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October 1, 2010 – March 31, 2011




First Half 2011

KEY OIG ACCOMPLISHMENTS IN THIS REPORTING PERIOD — October 2010-March 2011

SUMMARY OF AUDIT ACTIVITIES

Reports Issued	
Number of Reports	21
Number of Recommendations	113
Management Decisions Made	
Number of Reports	21
Number of Recommendations	133
Total Dollar Impact (Millions) of Management-Decided Reports	$11.1
Questioned/Unsupported Costs	$5.0
Funds To Be Put To Better Use	$6.1

SUMMARY OF INVESTIGATIVE ACTIVITIES

Reports Issued	182
Impact of Investigations	
Indictments	199
Convictions	249
Arrests	516
Total Dollar Impact (Millions)	$47.8
Administrative Sanctions	134

OIG MAJOR USDA MANAGEMENT CHALLENGES (August 2010)

1) Interagency Communications, Coordination, and Program Integration Need Improvement

   Related material can be found on pages 8-9 and 19.

2) Implementation of Strong, Integrated, Internal Control Systems Still Needed

   Related material can be found on pages 8-9 and 19-20.

3) Continuing Improvements Needed in Information Technology Security

   Related material can be found on page 18.

4) Departmental Efforts and Initiatives in Homeland Security Need To Be Maintained

   Related material can be found on page 5.

5) Material Weaknesses Continue To Persist in Civil Rights Control Structure and Environment

   No work was reported during this period.

6) USDA Needs To Develop a Proactive, Integrated Strategy To Help American Producers Meet the Global Trade Challenge

   No work was reported during this period

7) Better Forest Service Management and Community Action Needed To Improve the Health of the National Forests and Reduce the Cost of Fighting Fires

   Related material can be found on page 27.

8) Improved Controls Needed for Food Safety Inspection Systems

   Related material can be found on page 1-2.

9) Implementation of Renewable Energy Programs at USDA

   No work was reported during this period.

10) Implementation of the American Recovery and Reinvestment Act of 2009

    Related material can be found on pages 12-13, 21 and 26-27.

Message from the Inspector General

I am pleased to provide the Semiannual Report to Congress for the Office of Inspector General (OIG), U.S. Department of Agriculture (USDA), for the 6-month period ending March 31, 2011. As our statistics indicate, our overall accomplishments during this period have been impressive. We conducted successful investigations and audits that led to 516 arrests, 249 convictions, $47.8 million in recoveries and restitutions, 114 program improvement recommendations, and $11.1 million in financial recommendations.

OIG continues to focus its work on ensuring the integrity of payments in USDA programs as well as the overall effectiveness of the programs. During this period, OIG devoted a significant portion of its resources to supporting USDA's effective implementation of an estimated $28 billion in American Recovery and Reinvestment Act of 2009 (Recovery Act) funds. We have 38 Recovery Act audit projects underway, with additional audit work scheduled for Fiscal Year (FY) 2012. OIG's investigations program is also supporting effective implementation of the Recovery Act by providing fraud awareness training and materials to USDA employees, contractors, and grantees. The scope and effectiveness of our Recovery Act work would not be possible without the support of the Administration and the resources provided by Congress.

This report summarizes the most significant OIG activities (including our Recovery Act work) during the period, organized according to our strategic goals, as outlined in the OIG Strategic Plan for FYs 2010-2015:

- **Safety, Security, and Public Health**—In one audit, we found that the Food Safety and Inspection Service (FSIS) was not testing for *Escherichia coli* O157:H7 (*E. coli*) in U.S. ground beef in a way that would give the public confidence that its food was safe; in another, we determined that FSIS needed to improve its readiness for responding to emergencies involving biological, chemical, or radiological contamination of food. Several investigations into threats and violence against OIG agents and other Federal employees resulted in significant prison sentences for the perpetrators, including one sentence of 40 years in prison.
- **Integrity of Benefits**—Investigations of participants in the Food and Nutrition Service's (FNS) Supplemental Nutrition Assistance Program (SNAP) resulted in 80 convictions and $7.9 million in monetary results. Another OIG investigation disclosed a far-reaching conspiracy involving farmers, warehouse operators, insurance agents, and loss adjusters in North Carolina who concealed tobacco production and then subsequently filed false crop insurance claims. As a result of their involvement in this crop insurance scheme, 24 individuals have pled guilty to various crimes and restitution ordered to date exceeds $27 million.
- **Management Improvement Initiatives**—The Recovery Act provided $3.8 billion in funds for sewer, storm water, and solid waste disposal systems in small cities and towns, but we found that the Rural Utilities Service (RUS) did not correctly process applications and provided one town with an unfair advantage over new applicants. Another audit found that FNS had made significant progress in reducing improper program payments in its food assistance programs.
- **Stewardship Over Natural Resources**—OIG worked to help assure the American public that Recovery Act money is being spent to promote economic growth and create jobs. One of our audits found that grant recipients were claiming unsupported costs for Forest Service (FS) wildland fire management projects on State and private lands; another audit showed similar problems with grants related to road maintenance and decommissioning, bridge maintenance and decommissioning, and watershed restoration and ecosystem enhancement.

As Inspector General, I am deeply appreciative of USDA OIG staff members' commitment and expertise—the accomplishments reported here are the direct results of their dedicated work. Our successes are also due in large part to the continued support and encouragement of USDA Secretary Thomas J. Vilsack, Deputy Secretary Kathleen Merrigan, and interested Committees and Members of the Congress.

Phyllis K. Fong
Inspector General

Contents

Safety, Security, and Public Health

OIG Strategic Goal 1:

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

To help USDA and the American people meet critical challenges in safety, security, and public health, OIG provides independent audits and investigations in these areas. Our work addresses such issues as the ongoing challenges of agricultural inspection activities, safety of the food supply, and homeland security.

In the first half of FY 2011, we devoted 12 percent of our total direct resources to Goal 1, with 100 percent of these resources assigned to critical-risk and high-impact work. A total of 100 percent of our audit recommendations under Goal 1 resulted in management decision within 1 year, and 76 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued two audit reports under Goal 1 during this reporting period. OIG's investigations under Goal 1 yielded 21 indictments, 125 convictions, and $119,232 in monetary results during this reporting period.

Management Challenges Addressed UNDER GOAL 1

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goal 2)
- Implementation of Strong, Integrated, Internal Control Systems Still Needed (also under Goals 2, 3, and 4)
- Departmental Efforts and Initiatives in Homeland Security Need To Be Maintained
- Improved Controls Needed for Food Safety Inspection Systems
- USDA Needs To Develop a Proactive, Integrated Strategy To Help American Producers Meet the Global Trade Challenge

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 1

FSIS Needs To Improve How It Samples Beef and Tests for *E. coli*

In response to a Congressional inquiry regarding a deadly outbreak of *E. coli* in U.S. beef, OIG reviewed the tests FSIS performs to detect this bacterium, and found that FSIS' tests do not yield the precision that is reasonable for food safety purposes. In the design of its tests, FSIS has not determined the prevalence of *E. coli*, even though an adequate sampling method should begin with this information. Moreover, given the likely low occurrence of *E. coli* in U.S. beef trim, FSIS must collect more than the 60 pieces of beef it currently gathers from a production lot before it can reasonably state that a production lot is contaminated or not. At present, if the contamination level is very low, FSIS is more likely to miss contamination than to detect it. OIG maintains that, whenever FSIS tests beef, its tests should be designed so that the American public can have confidence in the results of those tests. OIG therefore recommended that FSIS thoroughly reevaluate its sampling program for testing beef. FSIS generally agreed with our findings and proposed corrective actions in response to our recommendations.

