

**UNITED STATES DEPARTMENT OF AGRICULTURE  
OFFICE OF INSPECTOR GENERAL**

***STATEMENT OF ROGER C. VIADERO  
INSPECTOR GENERAL***

Before the  
HOUSE APPROPRIATIONS SUBCOMMITTEE  
ON  
AGRICULTURE, RURAL DEVELOPMENT, FOOD AND DRUG ADMINISTRATION,  
AND  
RELATED AGENCIES

February 11, 1999

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INTRODUCTION AND OVERVIEW

Good afternoon, Mr. Chairman and members of the Committee. I am pleased to have this opportunity to visit with you today to discuss the activities of the Office of Inspector General (OIG) and to provide you with information on our audits and investigations of some of the major programs and operations of the U.S. Department of Agriculture (USDA).

Before I begin, I would like to introduce the members of my staff who are here with me today: Jim Ebbitt, Assistant Inspector General for Audit; Greg Seybold, Assistant Inspector General for Investigations; and Del Thornsbury, Director of our Resources Management Division.

I want to thank the Committee for its support during the nearly 4-1/2 years since my appointment as Inspector General. We have tried to work closely with you, and I hope that we have been able to address some of your concerns.

OIG's mission is to perform audits and investigations of the Department's more than 300 programs and operations, recommend policies and actions to promote economy and efficiency, and prevent and detect fraud, waste, and mismanagement in these programs and operations. We keep you and the Secretary informed about problems and deficiencies and report criminal violations to the U.S. Attorney General. We have a diverse staff of auditors, criminal investigators, and other personnel in offices throughout the Nation to carry out these activities.

I am proud to say that in fiscal year (FY) 1998, we continued to more than pay our own way. In the audit arena, we issued 220 audit reports and obtained management's agreement on 1,122 recommendations. Our audits resulted in questioned costs of over \$112 million. Also, as a result of our audit work, management agreed to recover more than \$39 million and put another \$128 million to better use. Most importantly, implementation of our recommendations by USDA managers will result in more effective operations of USDA programs. Additionally, our investigative staff completed 815 investigations and obtained 777 indictments, 604 convictions, and 2,780 arrests. Investigations also resulted in \$81 million in fines, restitutions, other recoveries, and penalties during the year.

We continued to work closely with agency officials during FY 1998 to address key issues and to expand our cooperation with other Federal, State, and local law enforcement and audit agencies to broaden the impact of our work. Working together, our staffs identified program weaknesses and program violators. Capitalizing on the staffs' respective expertise, we created solutions for positive action.

In FY 1999, we are focusing our efforts primarily on food safety and smuggling of uninspected, unapproved food products carrying unwanted pests and diseases into the United States that affect the wholesomeness of the Nation's food supply. We are also focusing our audit efforts on the Department's financial accounting systems; farm credit programs; the Rural Rental Housing Program; the Food Stamp Program, including its Electronic Benefits Transfer efforts; and the Child and Adult Care Food Program. In addition to investigations and emergency responses to threats to the health and safety of food, our investigative priorities include investigations of sponsors abusing the child and adult care programs; employee integrity issues; and fraud in the Department's loan, regulatory, and benefit programs.

Before I discuss some of our specific audit and investigative activities, I would like to update the Committee on the status of our forfeiture authority.

I am pleased to report to you that on the forfeiture front, with this Committee's strong support, we are now authorized to receive proceeds from forfeiture actions arising from our investigations. Our memorandum of understanding was signed with the Department of Justice in May of last year and, since that time, we have been a fully participating agency in the Justice Department's Asset Forfeiture Fund.

### **Special Health and Safety Initiative**

Mr. Chairman, at this time, I would like to discuss our special law enforcement request for FY 2000. This effort will be a major endeavor for the agency, and we ask your support to provide the resources necessary for it.

The quality or wholesomeness of the Nation's food supply, from production to the consumer, is of special concern to OIG. Investigations of any criminal activity that poses a threat to the general health and safety of the public remain our highest priority. Criminal investigations have usually involved the processing and sale of adulterated meat or poultry and egg products; criminal tampering with food products consumed by the public; and product substitution, adulteration, or other misrepresentation of food products which are regulated or purchased by USDA.

Recent and ongoing investigations involving real or alleged threats to food products intended for the public have necessitated the immediate deployment of OIG special agents and auditors to several U.S. cities. These cases have involved real or threatened adulteration or contamination of meat with everything from E. coli bacteria or Listeria to HIV-infected human blood. Some of these products were destined for or actually ended up in the National School Lunch Program or on military bases.

To address these types of emergencies, we are entering into joint activities with other Federal and State agencies to share intelligence and conduct undercover operations. Doing so will help us stem the threat to the food supply from packing plants and other facilities and target criminal enterprise in general.

The increasing threat to the wholesomeness of domestic and exported food requires not only vigilance but also advanced preparedness including preemptive operations. Profit-motivated criminal activity that threatens the food industry can cause economic disruption while victimizing innocent members of the industry. Likewise, threats of criminal adulteration and biological contamination of food products from outside the food industry for extortion or ideological motives can victimize and disrupt the Nation's food production and distribution systems. These threats must be resolved through a vigilant, established emergency law enforcement and health and safety response.

