public accountant identified seven weaknesses in the areas of NRCS' general accounting operations; financial reporting; property, plant, and equipment; accrued expenses; reimbursable agreements; information technology; and undelivered orders and new obligations. The first five deficiencies are considered to be material weaknesses and the last two to be significant deficiencies.

The internal control reports over financial reporting identified two and six significant deficiencies that were deemed to be material weaknesses for the consolidated USDA and six standalone entities, respectively. The consolidated USDA report reported one other significant deficiency while the stand alone entities reported seven significant deficiencies. Additionally, the reports on compliance and other matters identified one and eight instances of noncompliance for the consolidated USDA and stand-alone entities, respectively.

Additional completed work can be accessed by linking to OIG's Webpage <http://www.oig.usda.gov/>. Other completed work under the Recovery Act is also cited under other exhibits in our status of program submission.

Selected Examples of Recent Investigations:

Public Corruption – False Claims. In May 2012, a Federal grand jury returned an 11-count indictment charging a former Florida FSA county committee member and her husband with conspiracy to defraud USDA. An OIG investigation revealed 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. Both individuals pled guilty to the entire indictment, and 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.

Public Corruption – Bank Fraud. In August 2012, a former County Executive Director (CED) was sentenced 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 OIG 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 the position. Her husband is awaiting sentencing.

Public Corruption – False Statements. An OIG investigation found that a former FSIS District Veterinary Medical Specialist in Georgia submitted false academic credentials in order to gain employment as a veterinarian with the

agency; he was subsequently paid approximately \$188,000 in salary for a position he was not qualified to hold. This employee also signed over 600 food export certificates in which he falsely represented himself as a veterinarian. In October 2011, the former FSIS employee pled guilty to wire fraud and false statements; he was sentenced to 21 months in prison and was ordered to pay \$187,973 in restitution.

STEWARDSHIP OF NATURAL RESOURCES – Increase the efficiency and effectiveness with which USDA manages and exercises stewardship over natural resources.

The administration of national forests and grasslands, including the restoration and health of the watershed and sustainable forest ecosystem management, is a major concern. USDA conservation activities on public and private lands are through cooperative efforts with State, Tribal, and local governments, as well as with conservation districts, non-governmental organizations, private land managers, and local interests.

Our goal is to work with USDA agencies to maintain healthy watersheds, high quality soils, and sustainable ecosystems; to enhance soil quality to maintain productive working croplands; and to protect forests and grasslands and enhance the wildlife habitat these areas foster.

Highlights of current and planned OIG audits and investigations, as well as select examples of recent progress accomplished through OIG audits and investigations, are described below:

Highlights of Current Audit Work:

Forest Service (FS) Performance Measures for Recovery Act Projects. We will determine whether FS Recovery Act-funded activities met the goals and objectives of the Recovery Act. Specifically, we will (1) determine whether FS implemented performance measures that met both Office of Management and Budget (OMB) guidance and the Government Performance and Results Act and (2) review controls over these performance measures to determine whether related accomplishments were correctly reported.

Recovery Act – FS Hazardous Fuels Reduction/Ecosystem Restoration on Non-Federal Lands. Our objectives are to determine whether FS and subsequent recipients of Recovery Act funds (1) complied with laws and regulations pertaining to the Recovery Act funding; (2) selected projects that met eligibility and program requirements; and (3) accurately accounted for and timely completed projects in accordance with award expectations.

Management of Oil and Gas Resources on National Forest System Land. We are evaluating FS' management of oil and gas resources on National Forest System land. Specifically, we are assessing potential weaknesses we previously identified when we surveyed the agency's implementation of the National Energy Policy Act.

FS Firefighting Cost Share Agreements with Non-Federal Entities. We plan to evaluate the adequacy of FS' controls surrounding the administration of firefighting cost-share agreements. Specifically, we will determine whether (1) cost-share agreements were in accordance with cooperative fire protection agreements; (2) firefighting suppression costs were equitably shared; and (3) cost reimbursements were properly determined.

Highlights of Current and Planned Investigation Work:

OIG will ensure that the Wildland Fire Investigations Team receives the appropriate training and certification to ensure its ability to conduct an independent investigation whenever wildfire entrapment or a burn over results in the death of a FS firefighter, even though in some years there are no FS firefighting fatalities resulting from wildfire entrapment or burn over.

Selected Examples of Recent Audits:

Recovery Act: Wildland Fire Management – Wood to Energy Projects. The Recovery Act awarded the 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 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.