In Phase 2 of our planned work, OIG will expand upon information presented in this first report, perform fieldwork at beef slaughter plants, determine whether plants are testing consistently, and determine if FSIS personnel are following the agency's sampling and testing procedures. (Audit Report 24601-9-KC, Food Safety and Inspection Service: N-60 Testing Protocol for *E.coli* O157:H7—Phase 1)

FSIS Needs To Improve the Readiness of the Food Emergency Response Network (FERN)

Through a directive, the President established FERN to integrate the Nation's food testing laboratories at the local, State, Federal, and tribal levels into a network able to respond to emergencies involving biological, chemical, or radiological contamination of food. OIG's review found that, although FSIS has provided training and equipment and established standardized diagnostic protocols, FSIS has not reached a formal agreement on how the network will operate with the Food and Drug Administration (FDA), which is also responsible for operating FERN. Without this formal

agreement, FERN lacks the elements of an effective interagency emergency network, including standard operating procedures, sufficient staffing, and a clear strategic direction. OIG also found that FSIS needs to ensure that the network's laboratory capacity is sufficient to respond to surges in case of emergencies and improve FERN's readiness to prevent threats to the food supply by performing targeted food surveillance. Such surveillance—for example, testing food served to schoolchildren as part of the school meal programs—would enable FSIS and FDA to identify potential weaknesses within their network of laboratories. It would also provide State and local agencies with a better understanding of the procedures used when collecting and shipping samples—procedures that may not be part of their normal routine. FSIS agreed with our findings and recommendations and is taking appropriate action. (Audit Report 24601-6-At, Food Emergency Response Network)

Agricultural Marketing Service (AMS) Needs Stronger Controls To Ensure the Wholesomeness of Shell Eggs Bearing USDA's Grademark

Due to the August 2010 recall of over 500 million shell eggs adulterated with *Salmonella Enteritidis*, which were believed to have caused more than 1,000 people to become ill, OIG reviewed AMS' procedures for inspecting shell eggs. Our *fast report* disclosed that AMS requires its graders to cull affected shell eggs to prevent their movement into commerce, but as the recall demonstrated, adulterated shell eggs were mistakenly shipped to another facility where they were graded and sent to retailers. OIG recommended that AMS amend its current procedures to ensure that graders identify the locations to which adulterated products will be shipped and require AMS shell egg graders at those locations to prevent adulterated shell eggs from receiving the official USDA grademark. Our audit continues, looking at other issues regarding controls over shell egg inspections. AMS agreed with our recommendation and is taking appropriate corrective action. (Audit Report 50601-1-23 (1), USDA Controls Over Shell Egg Inspections)

Arkansas Man Sentenced to 40 Years in Prison for the Attempted Murder of OIG Special Agent and Other Crimes

In April 2009, an off-duty OIG special agent in Arkansas assisted an elderly man who had been robbed and assaulted. After securing medical attention for the victim, the special agent confronted the suspect, who responded by shooting at the special agent five times with a revolver. No one was injured. While in jail awaiting sentencing, the suspect threatened to kill the prosecutor, her family, and the witnesses who testified against him at his trial. A search of the suspect's cell revealed an 8-inch metal shank hidden in his mattress. In October 2010, in the Eastern District of Arkansas, this man was sentenced to serve 40 years' incarceration after he was convicted on three felony counts of attempting to murder a Federal law enforcement officer, being a felon in possession of a firearm, and using a firearm during a crime of violence. He is also wanted in connection with four home invasions in Arkansas and two in Indiana. This investigation was conducted jointly with the Bureau of Alcohol, Tobacco, Firearms, and Explosives, the Federal Bureau of Investigation (FBI), and State and local authorities.

Former FSIS Employee Imprisoned for Threatening OIG Agents With Assault Weapon

In February 2009, when OIG special agents went to the home of a former FSIS employee to investigate threats the employee had made to assault his former supervisor, they were met by the suspect brandishing an assault weapon. The suspect retreated into his home, but OIG special agents arrested him 3 days later. This individual was sentenced in December 2009 to serve 11 months of incarceration, followed by 24 months of probation, and to pay a fine of $1,000 for assaulting OIG special agents.

After being released from incarceration, this individual was stopped for a traffic violation and found to be unlawfully in possession of a firearm. In December 2010, in Federal Court for the Southern District of Mississippi, he was sentenced to serve 4 months' prison time for violating his probation and an additional 33 months for being a felon in possession of a firearm.

Minnesota Man Fires a Pistol at an Animal and Plant Health Inspection Service (APHIS) Employee

While an APHIS Wildlife Service employee was carrying out his official duties, he came under fire from a Minnesota man with a handgun. OIG conducted an investigation of the incident and, in October 2009, the Pine County, Minnesota, County Attorney's Office charged the suspect with one count of intentional discharge of a firearm and one count of intentionally pointing a gun at another. In January 2011,

the man pled guilty to one felony count of intentionally discharging a firearm. Due to his extensive medical issues, he was sentenced to serve 120 days of electronic home monitoring followed by 60 months' probation. The subject is prohibited from using or possessing firearms or dangerous weapons while on probation.

FS Law Enforcement Officer's Life Threatened in the Line of Duty

In September 2010, an FS law enforcement officer was threatened when he issued citations to a Washington State man for possession of marijuana and a firearm. During the OIG investigation the man admitted to threatening the FS law enforcement officer. In February 2011, in Federal Court for the Western District of Washington, the man pled guilty, was sentenced to 12 months' probation, and was ordered to pay a fine.

Connecticut Company Agrees To Pay $150,000 for Selling Prohibited Food Products

In Connecticut, a food distribution company sold prohibited chicken feet and other prohibited and restricted food items that it illegally labeled and mixed with other items imported from Thailand. As part of an agreement to avoid criminal prosecution, the company agreed in September 2010 to pay $150,000 to the Government. This investigation was conducted jointly with the U.S. Department of Homeland Security.

Federal Court Orders Houston Company To Pay $15 Million Settlement in Procurement Fraud Scam and Sentences the Company's Owner and Others to Jail

In the *Semiannual Report to Congress (SARC), First Half of FY 2010*, OIG first reported that the owner and employees of a Houston food company forged export certificates to send expired and non-expired food to Middle Eastern companies, including suppliers to U.S. troops, and conspired with a transport company to inflate charges for delivering food and other items. In November 2010, the food company and its owner entered into a civil settlement agreement with the U.S. Attorney's Office and agreed to pay $15 million to settle civil charges relating to this matter. In December 2010, the Federal Court for the Southern District of Texas sentenced the food company's owner to serve 24 months in jail and pay a $100,000 fine. The former purchasing agent for the food company was sentenced in April 2010 to serve 36 months of probation and ordered to pay nearly $2.1 million in restitution jointly and severally with the owner. As we formerly reported, a contractor was also sentenced to serve 36 months of probation and ordered to pay a $2,000 fine and $42,000 in restitution. This investigation was conducted jointly with the Defense Criminal Investigative Service and the U.S. Army Criminal Investigation Command-Procurement Fraud Unit.

Florida Exporter Pleads Guilty to Using Falsified USDA Seal and Logo To Export Cocoa and Chocolate Products to Panama

An OIG investigation disclosed that the owner of a Florida company created false documents, including letter certificates purportedly issued by AMS, to export six shipments of cocoa powder to Panama. These forged documents were used to secure entry of the products into Panama and fraudulently attested to the wholesomeness of the products. For example, the Florida exporter used one such document to secure the entry of approximately 19,000 pounds of chocolate products, worth about $35,000. In February 2011, the exporter pled guilty to one felony count of fraudulently and wrongfully affixing the USDA seal and logo to a document. Sentencing is pending.

Major Cockfighting Ring Broken Up in the Pacific Northwest—Drugs, Guns, and Cash Seized

As the culmination of a 3-year joint operation conducted by OIG, the U.S. Drug Enforcement Administration, and several local police departments in Oregon and Washington, 51 people were arrested in March 2008 on charges of cockfighting, gambling, and interstate transportation in aid of racketeering. To date, 42 defendants have pled guilty to charges ranging from cockfighting to distribution of controlled substances, and have received sentences from fines to 14 years' imprisonment. In November 2010, the last remaining defendant to be adjudicated in this case pled guilty to felony charges of cockfighting and drug trafficking in the District of Oregon. As a result of this investigation, law enforcement agents seized more than 50 firearms, 9.5 pounds of methamphetamine, $125,000 in cash, over 2 pounds of cocaine, 5 pounds of marijuana, and over 130 marijuana plants.

Two California Brothers Sentenced for Participating in Animal Fighting Ventures

In early 2009, OIG and Santa Barbara County Animal Services began an investigation into allegations that a Santa Barbara, California, resident was selling fighting cocks to individuals in Mexico, Hawaii, and the Philippines. When OIG, along with local law enforcement authorities, executed a search warrant at the residence of one of the defendants, investigators discovered approximately 800 to 1,000 birds. At a storage facility, law enforcement personnel also found cockfighting paraphernalia. The defendant and his brother were charged with multiple State animal fighting violations, and were sentenced to 3 years' probation, fined $375, and ordered to reduce the number of birds and to destroy all contraband.

Michigan Dog Fighter Convicted at Trial

As part of OIG's ongoing Michigan dog fighting investigations, investigators identified a suspect in Montcalm County who bought, sold, and bred pit bull dogs for fighting purposes. In February 2009, OIG personnel, along with State and local law enforcement and animal control agencies, executed a search warrant and found dogs with fighting scars, dog fighting trade publications, contracts for dog fighting matches, photographs, and electronic media related to dog fighting. The man was arrested in April 2010 on charges of animal fighting and cruelty to animals and was convicted at trial in December 2010. The Montcalm County Circuit Court sentenced this individual to 12 months' incarceration and ordered him to pay approximately $26,000 in fines and restitution.