A threat in a Milwaukee, Wisconsin, meat plant is a prime example of these types of dangers. This past December, the plant received a threat of biological contamination using HIV-infected human blood. We immediately deployed 30 OIG special agents (including eight bilingual agents to converse with Spanish-speaking plant employees) and four auditors to the scene to determine the validity of the threat and to identify those responsible. Personnel from the Food Safety and Inspection Service (FSIS) assisted in this investigation, with FSIS staff taking the lead role in ensuring that potential contaminants had not been introduced into the food chain. Our investigative efforts to resolve this bioterrorism threat continue. Approximately 580 interviews have been conducted to date. I am pleased to be able to report that extensive testing of samples taken from the plant has not indicated the presence of human HIV-infected blood.

In another significant case, an OIG Emergency Response Team was dispatched to a Nebraska meat plant to investigate an outbreak of E. coli bacteria when 15 people in Colorado became ill after eating ground beef patties that came from the plant. Two plant officials have been indicted and await trial for misleading FSIS and OIG during our attempts to determine the source of the E. coli bacteria. Some 25 million pounds of ground beef were recalled due to this contamination, which, at that time, was the largest meat recall ever in the Nation.

Additionally, we are currently investigating a significant case involving another meat company alleged to have intentionally adulterated and misbranded beef and pork products, which have also tested positive for E. coli bacteria. Approximately 4.4 million pounds of this company's meat product containing ground pork or ground beef are under voluntary hold at various school districts, prisons, military institutions, and other facilities. In addition, another 1.6 million pounds of this product are being retained or detained at other facilities.

We have also investigated other cases in which the health and safety of the public were at serious risk. In Buffalo, New York, three feed company employees pled guilty to Federal charges and await sentencing for their role in selling canned meat products to the public which were unfit for human consumption. This product was being shipped from a Canadian company to the feed company to be used as animal food but was diverted by these individuals to be sold for human consumption. In a second case in New York, an FSIS inspector pled guilty in Federal court and was sentenced to 6 months in prison for accepting bribes from the owner of a slaughter facility to permit the slaughter of livestock, including 3-D (dead, diseased, or dying) cows, without the benefit of inspection. In Pennsylvania, the owner of a slaughterhouse pled guilty to conspiracy, while three employees pled guilty to violating the Federal Meat Inspection Act. These individuals were caught slaughtering 3-D cows after the FSIS inspector had left the premises and then commingling the unwholesome product with meat that had been inspected.

We have initiated audits of the new food safety procedures for inspecting meat and poultry plants, the Hazard Analysis Critical Control Point system, or HACCP. Since an increasing number of processing plants are becoming subject to HACCP, the safety and wholesomeness of the Nation's meat and poultry



Tub of Unidentified Waste Found at Site

supply are dependent on HACCP being successfully implemented. Meanwhile, our efforts to actively address the problems of food safety, posed by those who put it at jeopardy and who are motivated by profit or ideology, present special concerns for us. OIG needs to be prepared to immediately respond to these emergency situations. To do so, we must be equipped with the specialized equipment, protective clothing, and supplies necessary to ensure the health and safety of our personnel responding to these crises.

We also need to be mindful of the economic impact of closing a major food processing plant. To our knowledge, the Milwaukee plant I mentioned earlier had violated no laws and had been successfully implementing HACCP inspection procedures. Yet, its production line was successfully halted by outside forces, tons of its product were put on hold, and the facility was temporarily shutdown. OIG's rapid response and deployment of considerable staff resources not only helped to protect the health and safety of consumers, but it also allowed the plant to reopen--reemploying approximately 1,500 people with a minimum disruption of production, lost profit, and impact on the local economy as opposed to an indefinite and costly closure.

The costs of rapid responses by OIG such as this are great. In addition to the personnel time and the disruption to other critical OIG work, to date, we have expended approximately \$40,000 in unanticipated travel costs in the Wisconsin investigation alone. This figure will continue to rise until the matter is resolved.

Another form of criminal enterprise that poses a significant threat to the Nation's food supply and its economic well-being is smuggling of uninspected, unapproved food products into the United States. A direct result, and a byproduct of smuggling, is the danger that forms of pestilence--whether insects, fungi, bacteria, or viruses--not previously present in the United States could be introduced here. As a result, entire crops of the U.S. agricultural industry--such as citrus, vegetables, trees and other plants, or beef, poultry, and pork products--could be severely damaged, devastating the economy of the local communities producing these products as well as reducing both the quantity and quality of the Nation's food supply.

The Administration has begun a new initiative to counteract the invasion of unwanted and mostly foreign species of plants and animals. By Executive Order, the President has established an Invasive Species Council, which the Secretary of Agriculture will Co-chair, to ensure a safe and wholesome food supply and prevent the spread of unwanted, invasive pests.

OIG has begun an antismuggling campaign to interdict and suppress foreign contraband that is dangerous when consumed by the American population, and potentially catastrophic to the economic stability of certain U.S. agricultural products. Ongoing criminal investigations are targeting smuggled fruits, vegetables, plants, and other commodities or animals that bring high dollars in underground "black market" commerce. This initiative requires significant agent resources dedicated to

intelligence collection, undercover operations, and foreign law enforcement cooperative efforts that cross international boundaries. These activities normally require extensive surveillance utilizing high-tech investigative devices and equipment.