Recovery Act: Capital Improvement and Maintenance Projects – Trail Maintenance and Decommissioning. 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 recommended 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 concurred with the report's findings and recommendations.

Evaluation of FS' Processes to Obtain and Grant Rights-of-Way and Easements. Because FS and timber companies often share roads on national forest lands, the Forest Roads and Trails Act (FRTA) gave the agency the authority to formalize agreements with timber companies on the maintenance and use of these shared roads. OIG reviewed how FS was exercising this authority and found that, while agency personnel are properly granting and acquiring easements, they are not prepared to effectively address the issues arising from the sale of private forest land with FRTA easements for residential development and commercial use. While FS cannot stop development on private land or restrict access to FRTA roads, it should assess risks, develop strategies to lessen the impacts of changing land use, and incorporate appropriate changes into the agency's planning rule and strategic plan. Further, to avoid confusion and dispute, FS should attempt to implement a FRTA easement amendment, which would clarify rights and responsibilities before successor landowners come into possession of lands containing these easements, and provide sufficient guidance to local field staff on how to address landowner disputes once the land has been sold. Agency officials agreed with four of the seven recommendations at report issuance. We have since reached management decision on the remaining three recommendations.

Recovery Act: FS Capital Improvement and Maintenance Projects – Roads, Bridges, and Related Watersheds. As part of the Recovery Act, FS was awarded \$272 million for road maintenance and decommissioning, bridge maintenance and decommissioning, and related watershed restoration and ecosystem enhancement. Based on our statistical sample of project contracts, we found that FS generally complied with Recovery Act requirements and effectively completed the projects we reviewed, with three exceptions. We determined that 148 of 795 contracts (19 percent) did not fully comply with procurement requirements. Because contracting officers or procurement templates did not always adhere to updated requirements, there was increased risk that contractors who received contracts worth almost \$63 million may not complete them to Recovery Act specifications. We also determined that four employees erroneously charged administrative costs of \$21,458 to Recovery Act job codes while working on unrelated projects. Finally, we found that FS inaccurately reported accomplishments for 11 of the 96 contracts and agreements because personnel made inadvertent errors, such as transcription and data entry errors. As a result, FS

did not fully meet the transparency objective of the Recovery Act. We recommended that the agency remind personnel to publicize and verify information, ensure that contracts are in accord with specifications, emphasize the importance of charging time correctly, and correct any errors in the agency's accomplishment reports. FS generally agreed with OIG's recommendations.

Recovery Act: Capital Improvement and Maintenance Projects – Facility Improvement, Maintenance, and Rehabilitation. 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 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.

Forest Service's Use of Recovery Act Funds for Wildland Fire Management on Federal Lands. 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 in 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.

Additional completed work can be accessed by linking to OIG's Webpage <http://www.oig.usda.gov/>. Other completed work under the Recovery Act is also cited under other exhibits in our status of program submission.

Selected Examples of Recent Investigations:

FSA Conservation Reserve Enhancement Program- 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 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.

Land Trust Organization Enters into a Settlement with the Government. In November 2011, a land trust organization entered into a settlement agreement in which they agreed to pay \$50,000 to partly reimburse NRCS for overpayments caused when the organization's former executive director submitted false statements to the agency. Our investigation disclosed that the false statements caused NRCS to overpay for conservation easements from four Wisconsin landowners participating in the Farm and Ranchlands Protection Program. The organization also agreed to accept a voluntary 36-month exclusion from Federal conservation easement programs and to take remedial

measures to further comply with standards developed by a national organization that governs land trusts. Also in November 2011, the organization's former executive director agreed to repay \$15,000 provided under the program and voluntarily agreed to be permanently excluded from submitting or participating in Federal Conservation Reserve Programs or other USDA programs.

OFFICE OF INSPECTOR GENERAL

Summary of Budget and Performance
Statement of Agency Goals and Objectives

The Office of Inspector General (OIG) was established pursuant to the Inspector General Act of 1978 (5 U.S.C. app. 3). The Mission of the agency is to promote effectiveness and integrity in the delivery of USDA agricultural programs.

OIG has five strategic goals and ten strategic objectives that contribute to all of the strategic goals of the Department.