GOVERNMENTWIDE ACTIVITIES—GOAL 1

Review of Legislation, Regulations, Directives, and Memoranda

- *National Organic Program*. OIG reviewed and commented on the Notice of Draft Guidance for Accredited Certifying Agents and Certified Operations for use by the organics industry concerning commingling and contamination prevention, as well as outdoor access for organic poultry. This guidance was developed in response to an OIG audit regarding oversight of the program. Our comments emphasized the need for more specific guidance on how organic operations should document their commingling and contamination prevention procedures, and for the development of specific criteria on outdoor access for all organic operations that handle live animals.

Participation on Committees, Working Groups, and Task Forces

- *FBI's National Joint Terrorism Task Force.* One OIG special agent is assigned full-time to the national task force, and other special agents work with local task forces. The national task force special agent attends threat briefings and provides terrorist intelligence products to OIG and other USDA agencies and offices. Overall, OIG's participation provides a conduit for sharing critical law enforcement intelligence and has broadened the FBI's and other law enforcement agencies' knowledge of how to conduct criminal investigations connected to food and agriculture.
- *FBI's Joint Interagency Agroterrorism Working Group.* OIG's emergency response team continues to participate in this working group, which develops protocols and procedures for the FBI, APHIS, and OIG to coordinate their response to agroterrorism.
- *Emergency Preparedness Planning Workgroups/Exercises.* Members of the emergency response team and other OIG special agents participate in area working groups and numerous multi-agency, scenario-based exercises throughout the country to plan for coordinated responses in emergency events. During this reporting period, OIG participated in two highway and motor-carrier food and agriculture supply chain tabletop exercises; an incident command training exercise in Michigan; a meeting at an automobile plant to discuss threats to the Minnesota economy, infrastructure, and law enforcement; and a meeting to plan and coordinate the role of the emergency response team in a Foot and Mouth Disease outbreak.
- During this reporting period, OIG agents participated in other safety and security-related working groups and task forces, including:
  - *Agriculture Intelligence Working Group*, which discussed bio-defense and international food safety with representatives from APHIS, FSIS, the FBI, the U.S. Army, the U.S. Department of State, FDA, and the U.S. Department of Health and Human Services;
  - *Arrowhead Counter-Terrorism Task Force,* a group of regional law enforcement and emergency response providers, led by the FBI field office in Duluth, Minnesota. The group meets monthly for training sessions and sharing information on various terrorist organizations, as well as related topics, such as crisis response scenarios (Minnesota/Wisconsin area);
  - *Anti-Terrorism Advisory Councils* in many judicial districts, including the Northern District of Illinois; the Eastern District of Michigan; the Eastern and Western Districts of Missouri; the Northern and Southern Districts of Iowa; and the Districts of Colorado, Kansas, and Minnesota. These councils are umbrella organizations comprised of local, State, and Federal agencies and private sector security representatives which work with the U.S. Attorney's Office for their geographic area to disrupt, prevent, and prosecute terrorism through intelligence-sharing, training, strategic planning, policy review, and problem solving;
  - *Northstar Task Force*, a working group in the upper Midwest to enhance communication and coordination with the U.S. Marshal's Service and other law enforcement agencies during multi-agency operations; and
  - *Organized Crime Drug Enforcement Task Forces* in various locations, including in Arizona where OIG recently assisted in a multi-agency investigation focused on gun-running across the Mexican border.

ONGOING AND PLANNED REVIEWS FOR GOAL 1

Topics that will be covered in ongoing or planned reviews under Goal 1 include:

- controls over experimentation with genetically engineered animals (APHIS),
- implementation of select agent or toxin regulations—followup (APHIS),
- effectiveness of the plant pest program (APHIS),
- plant protection and quarantine preclearance program (APHIS),
- keeping foreign animal diseases out of the United States (APHIS),
- agricultural import permits (APHIS),
- identification and prevention of prohibited products from entering the United States (APHIS),
- USDA's emergency response plan for Foot and Mouth Disease (APHIS),
- oversight of research facilities (APHIS),
- in-commerce surveillance (FSIS),
- State inspection programs (FSIS),
- implementation of the public health information system for domestic inspection (FSIS),
- followup on 2007 and 2008 audit initiatives (FSIS),
- assessment of inspection personnel shortages in processing establishments (FSIS),
- N-60 testing protocol on beef trim for *E. coli*–phase 2 (FSIS),
- inspection of swine slaughter facilities (FSIS),
- controls over food allergen labeling (FSIS),
- food defense verification procedures (FSIS),
- food defense verification procedures at domestic meat, poultry, and egg establishments (FSIS),
- USDA controls over shell egg inspections (FSIS, AMS, APHIS),
- review of appeals of humane handling noncompliance records (FSIS),
- USDA's response to colony collapse disorder (Agricultural Research Service (ARS), National Institute of Food and Agriculture (NIFA), APHIS, Risk Management Agency (RMA)),
- USDA's ability to respond to agricultural emergencies (Homeland Security),
- implementation of country of origin labeling (AMS),
- National Organic Program—organic milk (AMS),
- FS firefighter certification process (FS),
- National Organic Program's list of allowed and prohibited substances (AMS),
- retailer handling of organic products (AMS),
- oversight of procurement of poultry products for Federal feeding programs (AMS),
- USDA's periodic residue testing program for organic products (AMS),
- verifying credentials of veterinarians employed or accredited by USDA (FSIS, APHIS), and
- Methicillin-resistant *Staphylococcus Aureus* in meat (FSIS, AMS, ARS).

We will cover the findings and recommendations from these efforts in future semiannual reports as we complete the relevant audits and investigations.

ONGOING AND PLANNED REVIEWS FOR GOAL 1 UNDER RECOVERY ACT FUNDS

A topic that will be covered in an ongoing or planned review under Goal 1 under the Recovery Act includes:

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

The findings and recommendations from this project will be covered in future semiannual reports.

Integrity of Benefits

OIG Strategic Goal 2:

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

OIG conducts audits and investigations to ensure or restore integrity in the various benefit and entitlement programs of USDA, including a variety of programs that provide payments directly and indirectly to individuals or entities. The size of these programs is daunting: SNAP alone accounts for approximately $50 billion in benefits annually, while well over $20 billion annually is spent on USDA farm programs. Intended beneficiaries of these programs include the working poor, hurricane and other disaster victims, and schoolchildren, as well as farmers and producers. These programs support nutrition, farm production, and rural development.

The $28 billion in funding USDA received under the Recovery Act is being administered in a number of areas, including farm loans, watershed programs, supplemental nutrition assistance, wildland fire management, and several rural development programs (such as rural housing, rural business, water and waste disposal, and broadband). The Recovery Act also provided OIG with $22.5 million (to remain available until September 30, 2013) for "oversight and audit of programs, grants, and activities funded by this Act and administered by the Department of Agriculture."

OIG began working immediately with USDA and the inspector general community, as well as the Government Accountability Office and the Recovery Accountability and Transparency Board (Recovery Board), to carry out these oversight responsibilities. Our Recovery Act oversight plan includes proactive, short-term, and long-term audit and investigative work. It can be found on our website at http://www.usda.gov/oig/recovery/OIGSTIMULUSPLAN.pdf.

OIG has completed audit reports and fast reports that reviewed development of USDA agency program guidance and requirements, internal controls, eligibility criteria, and USDA compliance activities related to Recovery Act requirements. Those issued during this reporting period are described in this semiannual report. We anticipate that our audit efforts will continue through FY 2012.

In addition, OIG staff has engaged in training and outreach initiatives through presentations to professional organizations involving State, local, and independent audit groups. OIG investigators are working to ensure the integrity of Recovery Act programs by investigating potential fraud as warranted, pursuing prosecution where needed, and implementing a Recovery Act whistleblower investigation program. We continue to work closely with the Recovery Board and other Inspector General offices to coordinate analytic and investigative work into potential Recovery Act fraud. To increase fraud awareness, investigators have participated in 16 meetings, outreach activities, and training sessions with our Federal, State, and local partners during this reporting period, and have participated in more than 100 such events since the law's enactment. We have adjusted our hotline procedures to expeditiously process complaints related to the Recovery Act and to track them closely in order to meet the timeframes specified in the law. We also search for trends in the problems being reported in the use of Recovery Act funds.