The smuggling of infested fruits into the United States is a serious law enforcement problem because the criminal profit is tremendous while the deterrent is grossly inadequate at present. Longans are a good example. Longans are prized Asian fruits. They cost \$1 a pound from distributors in Taiwan and are sold illegally in U.S. markets at \$7 to \$10 per pound. Often they are contaminated with fruit flies. Although banned in the United States, sealed containerized shipments of longans are routinely, and legally, allowed into U.S. ports for transshipment to Canada. Intelligence efforts have documented that semi-trucks, which can carry 40,000 pounds or more of containerized longans, have transported shipments into Canada, where the fruit is not prohibited, only to turn around and smuggle the shipments back into the United States, thus, allowing for pest infestations in this country.

One well-known example of a devastating pest that has been introduced into this country is the Mediterranean fruit fly, commonly called Medfly. One of the world's most destructive agricultural pests, it attacks more than 250 kinds of fruits, nuts, and vegetables, causing major economic losses. Whole States can be beset with severe crop losses and economic problems caused by this and other such pests. In the past 4 years, Florida has been faced with severe outbreaks of oriental fruit fly, citrus leaf miner, brown citrus aphid, citrus canker, African beetle, leather leaf anthracnose, pine short beetle, and sweet potato fly in addition to the Medfly infestations. Animal pests and disease importation are a severe problem in Florida and, due to the favorable climate in most of the southeastern United States, the pests and diseases could easily spread throughout that area. The costs to protect the industry are staggering. Since 1980, over \$256 million in California State and Federal funds has been spent to eradicate Medfly infestations in quarantined areas. In the last 10 years, Florida has spent more than \$150 million to eradicate such infestations.

The risk to the agricultural industry, including exports, is clear. The State of California alone produces over \$25 billion in fruits, nuts, and vegetables annually--about 55 percent of the Nation's output. About \$11.8 billion of these commodities is exported to other countries each year.

In carrying out successful smuggling investigations, OIG must perform extensive travel; procure and maintain the necessary specialized equipment needed to investigate these incidents; provide essential protective supplies and/or equipment to ensure the health and safety of our agents and auditors; and provide specialized training to our staff to prepare them to cover various types of such emergencies. OIG must also provide state-of-the-art Y2K compliant ADP equipment and systems to track data; analyze intelligence-based information; and provide faster, more responsive information to better support this mission work. All of these items are essential to ensure that OIG can adequately address this

critical public health and safety issue concerning the quality and wholesomeness of the Nation's food supply.

Mr. Chairman, at this time, I would like to highlight some of our other audit and investigative activities.

**AUDIT AND INVESTIGATIONS ACTIVITIES**

**MARKETING AND REGULATORY PROGRAMS**

**ANIMAL AND PLANT HEALTH INSPECTION SERVICE (APHIS)**

We have investigated various types of criminal acts involving APHIS programs. An investigation in San Francisco, California, provides a good example. In this case, two businessmen pled guilty to causing the delivery of misbranded food for introduction into interstate commerce in this case. A joint investigation conducted by OIG, the U.S. Customs Service, and the U.S. Food and Drug Administration disclosed that the businessmen smuggled bird nests, abalone, fish maw, scallops, and dried oysters from Hong Kong by commingling these products with their legitimate imports of frozen shark fins and other food products. The two businessmen received 3 years' probation and were each ordered to pay a \$3,000 fine and restitution of \$1,500. A third individual is pending trial on similar charges.

In Oregon, six individuals are awaiting sentencing after they pled guilty on Federal charges of theft for their part in a conspiracy to fraudulently acquire and sell over 100 dogs to medical research facilities. The six defendants have also agreed to testify against a former USDA-licensed dog dealer, her husband, and their son, who have all been indicted for conspiracy and mail fraud related to the scheme. Our investigation disclosed that the dealer and her associates either stole dogs or obtained them under false pretenses over a 15-month period. The dealer then falsified APHIS forms in order to conceal her activities. She also forwarded false documents to the Oregon State Department of Agriculture.

**AGRICULTURAL MARKETING SERVICE (AMS)**

**Oversight of the Fluid Milk Promotion Program Needs Strengthening**

Our review of the Fluid Milk Promotion Program indicated that AMS and the National Fluid Milk Promotion Board need to improve their oversight and controls over the program's activities to ensure that assessments on fluid milk are used in accordance with the Fluid Milk Promotion Act. Those assessments, from approximately 370 processors, totaled about \$169 million from December 1993 through June 1997.

Neither AMS nor the Board provided adequate management or oversight of program activities. AMS left most oversight efforts to the Board. The Board delegated most administrative functions to two contractors and was not actively involved in the day-to-day operations of the program. One contractor, the Milk Industry Foundation, was responsible for performing

various management and administrative services. The other contractor, the Board's Administrator, was responsible for collecting assessments, accounting for funds, and performing compliance reviews. These services were provided through contracts with the Administrator's public accounting firm. Altogether, the Board's Administrator, either as an individual or through his firm, had three sole-source contracts with the Board.