Agency Strategic Goal	Agency Objectives	Programs that Contribute	Key Outcomes
Strengthen USDA's ability to implement safety and security measures to protect the public health as well as agricultural and Departmental resources.	Target resources to address those critical risks.	Audit/ Investigations	1. Definition of criteria to establish priorities in terms of dollars; level of Congressional, Departmental, or public interest; risk factors; or other concerns to reduce fraud, waste and abuse in Federal programs.
Reduce program vulnerabilities and strengthen program integrity in the delivery of benefits to program participants.	Target resources to address those critical risks.	Audit/ Investigations	2. Definition of criteria to establish priorities in terms of dollars; level of Congressional, Departmental, or public interest; risk factors; or other concerns to reduce fraud waste and abuse in Federal programs.

Agency Strategic Goal	Agency Objective	Programs that Contribute	Key Outcomes
Support USDA in implementing its management improvement initiatives.	Target resources to address those critical risks.	Audit/ Investigations	<p>3. Establishment of prevention and detection methods to reduce program losses.</p> <p>4. Continuous evaluation of our technological and physical resources to aid USDA in facing new technology-based and information security challenges to reduce fraud, waste and abuse in Federal programs.</p>
Increase the efficiency and effectiveness with which USDA manages and exercises stewardship over natural resources.	Target resources to address those critical risks.	Audit/ Investigations	5. Definition of criteria to establish priorities in terms of dollars; level of Congressional, Departmental, or public interest; risk factors; or other concerns.
Strive for a highly qualified diverse workforce with the tools and training necessary to continuously enhance OIG's ability to fulfill its mission and communicate its accomplishments.	Hire, train, develop, motivate and effectively manage a high-performing and diverse frontline, supervisory, and executive workforce with the technical and workplace skills necessary to meet OIG's strategic goals and plans.	OIG supports all USDA Strategic Goals	6. Utilization of self-assessment tools, such as surveys, to continually measure the impact of our human capital efforts and organizational progress.

Agency Strategic Goal	Agency Objective	Programs that Contribute	Key Outcomes
	<p>Continuously acquire and deploy state-of-the-art technology, equipment, and other physical resources to enable OIG to meet its strategic goals and annual plans.</p> <p>Enhance internal OIG communication so that all staff understands OIG's priorities and the contribution their work makes toward fulfilling OIG's mission.</p> <p>Provide timely and reliable legal and management advice, reports, and services to support the effective functioning of all OIG components.</p> <p>Support the integrity of OIG operations by maintaining an effective quality assurance and internal review program.</p> <p>Effectively communicate the outcome of OIG's work to Congress, agency management officials, the press, and members of the public.</p>		<p>7. Achievement of human capital development goals by improving our recruitment, hiring and training of a diversified skilled workforce.</p>

Key Outcomes:

- Definition of criteria to establish priorities in terms of dollars; level of Congressional, Departmental, or public interest; risk factors; or other concerns to reduce fraud, waste and abuse in Federal programs.
- Definition of criteria to establish priorities in terms of dollars; level of Congressional, Departmental, or public interest; risk factors; or other concerns to reduce fraud, waste and abuse in Federal programs.
- Establishment of prevention and detection methods to reduce program losses.
- Continuous evaluation of our technological and physical resources to aid USDA in facing new technology-based and information security challenges to reduce fraud, waste and abuse in Federal programs.
- Definition of criteria to establish priorities in terms of dollars; level of Congressional, Departmental, or public interest; risk factors; or other concerns.
- Utilization of self-assessment tools, such as surveys, to continually measure the impact of our human capital efforts and organizational progress.
- Achievement of human capital development goals by improving our recruitment, hiring, and training of a diversified skilled workforce.

Long-term Performance Measures: OIG focuses on the most important issues that face USDA. Through coordinated audits, investigations, and other reviews, OIG addresses the areas of highest risk and provides insight and support to USDA program agencies. Our concerted efforts focus heavily on prevention, including reviewing internal control procedures and advising Departmental officials of recommended improvements needed in agency programs and operations. To determine how we are doing and where we go next, we will continue to meet periodically with stakeholders, particularly USDA management officials, U.S. attorneys, and Congressional representatives and staff to obtain feedback on our work. However, our work follows several stages of decision-making and implementation in order to ultimately influence change. The OIG will measure its performance under each of the goals by tracking the following:

- Percentage of OIG direct resources dedicated to critical risk or high-impact activities.
- Percentage of audit recommendations where management decisions are achieved within 1 year.
- Percentage of audits initiated where the findings and recommendations are presented to the auditee within established and agreed-to timeframes.
- Percentage of closed investigations that result in a referral for action to the Department of Justice, State/local law enforcement officials, or relevant administrative authority.
- Percentage of closed investigations that result in indictment, conviction, civil suit or settlement, judgment, administrative action, or monetary results.
- OIG Hotline will process, research, and refer USDA health and safety complaints within 24 hours of receipt by an analyst.