In the first half of FY 2011, we devoted 50 percent of our total direct resources to Goal 2, with 94 percent of these resources assigned to critical/high-impact work. A total of 100 percent of our audit recommendations under Goal 2 resulted in management decision within 1 year, and 74 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued nine audit reports and one Recovery Act *Fast Report* under Goal 2 during this reporting period. OIG's investigations under Goal 2 yielded 166 indictments, 100 convictions, and about $28.1 million in monetary results during this reporting period.

Management Challenges Addressed UNDER GOAL 2

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goal 1)
- Implementation of Strong, Integrated, Internal Control Systems Still Needed (also under Goals 1, 3, and 4)
- Implementation of the Recovery Act (also under Goals 3 and 4)

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 2

North Carolina Farmers and Insurance Employees Sentenced in Crop Insurance Fraud Investigation

Working jointly with the RMA-Special Investigations Branch and the Internal Revenue Service (IRS)-Criminal Investigation Branch, OIG found that a large number of farmers in North Carolina concealed their production and then subsequently filed false crop insurance claims based on non-existent losses. This was a far-reaching conspiracy, involving farmers, warehouse operators, insurance agents, and loss adjusters, all of whom assisted in filing false claims and concealing the farmers' actual production. To date, as a result of their involvement in this crop insurance scheme, 24 individuals have pled guilty to various crimes in Federal court for the Eastern District of North Carolina, and the following sentencing actions occurred during this reporting period:

- A crop insurance agent was sentenced to 30 months in prison and 3 years of probation after he pled guilty to charges of conspiracy to make materially false statements and conspiracy to commit money laundering. He was ordered to pay $16.6 million in restitution, and forfeit $366,307.
- A tobacco buyer pled guilty to the same violations and was sentenced to 18 months in prison and 3 years of probation. In addition to paying $10.3 million in joint and several restitution, the tobacco buyer was also ordered to forfeit $647,139.
- A loss adjuster was sentenced to 1 year in prison, followed by 2 years of probation, after pleading guilty to charges of making false statements and aiding and abetting. The court also imposed a fine of $158,000.
- A farmer was sentenced to 60 months of probation, fined $3,000, and ordered to pay $41,820 in restitution after pleading guilty to conspiracy to make false statements in connection with the Federal Crop Insurance Program.
- A tobacco warehouseman was sentenced to 48 months in prison, followed by 36 months of probation after pleading guilty to conspiracy to launder money. The court also imposed a fine of $10,000.

USDA Rural Housing Service (RHS) Needs To Strengthen Its Controls Over Housing Assistance Paid to Victims of Disasters

When disasters displace people from their homes, RHS provides eligible applicants with housing assistance; however, OIG found that RHS field staff may have continued to distribute disaster assistance from the Single Family Housing Program to recipients even though some of those recipients possibly received proceeds from other private sources (such as insurance companies) to repair damage caused by disasters. In addition to possibly distributing assistance to those who had received payments from private sources, OIG found that RHS officials did not correct program deficiencies identified in our prior two audits—9 of 24 recommendations from our prior audits were not addressed because RHS officials did not think corrective actions were necessary since they had no plans to provide emergency rental assistance again in the future. RHS officials agreed with all of this report's recommendations for corrective action. (Audit Report 04601-19-Ch, Rural Development Controls Over Rural Housing Service Disaster Assistance Payments)

APHIS Needs To Correct Problems With Payments Issued To Florida Citrus Producers Due to Citrus Canker

In 1995, when citrus canker—a disease that affects citrus trees and fresh citrus fruit—was identified in south Florida and began affecting both residential properties and commercial groves—USDA implemented three different programs to assist affected citrus growers. APHIS implemented the Citrus Canker Lost Production Program and Citrus Canker Tree Replacement Program to compensate eligible Florida commercial citrus growers for lost production and tree losses, while RMA modified one of its insurance products—the Florida Fruit Tree Pilot Crop Insurance Program—so that growers could be indemnified for citrus canker tree losses. From November 21, 2004, to November 20, 2005, APHIS, through its two programs, made $474 million in payments to growers, and RMA paid growers (through its approved insurance providers) $100.8 million for citrus canker tree losses. OIG's audit found coordination problems between the USDA agencies implementing these programs, as well as with how USDA agencies coordinated with the IRS. APHIS did not coordinate with RMA to determine the amount of indemnity payments growers had already received before APHIS calculated its payments—an error that resulted in a total of $1.1 million in erroneous payments. Moreover, APHIS did not report to the IRS $290.9 million in Citrus Canker Tree Replacement Program payments from FY 2001 to 2007. Since citrus trees are a capital asset, these payments could have resulted in capital gains, which should have been reported to the IRS. APHIS

officials generally agreed with the report's recommendations for corrective action. (Audit Report 50099-46-At, USDA Payments for 2005 Citrus Canker Tree Losses)

The Farm Service Agency (FSA) Needs To Improve Its Overall Administration of the Biomass Crop Assistance Program (BCAP) To Prevent Program Abuse

OIG's review of the Biomass Crop Assistance Program's (BCAP) Collection, Harvest, Storage, and Transportation (CHST) program identified wide-ranging problems in the program's operation. Our *Fast Report* disclosed that despite spending over $243 million to support renewable crops that could be used for fuel, FSA did not institute a suitable system to provide oversight and prevent the abuse of the program. This review identified potential schemes aimed at circumventing the intent of CHST program agreement terms and guidelines. For example, three biomass suppliers and conversion facilities circumvented poorly written agreements to obtain payments to which they were not entitled. These problems occurred because FSA, in an effort to quickly implement the program in compliance with a presidential directive, did not develop a handbook, specialized forms, or a computer support system that was suited to the specific requirements of the CHST program. FSA also left its field personnel without adequate guidance and oversight controls to detect, identify, and take action against potential schemes or devices. Due to these problems, FSA implemented a program that resulted in inequitable treatment of program participants, improper payments, and reduced scope for oversight and accountability. The agency generally agreed with our recommendations and has started corrective actions. OIG will roll up these issues in a final report on BCAP. (Audit Report 03601-28-KC (1) and (2), Farm Service Agency Biomass Crop Assistance Program Controls over Collection, Harvest, Storage, and Transportation Matching Payments Program)

FSA Needs To Improve Controls for Future Implementations of the Emergency Conservation Program

FSA's Emergency Conservation Program (ECP) provides emergency cost-share and technical assistance to producers when their land and property is damaged by winds, floods, hurricanes, or other natural disasters. After the 2008 flooding in the Midwest, OIG reviewed FSA's implementation of ECP in Iowa, Missouri, and Indiana and found that FSA needed to take steps to strengthen its control structure for future implementation of ECP. During the initial onsite inspection of producers' fields, FSA employees did not always determine the type and extent of the damage the producer sustained. In addition, FSA employees stated that they did not complete cost estimates for 75 of the 156 ECP applications they were responsible for because they lacked the technical expertise needed to estimate the costs associated with many repairs. Without completing cost estimates or determining the extent of damage, FSA paid $559,650 in ECP funds without assurance that these funds were used for eligible restoration costs. Finally, since FSA county employees did not have a baseline against which to compare producers' invoices at the end of the ECP application process, they did not exclude ineligible expenses and practices for some ECP applications. FSA generally agreed with our recommendations to revise ECP procedures for completing onsite inspections and assessing damages. Also, FSA is working to address our recommendations for strengthening controls over county employee participation and producers who prematurely begin repairs. (Audit Report 50601-16-KC, Farm Service Agency Emergency Disaster Assistance for 2008 Floods: Emergency Conservation Program)

NRCS Needs To Ensure That Its State Offices Reimburse Emergency Watershed Protection (EWP) Costs Consistently

Due to extensive flooding in the Midwest, hurricanes in the Gulf region, and ice storms in Kentucky during 2008 and 2009, NRCS received about $490 million for EWP post-disaster recovery activities. The funds were used to restore water channels, remove debris, stabilize stream banks, and repair levees in the affected States. OIG's review of a sample of these projects found that NRCS successfully administered the recovery portion of EWP in the aftermath of these natural disasters, correctly prioritized which projects it would fund, and appropriately responded to recommendations made in a 2007 EWP audit. However, the NRCS State offices did not always reimburse costs for technical services (i.e., project design and construction oversight) consistently. OIG recommended that NRCS take steps to ensure more consistent compensation of these costs. NRCS generally agreed with the recommendations and is implementing appropriate corrective actions. (Audit Report 10601-6-KC, Natural Resources Conservation Service Emergency Disaster Assistance: Emergency Watershed Protection Program)

Texas Cattle Association Members Repay $397,893 in Hurricane Rita-Related Livestock Indemnity Funds

In August 2006, six members of a South Texas cattle association applied for and received $397,893 in FSA Livestock Indemnity Payments for cattle deaths they falsely claimed to be related to Hurricane Rita. In August 2009, in the Southern District of Texas, all six members were charged with conspiracy and false claims relating to their scheme to defraud the program. In October 2010, the six members entered into the pre-trial diversion program administered by the U.S. Attorney's office. The U.S. Attorney's office agreed to defer prosecution of this matter for 12 months in return for $397,893 in restitution.