Although AMS was responsible for reviewing and approving all contracts, the Board paid over \$127 million for contracts, representing 75 percent of the funds collected through the program, without AMS' approval. The Board entered into these sole-source contracts without any competition to ensure the most cost-effective procurement of services.

The Act requires that the Board obtain title to all assets developed using program funds. In one case, the contract to procure photographs, taken as part of a major milk-marketing campaign, the popular "Milk Mustache" or "Got Milk" advertising campaign, did not include language to secure title to the photographs. Consequently, the program expended almost \$130,000 in royalties for the continued use of the photographs. The photographer still has control and possession of the photographs, which were developed using over \$2.7 million in program funds.

Overall, neither AMS nor the Board has determined, as required by the Act, whether the program has resulted in increased milk consumption. While this marketing campaign has been highly visible in the marketplace, no independent studies have been performed to determine the campaign's impact on fluid milk consumption.

We recommended that AMS: (1) suspend Board program activities until a plan is developed whereby the Board will take full control of its activities and comply with the Act, including establishing guidelines for awarding contracts to ensure that contracted goods and services are obtained in the most cost-effective manner; (2) require the Board to determine the effectiveness of its research and promotion activities to increase fluid milk consumption; (3) require the Board to obtain AMS approval on all contracts before any funds are obligated or expended and that the Board obtain title and possession of all assets acquired with program funds; and (4) require the Board to assure that audits of its books and records are conducted using generally accepted Government auditing standards.

AMS did not agree to suspend the Board's activities. However, it has agreed to institute improvements and is continuing to work with the Fluid Milk Board to strengthen management controls.

## FOOD, NUTRITION, AND CONSUMER SERVICES

### FOOD AND NUTRITION SERVICE (FNS)

#### Operation Talon

In previous testimony, I informed you we had initiated "Operation Talon." This special law enforcement initiative, made possible by the passage of Welfare Reform, involves the exchange of information between law enforcement and State social services agencies. Specifically, law enforcement fugitive records are matched with social service agencies' food stamp recipient records, and the information is used by law enforcement officers to locate and apprehend dangerous and violent fugitive felons who may also be illegally receiving food stamp benefits.

Overall, Operation Talon has been the most successful investigative initiative we have yet undertaken. To date, this initiative has resulted in the arrest of over 3,650 fugitive felons. This has included 26 wanted for murder or attempted murder; 11 for rape or attempted rape; 8 for kidnapping; and 1,202 for assault, robbery, or drug offenses. This has also resulted in the arrest of 18 fugitive felons wanted for child molestation. A number of States are removing arrested fugitives from their food stamp rolls, which will result in savings to the Food Stamp Program and allow food stamp benefits to continue to go to the needy for whom they were intended. One particularly rewarding note is that 2 of the 18 fugitives wanted for child molestation have also been charged with violating State "Megan's Law" statutes. In one of these cases, OIG and the Hudson County, New Jersey, Sheriff's Department arrested a convicted child molester for failing to register as a sex offender. The fugitive had moved without notifying appropriate State officials and eluded the authorities until he provided his new address to participate in the Food Stamp Program.

One recent Operation Talon success was in Austin, Texas, where our special agents worked with Texas law enforcement officials in apprehending over 75 fugitive felons. We have additional warrants and anticipate the arrest of numerous other fugitive felons in this highly successful operation. Operation Talon is an ongoing initiative, and, working with local law enforcement agencies, we are planning future arrest operations in many parts of the country.

#### Food Stamp Program (FSP)--Coupon Trafficking

We are continuing to devote significant investigative resources to combat fraud in the Food Stamp Program. Ever since the program began distributing food stamps to needy Americans, unscrupulous people have been willing to devise methods to unlawfully benefit from this important program. There are basically two types of traffickers--the street traffickers who buy or barter food stamps or EBT card benefits for cash or other nonfood items, and the retailers who purchase or redeem unlawfully obtained food stamps or cards from eligible recipients.

We have conducted several significant food stamp trafficking cases in the last year. Investigations conducted of large-scale fraud operations in New York, Philadelphia, and Detroit are good examples of these. In these investigations, we have thus far identified 55 store owners and employees involved in the unlawful acquisition of some \$99 million in food stamp benefits. This has resulted in the arrest and conviction of many of these individuals, some of whom have been sentenced to prison terms and ordered to pay millions of dollars in restitution. Our investigations into these matters continue, and we anticipate additional persons will be charged.

### **Child and Adult Care Food Program (CACFP)**

Last year, I testified about a special law enforcement initiative we had undertaken with one of the targeted programs being CACFP. I indicated that we would continue "sweeps" of program sponsors to find those who are abusing the program to remove them from sponsorship, to prosecute them if warranted, and to recover ineligible payments. Since last year, our CACFP initiative has been designated as a Presidential Initiative which we named Operation "Kiddie Care."

Our efforts have been very successful. Currently, we have 29 open CACFP investigations. As of December 1998, 54 sponsors in 23 States were being audited or investigated. We identified 37 sponsors as being seriously deficient, a term used by FNS to designate sponsors who could be terminated from the program unless the deficiencies are addressed promptly. Fourteen sponsors, who had been receiving a total of \$24.4 million annually, have been terminated from the program.