Performance Measures:

Performance Measure	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Target	2014 Target
a. Number of Audits	84	61	53	45	76	77	77
b. Dollars (in thousands)	\$38,698	\$41,964	\$43,267	\$43,337	\$41,931	\$42,211	\$44,052

Performance Measure	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Target	2014 Target
a. Number of Investigations	126	283	275	275	331	332	332
b. Dollars (in thousands)	\$40,275	\$43,676	\$45,033	\$45,106	\$43,642	\$43,934	\$45,850

Past Accomplishments Toward Achievement of Key Outcomes: During 2012, OIG has continued to demonstrate considerable law enforcement actions, recommend significant programmatic improvements, and demonstrate considerable dollar returns for the funding provided for the office.

- OIG activity has led to monetary results and financial recommendations of \$6 billion for FY 2010, 2011 and 2012, while our appropriations have been \$263 million. For every dollar invested, we have realized potential cost saving and recoveries of about \$22.95.
- Over the past several years, OIG has been continuously called upon to direct audit resources to conduct high-priority work and special assignments resulting from an increasing number of congressional requests, natural disasters, and significant agency program changes—some of which resulted from the 2008 Farm Bill.

In summary, OIG audits and investigations have continued to save the taxpayers money while fulfilling its mission of ensuring the safety of the Nation’s agricultural resources, reducing program vulnerabilities, and strengthening program integrity.

Selected Accomplishments Expected at the 2014 Proposed Resources Level: Annually, OIG identifies the areas of highest risk in significant USDA programs for audit and investigations and allocates resources to these areas. During 2014, OIG will use its audit resources to evaluate how well the Department has accomplished its strategic goals and objectives. Additionally, the following are items of high priority.

- Audits involving animal, plant and health inspections.
- Audits on USDA’s compliance with the Improper Payments Elimination and Recovery Act (IPERA) of 2010, and review agencies methodologies and plans to reduce improper payments.
- Farm program audits as well as food and nutrition, and the Forest Service programs audits.
- Investigations focusing on matters that pose immediate threat to the well-being of the American consumer, livestock, and agriculture.
- Significant investigations based on improper payments including the Supplemental Nutrition Assistance Program.
- Support of the Council of the Inspectors General on Integrity and Efficiency.
- Meet mandatory training requirements for OIG auditors and investigators.

Strategic Goal Funding Matrix

(Dollars in thousands)

Program / Program Items	2011	2012	2013	Increase	2014
	Actual	Actual	Estimate	or Decrease	Estimate
Agency Goals					
- Strengthen USDA's ability to implement safety and security measures to protect the public health as well as agricultural and Department 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.					
- Strive for a highly qualified diverse workforce with the tools and training necessary to continuously enhance OIG's ability to fulfill its mission and communicate its accomplishments.					
Audit.....	\$43,389	\$41,954	\$42,211	+\$1,841	\$44,052
Staff Years.....	310	285	285	-	285
Investigations.....	45,159	43,667	43,934	+1,916	45,850
Staff Years.....	298	273	273	-	273
Total Costs, Strategic Goals.....	88,548	85,621	86,145	3,757	89,902
Total Staff Years, Strategic Goals.....	608	558	558	-	558

OFFICE OF INSPECTOR GENERAL

Full Cost by Agency Strategic Goal

(Dollars in thousands)

OIG supports all Department Strategic Goals

Program / Program Items	2011	2012	2013	2014
	Actual	Actual	Estimate	Estimate
Audit.....	\$43,337	\$41,931	\$42,211	\$44,052
Total Costs.....	43,337	41,931	42,211	44,052
FTEs.....	310	285	285	285
Performance Measure:				
Number of Audits.....	53	76	77	77
Cost per measure (unit cost).....	914	908	938	938
Investigation.....	45,106	43,642	43,934	45,850
Total Costs.....	45,106	43,642	43,934	45,850
FTEs.....	298	273	273	273
Performance Measure:				
Number of Investigations.....	275	331	332	332
Cost per measure (unit cost).....	2,048	2,103	2,160	2,160
Emergency Supplemental.....	50	10	-	-
Recovery Act.....	3,280	6,992	945	-
Total Costs.....	3,330	7,002	945	-
Total Costs, All Strategic Goals.....	91,773	92,575	87,090	89,902
Total FTEs, All Strategic Goals.....	608	558	558	558