Missouri Man Sentenced to Prison for Selling Mortgaged Grain

A Missouri man made false statements to FSA regarding certified farm-stored loans and, as a result, received at least $735,494 in loans to which he was not entitled. Even though the man repaid the loans, the U. S. Attorney's office felt that he would have placed USDA at significant risk if he had defaulted on the loans. In July 2010, the man was indicted in the Eastern District of Missouri on two counts of making false certifications. He later pled guilty and was sentenced to serve 6 months in Federal prison and fined $4,200.

Mississippi Rancher Imprisoned for Stealing Cattle

At the request of the U.S. Attorney's office, OIG began an investigation that revealed that a Mississippi rancher stole nine head of cattle and transported them to a Louisiana stockyard to be sold—the suspect was arrested when he returned to the auction barn to retrieve the sales proceeds. In November 2010, in Federal court for the Southern District of Mississippi, the rancher was sentenced to serve 13 months' incarceration and was ordered to pay $1,010 in restitution. In a related State prosecution, the State of Mississippi sentenced the rancher to serve 24 months of incarceration for stealing other cattle in Mississippi.

Michigan Mortgage Company Personnel Defraud Rural Development Guaranteed Loan Program

Between 2001 and 2003, employees of a Michigan mortgage company issued 271 RHS Section 502 guaranteed single family home loans, valued at over $38 million. OIG's investigation disclosed that at least 63 percent of the loans reviewed were based on false borrower income certifications, fraudulent pay statements, forged application signatures, and altered credit scores. These bogus documents were subsequently provided to Rural Development for loan guarantees. Between 2003 and August 2008, approximately 40 of these loans defaulted, resulting in Rural Development paying out over $2.3 million in guarantees.

For their role in this scheme, four mortgage company employees were charged in U.S. District Court, Eastern District of Michigan. Two mortgage processors have already been sentenced to 2 years' supervised release and were ordered to pay restitution of $654,500 and $206,475, respectively. The branch manager and his brother, who was the assistant branch manager, pled guilty in March 2011 to making false statements on loan applications. Both individuals are facing potentially lengthy periods of incarceration and restitution ranging from $925,000 to $2 million.

Two Individuals Sentenced for Misleading Investigators Looking Into Multi-Million-Dollar Broadband Loan Scheme

In an update to an investigation reported in the *SARC, First Half of FY 2009* and the *SARC, Second Half of FY 2010,* two individuals were sentenced for obstructing the investigation of a scheme to fraudulently obtain disbursements from a $3.3 million RUS broadband loan. In March 2002, RUS approved a $3.3 million loan to a West Virginia corporation to construct a wireless broadband system for areas in Ohio and West Virginia. The corporation then fraudulently disbursed RUS loan funds based on phony invoices submitted for payment and also paid loan funds to an Ohio company where former principals of the West Virginia corporation became employed after submitting their resignations. The matter was investigated jointly by OIG, the IRS, and the West Virginia Legislature's Commission on Special Investigations.

In June 2010, the former chairman of the board of the West Virginia corporation pled guilty to obstruction of justice for withholding information from investigators about the use of the fraudulently obtained funds. He was sentenced in February 2011, in U.S. District Court, Southern District of West Virginia, to 3 years' probation, including 4 months' home confinement, and ordered to pay a $3,000 fine. In July 2010, the chief financial officer of the Ohio company was found guilty of obstructing a Federal audit by intentionally providing

false information. He was sentenced, also in February 2011, in the same Federal court, to 4 years' probation, including 6 months' home confinement, and ordered to pay a fine of $15,000.

SNAP Trafficking

A significant portion of OIG's investigative resources are dedicated to ensuring the integrity of SNAP by combating the practice of exchanging benefits for cash known as "trafficking." In the first half of FY 2011, OIG has concluded the following SNAP-related investigations and prosecutions:

- **Michigan Retailers Sentenced for SNAP Trafficking—**A joint investigation with the FBI determined that a small convenience store in Wyoming, Michigan, trafficked approximately $400,000 in SNAP and Women, Infants, and Children (WIC) benefits from November 2005 through July 2009, and conspired with another retailer in Ypsilanti, Michigan, to illegally move more than $300,000 overseas through the operation of an illegal money remittance business known as *hawala*. The two brothers who owned the store were sentenced in February 2011, in U.S. District Court, Western District of Michigan, on charges of conspiracy, food stamp fraud, WIC fraud, operating an unlicensed money transmitting business, and structuring financial transactions to evade reporting requirements; they were each sentenced to 60 months' imprisonment, 3 years' supervised release, and $401,670 in restitution.
- **Brooklyn Store Owner Ordered To Serve 2 Years in Jail and Pay $1.4 Million in Restitution for SNAP Fraud—** From September 2007 to September 2009, a Brooklyn food store exchanged a total of $2,664 in SNAP benefits for $1,875 in cash in a series of trafficking transactions. Subsequent investigation and analysis of financial data demonstrated that the store's fraudulent SNAP transactions actually amounted to approximately $1.4 million. In September 2009, in U.S. District Court, Eastern District of New York, the store owner and her son were charged with conspiracy to commit SNAP trafficking. The store owner pled guilty and was sentenced to 24 months' imprisonment and ordered to pay restitution of approximately $1.4 million and forfeit $105,474 in seized assets. The owner's son fled, but was apprehended in Florida in July 2010. He pled guilty in December 2010; his sentencing is pending.
- **California Restaurant Owner Sentenced To Serve 37 Months in Prison and Pay $1.1 Million in Restitution for SNAP Fraud—**In November 2008, OIG and Secret Service agents executed four search warrants at a restaurant authorized to accept SNAP benefits from recipients in exchange for hot meals, as well as at the restaurant owner's home. They arrested the owner and seized over $360,000 from multiple accounts. The investigation disclosed that the owner caused more than $1.3 million in SNAP benefits to be redeemed using an electronic benefit transfer-point of sale (EBT-POS) terminal registered to her restaurant by depleting multiple EBT cards of their balances one cent at a time. When the owner failed to report to her pre-sentencing interviews, she was subsequently arrested again and remanded into custody. In February 2011, in U.S. District Court, Central District of California, she was sentenced to 37 months' incarceration, followed by 2 years' supervised release, and was ordered to pay more than $1 million in restitution.
- **St. Louis Store Owner Sentenced To Pay $244,000 in Restitution for SNAP Fraud—**From February 2006 to December 2006, a St. Louis grocery store owner exchanged SNAP benefits for cash and other non-grocery items. The store and owner were permanently disqualified from SNAP participation in December 2007. The owner later pled guilty to one count of illegal acquisition of food stamp benefits, and was sentenced in December 2010, in U.S. District Court, Eastern District of Missouri, to serve 60 months' probation and pay $244,349 in restitution.
- **New Orleans Store Owner and Employee Exchanged SNAP Benefits for Narcotics and Cash—**An OIG investigation determined that the owner of a food store in New Orleans and his employee illegally exchanged SNAP benefits for cash and heroin and had distributed 100 grams or more of heroin within 1,000 feet of a middle school. In June 2010, they were both charged in U.S. District Court, Eastern District of Louisiana, with multiple felonies, including distribution of a controlled substance, access device fraud, and conspiracy. The employee pled guilty, and was sentenced in February 2011 to 24 months in prison and ordered to pay restitution of $16,432. Sentencing is pending for the store's owner. This case resulted from a referral from a Joint Terrorism Task Force and was worked jointly with the FBI.

Mississippi Resident Falsely Claims Benefits From Hurricane Katrina

In October 2010, in U.S. District Court, Southern District of Mississippi, a Mississippi SNAP recipient was sentenced to serve 36 months of probation and ordered to pay $2,000

in restitution after she was shown to have falsely claimed to the Federal Emergency Management Agency (FEMA) that Hurricane Katrina had displaced her from her residence. The SNAP documents she had filled out proved she actually resided elsewhere and had incurred no damages from the hurricane.