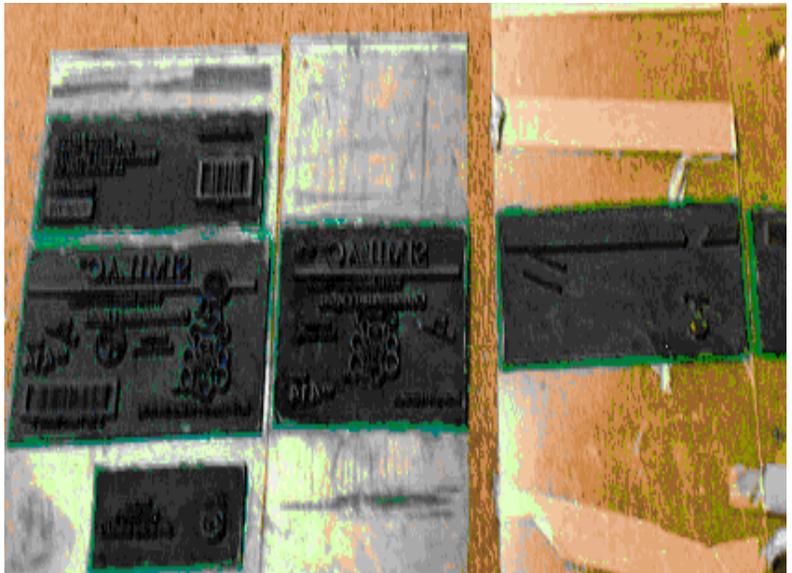
In Ohio, seven persons, including the director of the sponsoring organization operating a local child and adult care food program, pled guilty to conspiracy to submit false claims for issuing or receiving reimbursement payments for in-home day care providers who did not exist or did not have children in the home. This ongoing investigation has identified 11 people to date who conspired to set up more than 40 false providers. This conspiracy, which had been ongoing since 1988, resulted in the submission of false claims for reimbursements totaling about \$1.1 million. The investigation continues with additional prosecutions anticipated.

In another California case, an executive director of a sponsor retained food reimbursements to cover the salary he claimed to earn in California while he was actually working for another enterprise and living in Wisconsin. He also had a vehicle in Wisconsin for his personal use which was being paid for by the California sponsor. We are currently investigating about \$231,000 of program funds paid to this individual.

We will continue with Operation "Kiddie Care" as long as we find evidence that abuses exist. Returning integrity to this important feeding program and protecting the resources of the American taxpayer are high priorities for OIG and FNS.

**Special Supplemental Food Program for Women, Infants, and Children (WIC)**

One of the primary purposes of the WIC program is to provide funds to pregnant women and families with small children to allow them to purchase certain nutritious food items. In an effort to curb fraud in the WIC program, we are continuing our investigative activities in this area. One such investigation occurred in conjunction with the Columbus, Ohio, Division of Police; the Ohio Department of Taxation; and the Franklin County prosecutor where we conducted a 12-month undercover investigation into trafficking of WIC infant formula and untaxed cigarettes. Investigators determined that store owners and a wholesaler received the formula through the black market, removed its "not for retail sale" marking, and sold it commercially in area stores and to businesses in other States. In two separate "buy-bust" cases, store owners and managers were arrested for illegally purchasing hundreds of cases of WIC formula and hundreds of thousands of cartons of untaxed cigarettes. Both investigations were linked to a Columbus commodity wholesaler at whose warehouses between \$500,000 and \$1 million in commodities were seized. The owner and the manager of the first "buy-bust" case pled guilty to racketeering and trafficking in WIC benefits and untaxed cigarettes. The owner and manager in the second case pled guilty to trafficking in WIC benefits and untaxed cigarettes. Their corporation pled guilty to racketeering, and the wholesaler is now a fugitive.



Counterfeit Plates Used in Trafficking

**FARM AND FOREIGN AGRICULTURAL SERVICES**

**FARM SERVICE AGENCY (FSA)**

**OIG and FSA Managers Meet**

In a joint effort to further agency cooperation, OIG and FSA senior managers and other policy makers met at a roundtable conference in San Antonio, Texas, the week of December 7, 1998, to explore and embrace new ways of working together. Prior negative experiences brought many participants to the conference with an "us versus them" attitude. In the roundtable, OIG auditors, special agents, and FSA program officials were able to explain obstacles they frequently encountered in accomplishing their agencies' missions. Working together as part of a united team, the participants identified several opportunities to

improve communications, and all participants left with a new appreciation for the other's needs. We look forward to improved working relationships with FSA's Administrator and his hardworking staff.

### **Noninsured Crop Disaster Assistance Program (NAP) Overpayments**

We reviewed 1996 crop-year program payments in California, Florida, Georgia, and Oklahoma, where \$26.9 million in benefits--out of a total of \$45.9 million nationwide--were paid as of July 31, 1997. We found hidden or inaccurate reporting of production and the use of incorrect yields to compute payments for 23 of the 98 cases. We found that because the estimates and adjustments used to determine loss could not be verified, the process for determining the actual amount of loss allowed producers to obtain unwarranted program benefits. This was a major problem for seeded wheat forage in Oklahoma. For other crops--strawberries, cherries, and onions--production was based on information reported by the producer which also was not verifiable as actual production. We recommended that FSA collect \$411,000 in overpayments. FSA has agreed to review the payments and collect any overpayments to which relief provisions did not apply.