Husband and Wife Sentenced to Prison for Hurricane Katrina-Related Fraud

A husband and wife falsely claimed that they were victims of Hurricane Katrina and, as a result, illegally received FEMA benefits to which they were not entitled. Subsequent investigation determined that, prior to the hurricane, the couple had also illegally received SNAP benefits to which they were also not entitled. In November 2010, the couple pled guilty in the U.S. District Court, Southern District of Illinois, to having made false statements in order to receive SNAP benefits and Hurricane Katrina FEMA benefits. The wife was sentenced to serve 21 months in Federal prison and was ordered to pay restitution and fines totaling $12,180 for SNAP benefit fraud. The husband was sentenced to serve 4 months in Federal prison and was fined $400. The couple was further ordered to jointly pay $19,814 in restitution to FEMA.

Oklahoma Woman Convicted of Defrauding FNS, the U.S. Social Security Administration, and the U.S. Department of Health and Human Services

Working jointly with the U.S. Social Security Administration, the U.S. Department of Health and Human Services, and the Oklahoma Department of Human Services, OIG found that a welfare recipient from Bowlegs, Oklahoma, falsely represented herself as single and failed to report all her available income in order to fraudulently receive SNAP, Social Security, and Medicaid benefits to which she was not entitled. In December 2010, the woman was sentenced in U.S. District Court, Western District of Oklahoma, to serve 48 months of probation and ordered to pay $121,483 in restitution.

Nebraska Day Care Provider Sentenced to Prison for Making False Claims and Using False Social Security Numbers

As reported in the *SARC, Second Half of FY 2010*, the owner/operator of an Omaha, Nebraska, day care center pled guilty in July 2010 to making false claims and using false Social Security numbers to claim reimbursement through USDA's Child and Adult Care Food Program (CACFP) for a fictitious number of day care attendees each day. In October 2010, the woman was sentenced in Federal Court, District of Nebraska, to serve 36 months in Federal prison for making false claims and 24 months in prison for identity theft, to be served concurrently. The prison term is to be followed by 36 months' probation. The woman was also ordered to pay $20,256 in restitution to FNS and $99,537 to the Nebraska State Health and Human Services.

Director of North Carolina Day Care Sponsoring Organization Sentenced to Prison and $242,405 in Restitution for CACFP Fraud

A joint investigation by OIG and the North Carolina State Bureau of Investigation determined that the executive director of a day care sponsoring organization in North Carolina submitted false claims and willfully misapplied CACFP funds. The organization submitted overstated claims to the North Carolina State Department of Health and Human Services and received more than $240,000 in CACFP funds to which the organization was not entitled. In January 2011, the executive director was sentenced in Federal Court, Middle District of North Carolina, to up to 18 months' imprisonment, 60 months' probation, and ordered to pay $242,405 in restitution.

Florida Day Care Provider Convicted of Aggravated White Collar Crime

A joint investigation conducted with the Florida Department of Financial Services-Public Assistance Fraud Unit disclosed that a day care owner/operator fraudulently submitted fictitious documents in order to inflate the number of children enrolled at her two day care centers in Florida. She also inflated reimbursement information submitted in State computer systems. In January 2011, the day care owner/operator was convicted in the Eighth Judicial Circuit of Florida of felony aggravated white collar crime and was ordered to pay $79,484 in restitution.

RECOVERY ACT REVIEWS

RHS Needs To Ensure That Borrowers Receiving Single Family Housing Loans Are Eligible

The Recovery Act included $133 million to finance over $10 billion in single family housing loan guarantees in rural areas. There are, however, restrictions on who may receive these loan guarantees—borrowers cannot, for instance, exceed certain

income requirements. OIG reviewed a representative sample of 100 loans that RHS guaranteed and identified 28 loans where lenders had not fully complied with Federal regulations or Recovery Act directives in determining the eligibility of the borrowers. For example, loan guarantees were approved for borrowers who exceeded required income limits, did not appear able to repay their loans, and purchased homes with swimming pools. Based on the results from this sample, 27,206 loans (over 33 percent of the portfolio) may be ineligible, with a projected total value of $4 billion. OIG issued a *fast report* regarding this matter to alert RD officials timely and to ensure agency management immediately address the issue by taking appropriate corrective actions.

Although Rural Development officials agreed that 10 of the 28 loans questioned may be ineligible, and have agreed to take some corrective actions to address the internal control that allowed these errors to occur, they disagreed on 18 of the 28 loans. We continue to work with Rural Development to address these concerns. To date, this audit is ongoing. At the conclusion of this audit, these issues as well as any other issues that may be identified will be complied into a final report. Recovery Act *Fast Report* (Audit Report 04703-2-Ch (1), Rural Development Guaranteed Single Family Housing Loans Made by Lenders to Ineligible Borrowers)

FSA Can Improve Its Controls Over Its Direct Loan Making Process

The Recovery Act authorized up to $173 million for FSA to make direct operating loans to help America's farmers and ranchers finance their farms. A sample of these loans found that FSA generally made direct operating loans to eligible producers and for eligible purposes. Sometimes, however, FSA employees involved in processing these loans did not follow all of FSA's procedures, but only in three cases were the deficiencies noted serious enough that FSA should have questioned making loans totaling $321,500. Since all three of the borrowers OIG questioned had repaid their loans or were in the process of repaying them, these minor errors did not justify formal recommendations and corrective actions. FSA farm loan program officials agreed that, in the future, minor deficiencies of this sort could result in loans being issued to borrowers who might be unable to repay their loans. They stated that they are considering implementing automated controls to prevent these kinds of errors. (Audit Report 03703-2-Te, Farm Service Agency, American Recovery and Reinvestment Act Direct Farm Operating Loans—Phase 2)

Rural Business-Cooperative Service (RBS) Needs To Recover Government Funds From a Lender Who Abused the Business and Industry Guaranteed Loan Program

At the request of RBS' National office, OIG initiated audits to review five loans that a lender made as part of USDA's business and industry guaranteed loan program. OIG found that the lender misrepresented certain critical facts about the borrower to obtain loan guarantees, neglected to service the loans properly, and put Recovery Act funds at risk of default. The lender's misrepresentations rendered two of the five Government loan guarantees unenforceable. As a result, RBS agreed to recover over $7 million in questioned costs. In addition, RBS addressed OIG's concerns about funding borrowers associated with gambling operations, which is prohibited by the Recovery Act. This report summarizes our five reviews of problematic individual loans made by this borrower. In addition, note the grand total in questioned costs mentioned above includes questioned costs identified in prior audit reports and those costs have been discussed in previously issued SARCs. (Audit Report 34099-8-Te, Rural Development Rural Business-Cooperative Service Review of Lender with Business and Industry Guaranteed Loans)

Arizona Rural Development Applicant Falsely Applied for Recovery Act Funds

RHS received approximately $1.2 billion in Recovery Act funding to directly finance loans for low income and very low income individuals living in rural areas. In February 2010, an Arizona applicant applied for and was approved to receive approximately $114,000 from the Rural Development Direct Loan Program. OIG found, however, that in order to obtain the loan and in an effort to disguise the actual cause of her poor credit rating, the applicant provided multiple false and fictitious documents to Rural Development, including false Social Security income documentation as well as a false police report alleging that the applicant was a victim of identity theft. Based on OIG's investigative findings documenting the false information, Rural Development permanently withdrew the applicant's claim, avoided payment, and saved approximately $114,000 of Recovery Act funds

GOVERNMENTWIDE ACTIVITIES—GOAL 2

Review of Legislation, Regulations, Directives, and Memoranda

- *7 Code of Federal Regulations Part 400, RMA proposed a rule to amend the General Administrative Regulations by adding a new subpart Y.* The new regulations that RMA is proposing would provide a good performance refund to producers who have demonstrated favorable crop insurance performance. OIG reviewed the proposed rule and did not have any comments.
- *Final Rule for BCAP.* The BCAP final rule was issued on October 27, 2010. We reviewed the final rule to determine if it addressed our formal comments provided in April 2010 and our informal concerns that we discussed with program managers and agency officials throughout the course of our review. We found that while the agency had addressed some of our concerns in the final rule, including the issues of a payment option and inconsistencies in reduction of annual payments, we continue to have concerns regarding the biomass conversion facilities' performance and additional concerns regarding overall management controls of the program. These concerns will be further detailed in our upcoming audit report.

Participation on Committees, Working Groups, and Task Forces

- *OIG Provided Technical Assistance to the National Institute of Food and Agriculture (NIFA).* OIG auditors continue to provide technical assistance to NIFA during its financial and administrative review of one of its grantees on the island of Oahu, Hawaii. NIFA has a long history of awarding competitive research and facility grants to this institution. In FY 2010, NIFA sought OIG's technical assistance addressing a series of complaints from grantee employees and others, as well as an OIG hotline complaint. During this past period, OIG met with and provided feedback to NIFA staff to help strengthen and solidify NIFA's initial findings in its review of the grantee.
- *NIFA's Senior Management Retreat.* As part of our outreach activities, OIG auditors participated in NIFA's monthly senior management retreat in February 2011. To help with developing better working relationships between OIG and NIFA, we provided an overview of the IG's authorities, responsibilities, and mission, the OIG complaint hotline, the audit process, and a question and answer session.
- *Operation Talon.* OIG began Operation Talon in 1997 to catch fugitives, many of them violent offenders, who are current or former SNAP recipients. Since its inception, Operation Talon has led to the arrests of thousands of fugitive felons. During the first half of FY 2011, OIG agents conducted Talon operations that resulted in more than 200 arrests. OIG combined forces with Federal, State, and local law enforcement agencies to arrest fugitives in Alabama, Arizona, California, Minnesota, Missouri, Pennsylvania, and Utah, for offenses including assault, burglary, larceny, robbery, sex offenses, weapons violations, forgery and counterfeiting, drug charges, and offenses against family and children.
- *Hurricane Katrina/Rita Task Forces*. Work continues on investigations opened by OIG special agents who have participated in multiagency task forces focusing on false claims or statements submitted to obtain Federal benefits for these disasters. Through the end of this reporting period, OIG has opened 115 cases in which FNS, FSA, Rural Development, and other Federal agencies have been defrauded. During this time, 147 individuals have been indicted, 124 have been convicted, and monetary results have totaled nearly $2.4 million.
- *Bridge Card Enforcement Team*. OIG investigators work with this team to investigate criminal SNAP and WIC violations. Team members include the Michigan State Police and IRS investigators. The FBI and Michigan Department of Human Services-Office of Inspector General have also helped during search warrant operations. Since 2007, our teamwork has resulted in 105 arrests and 128 search warrants served in Michigan. The U.S. Attorney's Offices for the Eastern and Western Districts of Michigan and the Michigan Attorney General's Office are pursuing criminal prosecutions, with cases so far resulting in 82 guilty

pleas. Sentences have included lengthy incarceration periods and $19.9 million in court-ordered fines and restitution. The U.S. Attorney's Offices have initiated forfeitures totaling over $3 million.

- *Mortgage Fraud Task Forces*. OIG investigators participate in mortgage fraud task forces in California, Michigan, and New Hampshire, in addition to a national mortgage fraud working group that meets monthly in Washington, D.C. These task forces identify trends, share information, and coordinate investigations related to mortgage fraud. The task forces are headed by representatives from U.S. Attorney's offices and the FBI. They include staff from Inspector General offices and other program offices of many Federal agencies, including the U.S. Department of Housing and Urban Development, the U.S. Department of Homeland Security, the Financial Crimes Enforcement Network, the Federal Reserve Board, the U.S. Social Security Administration, the IRS, and the Securities and Exchange Commission, as well as local district attorney's offices and police departments.
- *American Recovery and Reinvestment Act Working Groups,* including groups operating in Ohio and Virginia. In addition, OIG is one of nine Federal agencies participating on the *Recovery Board Referral Task Force* in the Pacific Northwest, which is conducting a joint investigation based on a Recovery Board referral.
- *Western Region Inspectors General Council, Northwest Inspectors General Council, and other Western Region Working Groups, including the North Sound Regional Intelligence Group, the South Sound Regional Intelligence Group, and the Tukwila Working Group.* OIG investigators work with these councils and groups to develop Recovery Act training, share information, discuss ongoing and potential work of mutual interest, and strengthen working relationships. In addition, Western Region OIG investigators organize and participate in meetings to enhance coordination between Federal, State, and local law enforcement agencies in the Pacific Northwest.
- *Minnesota Inspector General Council.* This group was recently established to discuss working with prosecutors, planning joint training operations, and improving communication and coordination among Inspectors General (IG) in Minnesota. The council sponsored a scenario-based training exercise in March at the local U.S. Postal Service OIG office.

OIG agents also participate in other task forces and working groups related to benefits fraud, including:

- *U.S. Attorney's Bankruptcy Fraud Working Group* in the Western District of Missouri,
- *East African Area Studies Group* in Minnesota and the *Somali Working Group* in California,
- *Human Trafficking Task Force* in Minnesota,
- *Identity Fraud Task Force* in the District of New Hampshire,
- *Law Enforcement Coordinating Committee Conferences* in Colorado, Iowa, Missouri, Nebraska, South Dakota, and Wyoming,
- *Four Corners Investigator Group*, consisting of Federal, State, and local fraud investigators from Arizona, Colorado, Utah, and New Mexico,
- *Suspicious Activity Report Working Groups* in locations including Alabama, Maine, Massachusetts, Michigan, Minnesota, New Hampshire, North Carolina, and Oregon,
- *Witness/Victim Task Force*, sponsored by the U.S. Attorney's Office for the District of Minnesota; and
- *Social Services Fraud Working Group*, coordinated by the U.S. Attorney's Office for the District of Oregon.

ONGOING AND PLANNED REVIEWS FOR GOAL 2

Topics that will be covered in ongoing or planned reviews under Goal 2 include:

- accuracy of statistics produced by the National Agricultural Statistics Service (NASS),
- Veterinary Medicine Loan Repayment Program (NIFA),
- controls over biomass research and development grants (NIFA),
- citrus indemnity payments resulting from 2005 Florida hurricanes (RMA),

- oversight of approved insurance providers' quality control process (RMA),
- verification of new producers (RMA),
- approved insurance provider compliance with standard reinsurance requirements for documentation to support claims (RMA),
- compliance with RMA's inconsistent yield and added land procedures (RMA),
- oversight of organic crop insurance (RMA),
- controls over prevented planting claims (RMA),
- approved insurance providers' reduction of inconsistent yields (RMA),
- followup of FSA's compliance review process (FSA),
- verification of income eligibility for program payments (FSA),
- Biomass Crop Assistance Program—project areas (FSA),
- Biomass Crop Assistance Program—Collection, Harvest, Storage, Transport (FSA),
- Dairy Economic Loss Assistance Payment Program (FSA),
- automated controls over payment limitation direct attribution rule (FSA),
- Noninsured Crop Disaster Assistance Program (FSA),
- Farm Storage Facility Loan Program (FSA),
- 2008 Farm Bill's changes to the payment limitation (FSA),
- Conservation Reserve Program's soil rental rates (FSA),
- USDA Emergency Relief/Disaster Assistance for past and future natural disasters (NRCS),
- USDA's controls over the Farm and Ranchland Protection Program (NRCS),
- NRCS' use of equitable relief and waivers of improper payments (NRCS),
- controls over the 2009 Agricultural Water Enhancement Program (NRCS),
- review of Congressionally earmarked funds in FY 2010 appropriations (NRCS),
- oversight of agreements reached in program complaints (Office of Assistant Secretary—Civil Rights),
- vendor monitoring in the WIC Program (FNS),
- CACFP followup audit (FNS),
- controls over the Biorefinery Assistance Program (RBS),
- Rural Economic Development Loan Program (RBS),
- Rural Energy for America Program (RBS),
- Rural Cooperative Development Grant Program eligibility and grant funds use for a Missouri entity (RBS),
- rural rental housing construction costs (RHS),
- rural rental housing project management companies (RHS),
- rural rental housing maintenance cost and inspection procedures (RHS),
- controls over disaster assistance payments (RHS),
- Midwest management company (RHS),
- National School Lunch Program—food service management companies and cost reimbursable contracts (FNS),
- Farmers' Market Promotion Program (AMS),
- National School Lunch Program—California (FNS),
- controls over FY 2010 food distribution programs—purchase of fresh fruit and vegetables (FNS),
- reasonableness of price determinations for firm fixed price contracts awarded by USDA (multiagency), and
- comparison of U.S. Social Security Administration death master list with USDA benefit databases (multiagency).

We will cover the findings and recommendations from these efforts in future semiannual reports as we complete the relevant audits and investigations.