### **Overpayment of Emergency Assistance to Producers in the Upper Great Plains**

In January 1997, FSA implemented two programs to provide assistance to endangered livestock caught in the blizzards and cold weather in North and South Dakota. The Emergency Feed Grain Donation Program (EFGDP) provided 100-percent cost-share assistance to livestock producers for snow removal and to feed their livestock in immediate danger of perishing. The Foundation Livestock Relief Program (FLRP) provided 30-percent cost-share assistance for area producers to enhance the diet of foundation livestock--or breeding stock--weakened by the severe winter weather.

Because the two programs ran concurrently with different cost-share rates, some producers improperly received assistance for supplemental feed purchases under EFGDP instead of FLRP. This allowed the producers to receive 100 percent of the feed cost compared to the 30-percent cost-share. In addition, we found that producers were paid excessive snow removal costs during a 15-day extension period and for snow removal when they already had access to normal feed supplies. FSA improperly authorized \$2.5 million of FLRP payments to 23 counties in Iowa, Montana, Nebraska, and Wyoming adjoining the disaster area. We recommended FSA strengthen its oversight role in certain areas to help ensure that future disaster assistance is limited to identified areas and require county offices to act on the cases where excessive EFGDP and FLRP payments were issued. FSA believes its existing controls are generally adequate; but, due to the complexity and difficulty of administering emergency and disaster programs, procedures to improve oversight will be incorporated into future programs. FSA agreed, subject to the finality rule, to recover the overpayments.

## **Environmental Benefits Index Scores Controls Could Be Improved**

Under the Conservation Reserve Program (CRP) producers receive annual payments from FSA to take highly erodible cropland out of production and establish and maintain a vegetative cover on it. During signup, producers designate tracts of land determined to be environmentally sensitive, which are reviewed and scored according to values on the Environmental Benefits Index (EBI). One subpart of the index identifies the environmental benefits of the land, such as providing cover beneficial to wildlife. It also specifies what numerical scores may be given for the different kinds of conservation practices--planting mixed grasses, legumes, etc.--that the producer established to enhance each benefit. Tracts that have been awarded higher scores are regarded as more worthy of conserving and qualify for CRP consideration ahead of tracts with lower scores. Tracts that fall below a minimum score are excluded from the program.

We reported that the Natural Resources Conservation Service's (NRCS) implementation of CRP exhibited significant control weaknesses. These included improperly modified point scores for various environmental ranking factors and subfactors in some States. In addition, producers in some States received high scores for preserving cover beneficial to wildlife or for protecting threatened and endangered species even though the required cover or endangered species were not present on the tract of land. Such inconsistencies can result in greater CRP consideration for cropland in one State, even though its environmental benefits are no greater than those of its neighbors. We identified approximately 2,900 offers nationwide with annual rental payments totaling about \$13 million that were at risk of incorrect acceptance into CRP. NRCS management issued guidance that addressed some scoring problems noted in our review.

## **FARM SERVICE AGENCY (FSA) INVESTIGATIONS**

Historically, one of our primary activities has been the investigation of criminal violations of the various farm loan programs administered by USDA. We continue to conduct such investigations with great success. A good example is a honey producer in Idaho. This individual was sentenced to serve 28 months in prison and ordered to pay USDA over \$3 million in restitution after he pled guilty to submitting false statements to FSA in order to obtain over \$6 million in loans and subsidy payments.

## **RURAL DEVELOPMENT**

### **RURAL HOUSING SERVICE (RHS)**

#### **OIG and RHS Join Forces to Combat Fraud and Abuse in Rural Rental Housing (RRH) Program**

OIG and RHS combined efforts to identify, investigate, and prosecute owners and management agents that had abused or defrauded the RRH

program. We targeted owners and management agents who were suspected of abusing the program.

Joint OIG-RHS teams physically inspected 631 apartment complexes and then examined the financial records of apartment complexes operated by 32 owners and management agents in 13 States. The teams identified over \$3.5 million in misused funds and uncovered serious physical deterioration of some apartment complexes, including conditions that posed health and safety risks to the tenants. Our work is continuing, and we will issue a summary report later this spring.

An investigation in Washington State centered on a prominent local attorney who was a general partner of multiple limited partnerships which owned federally financed and subsidized low-income housing projects. The attorney had built 65 apartment projects in 20 States under the RRH program. Our investigation disclosed that the partner submitted false and fictitious construction invoices to RHS and to the lending banks which administered RHS loans in order to divert \$176,000 in funds from four RHS loans. Our investigation also showed that he received kickbacks from the bank where loan funds were deposited. In order to conceal the kickbacks, he submitted fictitious invoices to the bank for purported legal services rendered. He also failed to disclose \$95,000 in income derived from the diverted funds and other sources on his 1995 individual income tax return. He pled guilty to making false statements, receiving unlawful payments, and filing a false Federal income tax return. He was sentenced to 21 months in prison and ordered to pay \$300,000 in restitution.

#### **Problems Exist With Electric Program Loan Funds, Borrowers**

We evaluated the Rural Utilities Service's (RUS) electric program because of its high dollar value--approximately \$32 billion, potential for large losses--writeoffs of more than \$1.7 billion and about \$8 billion owed by troubled borrowers, and recent changes in legislation and in the industry. We found that the eligibility criteria prescribed by law and regulation for hardship loans and prioritization of applications for municipal rate loans did not take into consideration the applicant's financial strength, loan amounts, or local user rates. Also, the Rural Electrification Act of 1936, as amended, and regulations did not allow RUS to ensure that guaranteed loans benefitted only truly rural areas. This could delay funding for improvement of electrical services to the most needy borrowers and in truly rural areas.

We recommended that RUS seek legislative change and amend regulations so that hardship loan funds can be targeted to areas of greatest need by taking into consideration financial condition and local area user rates and by ensuring municipal rate loan funds benefit only truly rural areas. Although agency officials generally agreed with our findings, they did not agree with our recommendations to seek a legislative or regulatory change.

## INSURANCE

### RISK MANAGEMENT AGENCY (RMA)

#### Reinsurance Companies' Quality Control Systems Lacking

RMA delivers multiple-peril crop insurance programs through standard reinsurance agreements with private insurance companies. Under the agreements, the companies are required to develop quality control plans consistent with the agency's policies and procedures that safeguard against waste, loss, unauthorized use, and misappropriation. This past year, we reviewed the quality control processes of reinsured companies operating under agreements made with RMA in 1995. We found that, although the quality control systems generally complied with the terms of the agreement, they did not effectively improve program delivery, ensure program integrity, and adequately measure or report on program performance. The consequences of poorly specified requirements in the reinsurance agreements were insufficient data collection, maintenance, and reporting requirements; ineffective oversight of quality control operations; and insufficient controls against conflicts of interest. As a result, program officials cannot rely on reinsured companies' quality control reviews.

We recommended that RMA, in consultation with crop insurance organizations and experts, adopt appropriate professional standards for quality control and, in particular, controls to deal with conflicting sales and claims adjustment operations that affect the integrity of crop insurance programs. The agency concurred with our recommendations for improved quality control processes but not with our findings and recommendations for improved controls against potential conflicts of interest. We are working with RMA on the disputed recommendations.

#### Nonirrigated Crop Insurance Yields Set Too High and Practices Not Viable

Prompted by an OIG hotline complaint, we audited RMA's first year, crop-year 1998, extra long staple (ELS) cotton insurance program in the Texas counties of Glasscock, Midland, Reagan, and Upton. We determined that the transitional-yields, or T-yields, and established yields based on historical averages for nonirrigated ELS cotton were set exceptionally high. Also, we questioned whether the growing season and rainfall were sufficient to produce ELS cotton in these four counties. We reported that, as a result of these issues, RMA could incur excessive losses of about \$12 million for the 1998 crop-year alone. Similarly, we disclosed that high T-yields for nonirrigated popcorn in the Rio Grande Valley resulted in indemnities totaling about \$5.5 million for 1997, and nonirrigated dent corn T-yields for 1998 were sufficiently elevated to result in losses of between \$2.2 million and \$2.8 million in Tom Green County, Texas.

Officials in the four counties stated that these were not locally accepted practices because more water is required than the counties receive in rainfall and the growing season is too short for ELS cotton to properly mature. Therefore, we concluded that nonirrigated practices

were not viable in the cited counties and recommended that, effective for crop-year 1999, RMA discontinue coverage for ELS cotton in the four counties named in the complaint, popcorn in the Rio Grande Valley, and dent corn in Tom Green County. RMA agreed.

## **RESEARCH, EDUCATION, AND ECONOMICS**

### **COOPERATIVE STATE RESEARCH, EDUCATION, AND EXTENSION SERVICE (CSREES)**

#### **Schedule A Extension Appointees' Rights Need Clarification**

There are approximately 8,000 Schedule A appointees working nationwide in the State Cooperative Extension System (CES). The appointees receive Federal benefits including participation in the Federal Health Benefits Program and civil service retirement plan. In 1990, the Civil Service Due Process Amendments extended coverage to these appointees. Our review of adverse actions taken against two appointees by one State university CES director disclosed that the universities are not always aware that protections such as counseling and appeals procedures apply. In this case, the university had offered no protections and stated that its own policy allowed the CES to dismiss the appointees without recourse. The Office of General Counsel provided CSREES with an opinion that these positions fall within the due process requirements of the Merit Protection System. USDA's Office of Human Resources Management confirmed that Schedule A appointees are Federal employees for purposes of civil service protections.

On December 9, 1998, the Merit System Protection Board ruled that the individual taking actions against the two employees was within Federal jurisdiction. The case was remanded to an Administrative Judge for further adjudication. OIG has encouraged CSREES to work with the National Association of State Universities and Land Grant Colleges to inform all CES offices of the appointees' current status and assist them in developing suitable personnel procedures for these positions.

## **ACCOUNTING, FINANCIAL, AND INFORMATION MANAGEMENT**

### **Financial Statement Audits**

As required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act, we completed seven financial statement audits of the Department's programs. We issued unqualified, or "clean," opinions on the FY 1997 financial statements of the Federal Crop Insurance Corporation, the Commodity Credit Corporation, and the Rural Telephone Bank. Audits of the Rural Development mission area and the Food and Nutrition Service resulted in qualified opinions. Rural Development received a qualified opinion because we were unable to assess the reasonableness of its estimated loan subsidy costs for loans obligated after FY 1991.

In FY 1997, FNS received a qualified opinion because we were unable to assess the reasonableness of its gross, non-Federal accounts receivable for the Food Stamp Program and the related account balances and notes to

the financial statements. I am happy to report that on February 1, 1999, we issued an unqualified opinion for the FY 1998 financial statements for FNS.

For FY 1997, we issued a disclaimer of opinion on the Forest Service (FS) and the USDA consolidated statements. FS received a disclaimer due to significant financial system weaknesses which include the lack of an integrated general ledger and supporting subsidiary records. The USDA consolidated statements received a disclaimer of opinion for FY 1997 because the Department could not provide assurance that its financial systems provide information that is relevant, timely, consistently reported, and in conformance with applicable accounting principles. In addition to financial system problems, numerous internal control weaknesses exist that materially impact the Department's ability to report accurate and reliable financial information.

A disclaimer of opinion has been issued to the Department for each of the last 4 years. This means that the Department, as a whole, does not know whether it correctly reported the amount of revenue it received, the cost of its operations, or other meaningful measures of financial performance. The Department and its agencies have recognized the weaknesses and have put considerable effort into improving their financial systems and reporting processes. While plans have been made to fix these problems and actions have been taken to address some of the weaknesses, more must be done. The Department is carrying out its Financial Information System Vision and Strategy project aimed at developing a single integrated financial management system that meets all Treasury and Office of Management and Budget requirements and fulfills the needs of USDA. We continue to assist departmental and agency officials in these efforts.

### **Information Resources Management**

#### **Department Progressing With "Year 2000" Conversion**

The Year 2000 issue has the potential to limit the Department's ability to deliver its programs. In April 1997, we began a continuing review and assessment of the Department's Year 2000 conversion efforts. Most recently, we completed a review of the renovation and validation efforts of seven agencies. This review determined whether the agencies had devised a strategy to convert, replace, or eliminate impacted hardware and software; fully tested and certified systems identified as compliant; and adequately assessed data exchanges and communicated with the exchange partners. Overall, we determined that the agencies are progressing in their Year 2000 conversion efforts; however, improvement is needed in some areas.

Our review disclosed that FSA had reported four mission critical systems--the Highly Erodible Land and Wetland Conservation system, the Cotton Rate Offer system, the Daily Terminal Prices System, and the Marketing Assessment System--as Y2K compliant without performing any validation testing. Also, FSA reported that its Warehouse Rates Management System and the Processed Commodities Inventory System would

not be implemented until June 1999. The Foreign Agricultural Service reported that its Financial Accounting and Reporting system will be implemented in April 1999. The Animal and Plant Health Inspection Service reported its Information System Upgrade Project would not be implemented until September 1999. In addition, FS reported its data exchange agreements generally consisted of informal verbal agreements which did not fully establish the data conversion responsibilities of each exchange partner.

Due to the time sensitivity of the Year 2000 issue, these findings and others have been provided to the affected agencies in interim reports. The agencies have responded to our recommendations, and an audit report consolidating our findings will be issued later this year. Currently, we are reviewing personal property, facilities, and equipment because of their reliance on embedded microprocessor chips.

#### **EMPLOYEE INTEGRITY**

The investigation of serious misconduct by USDA employees remains a high priority of OIG. During FY 1998, OIG issued 55 reports of investigation concerning serious allegations of misconduct by USDA employees. Our investigations resulted in 23 convictions of current and former employees and 80 personnel actions, including reprimands, suspensions, resignations, removals, and alternative discipline.

In July 1994, a tropical storm struck southern Georgia, causing serious flooding and millions of dollars in damage. As a result, NRCS negotiated and funded numerous watershed repair contracts under the Emergency Watershed Protection Program (EWPP). After we received confidential information from a private sector contractor, our 18-month investigation developed evidence showing that two NRCS employees, who were responsible for managing EWPP contracts, accepted cash bribes from a contractor in exchange for special considerations in obtaining EWPP contracts. A third employee arranged for a contractor doing business with NRCS to perform construction work on personally owned land. The cost of this work was then improperly billed to USDA. During July through September 1998, the three employees entered guilty pleas in U.S. District Court to violations resulting from their acceptance of bribes and gratuities. One employee was fined and placed on probation while the other two employees are awaiting sentencing. All three employees resigned from NRCS.

A Louisiana Rural Development county office employee pled guilty in Federal court to embezzling and misapplying over \$82,000 in rural housing loan payments she had received in her office. She was sentenced to serve 6 months' imprisonment, to be followed by 4 months' home confinement. She was also fined \$10,000 and ordered to pay nearly \$24,350 in restitution. The employee resigned soon after we initiated our investigation.

**CONCLUSION**

This concludes my statement, Mr. Chairman. As you can see, the work of OIG is far-reaching and expansive. I appreciate the opportunity to appear today and present this information, and I hope that my comments have been helpful to you and the Committee. I will be pleased to respond to any questions you may have at this time.

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