ONGOING AND PLANNED REVIEWS FOR GOAL 2 UNDER RECOVERY ACT FUNDS

Topics that will be covered in ongoing or planned reviews under Goal 2 under the Recovery Act include:

- Trade Adjustment Assistance for Farmers Program (Foreign Agricultural Service FAS, FSA, NIFA),
- controls over aquaculture grant Recovery Act funds—phase 2 (FSA),
- Recovery Act supplemental agricultural disaster assistance programs (FSA),
- Recovery Act Emergency Watershed Protection Program floodplain easements—small land parcels (NRCS),
- Recovery Act Emergency Watershed Protection Program floodplain easements—phases 2 and 3 (NRCS),
- controls over outsourcing of SNAP call centers (FNS),
- Recovery Act impacts on SNAP—phases 1 and 2 (FNS),
- State fraud detection efforts for SNAP (FNS),
- improper payments in SNAP (FNS),
- identifying improper payments in CACFP (FNS),
- oversight and control of FS Recovery Act activities (FS),
- rural business enterprise grants—phase 2 (RBS),
- Business and Industry Guaranteed Loan Program—phase 2 (RBS),
- Business and Industry Guaranteed Loan Program—phase 3 (RBS),
- lending institutions' use of Recovery Act funds for housing guaranteed loans (RHS),
- single family housing direct loan effectiveness—phase 3 (RHS),
- Recovery Act servicing of single family housing direct loans (RHS),
- single family housing direct loans—loan file compliance reviews (RHS),
- controls over rural community facilities' direct grant and loan programs—phase 2 (RHS),
- controls over eligibility determinations for single family housing guaranteed loan Recovery Act funds—phase 2 (RHS),
- Recovery Act performance measures and job creation for single family housing guaranteed loans—phase 3 (RHS),
- evaluation of loss claims related to Recovery Act funds distributed through single family housing guaranteed loans (RHS),
- Broadband initiatives (RUS), and
- Food Distribution Program on Indian Reservations Equipment Review—phase 2 (FNS).

The findings and recommendations from these efforts will be covered in future semiannual reports as the relevant audits and investigations are completed.

Management Improvement Initiatives

OIG Strategic Goal 3:

Support USDA in implementing its management improvement initiatives

OIG conducts audits and investigations that focus on such areas as improved financial management and accountability, information technology (IT) security and management, research, real property management, employee integrity, and the Government Performance and Results Act. Our work in this area is vital because the Department is entrusted with $128 billion in public resources annually. The effectiveness and efficiency with which USDA manages its assets are critical.

In the first half of FY 2011, we devoted 31 percent of our total direct resources to Goal 3, with 97 percent of these resources assigned to critical/high-impact work. A total of 98 percent of our audit recommendations under Goal 3 resulted in management decision within 1 year, and 97 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued 10 audit reports and 1 Recovery Act *fast report* under Goal 3 during this reporting period. OIG's investigations under Goal 3 yielded 9 indictments, 20 convictions, and $19.4 million in monetary results during this reporting period.

Management Challenges Addressed UNDER GOAL 3

- Implementation of Strong, Integrated, Internal Control Systems Still Needed (also under Goals 1, 2, and 4)
- Continuing Improvements Needed in IT Security
- Implementation of the Recovery Act (also in Goals 2 and 4)

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 3

USDA Needs To Take Action To Resolve Longstanding IT Weaknesses

Each year, OIG provides the Office of Management and Budget (OMB) with the results of our Federal Information Security Management Act (FISMA) testing. In 2009, we reported that in order to mitigate continuing material weaknesses, the Department should rethink its policy of attempting to simultaneously achieve numerous goals in short timeframes. OIG recommended that the Department and its agencies, working together, define and accomplish one or two critical objectives prior to proceeding to the next set of priorities.

During FY 2010, we saw some evidence that the Department was coordinating its activities in the manner we recommended; however, we did not observe that the Department was making measurable progress in approaching this problem collaboratively. OIG continues to consider this change in direction the best course of action for the Department's IT security program.

While USDA has made improvements in its IT security in the last decade, many longstanding weaknesses remain. OIG made a total of 19 recommendations, noting the areas where the Department needs to develop policy and procedures and enforce existing policies to ensure agency compliance. Efforts have been made to mitigate the weaknesses noted during this FISMA review. The Office of the Chief Information Officer (OCIO) has provided sufficient details regarding its corrective action plans to resolve 16 of the 19 audit recommendations. We continue to work with the OCIO to appropriately resolve the findings and recommendations we reported. (Audit Report 50501-2-IT, Office of the Chief Information Officer Fiscal Year 2010 Federal Information Security Management Act)

FNS Continues Its Efforts To Reduce Its Rate of Improper Payments

In Executive Order 13520, the President charged Federal agencies with reducing and preventing improper payments through increased transparency and improved agency accountability. The Executive Order further mandated that Federal agencies with high-priority programs submit an annual report to their respective inspector generals for review. For

FY 2010, OMB identified FNS' SNAP and National School Lunch Program (NSLP) as high-priority programs. OIG reviewed FNS' report and found that FNS had made significant progress in reducing improper payments. However, we recommended that USDA continue to work with OMB to set reasonably aggressive improper payment reduction targets; document negotiations between USDA and OMB regarding reduction target determinations; and reassess NSLP's improper payment rate determination model to evaluate how precision can be determined and to modify the model, as necessary, in order to update the annual rate. FNS concurred with all of our recommendations. (Audit Report 50024-2-FM, Calendar Year 2010 Executive Order 13520, Reducing Improper Payments, Accountable Official Report Review)

USDA FY 2010/2009 Consolidated Financial Statements

USDA's FY 2010/2009 consolidated financial statements received an unqualified opinion. Our consideration of internal controls over financial reporting identified two material weaknesses in USDA's overall financial management and information technology security and controls. Our consideration of compliance with laws and regulations disclosed instances of noncompliance relating to the Federal Financial Management Improvement Act of 1996 (FFMIA) and the Anti-Deficiency Act. The Department agreed with OIG's recommendation to resolve these deficiencies and is in the process of taking appropriate corrective action. (Audit Report 50401-70-FM, Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2010 and 2009)

In addition to auditing the Department's consolidated financial statements, OIG performed (or oversaw the contract) audits of six USDA agencies' financial statements. Details of these financial audits follow:

- **Rural Development—Unqualified Opinion on FY 2010/2009 Financial Statements.** Rural Development received an unqualified opinion on its financial statements for FY 2010 and FY 2009, and the audit concluded that Rural Development's financial position and related budgetary concerns were presented fairly and in accordance with generally accepted accounting principles. Concerning Rural Development's internal controls over financial reporting, OIG identified two significant deficiencies in Rural Development management's review and controls over the reestimate process and controls over the monitoring of employee access authorities for the Single Family Housing Direct Loan Program. Our consideration of compliance with laws and regulations disclosed one instance of noncompliance related to Anti-Deficiency Act violations for RUS' Broadband Program. Rural Development and OIG are in the process of reaching agreement on the action necessary to correct these deficiencies. (Audit Report 85401-18-FM, Rural Development's Financial Statements for Fiscal Years 2010 and 2009)
- **FS—Unqualified Opinion on FY 2010/2009 Financial Statements.** An independent certified public accounting firm audited FS' financial statements for FY 2010/2009 and found that FS' financial position and related budgetary concerns were presented fairly in accordance with generally accepted accounting principles. The firm issued an unqualified opinion, but it also identified six significant deficiencies in areas such as FS' (1) information technology controls environment, (2) period-end accrual processes, (3) coordination of intra-agency efforts to address financial reporting requirements, (4) management review of credit card transactions and controls over the programs, (5) internal controls for revenue-related transactions, and (6) procedures for reviewing third-party processed transactions. The auditors did not consider any of the noted significant deficiencies to be material weaknesses, nor did they disclose any reportable instances of noncompliance with laws, regulations, contracts, and grant agreements. Agency officials agreed with the accounting firm's recommendations. (Audit Report 08401-11-FM, Forest Service's Financial Statements for Fiscal Years 2010 and 2009)
- **Commodity Credit Corporation (CCC)—Unqualified Opinion on FY 2010/2009 Financial Statements.** An independent certified public accounting firm audited CCC's financial statements for FY 2010/2009 and issued an unqualified opinion, finding that CCC's financial position and related budgetary concerns were presented fairly and in accordance with generally accepted accounting principles. Concerning CCC's internal control structure over financial reporting, the auditor identified three significant deficiencies in CCC's financial management system functionality, information security controls, and controls over agency financial reporting. The firm considered the first significant deficiency to be a material weakness. Additionally, the accounting firm disclosed noncompliance with FFMIA and Anti-Deficiency Act violations. Agency officials are working with the

independent auditor to resolve these deficiencies. (Audit Report 06401-25-FM,Commodity Credit Corporation's Financial Statements for Fiscal Years 2010 and 2009)

- **NRCS—Disclaimer of Opinion on FY 2010/2009 Financial Statements.** An independent certified public accounting firm audited NRCS' financial statements for FY 2010/2009 and issued a disclaimer of opinion. The firm identified seven material weaknesses in NRCS' accounting controls over (1) undelivered orders, (2) the revenue and unfilled customer orders process, (3) accrued expenses, (4) financial reporting, (5) property, plant, and equipment, (6) general and application controls environment, and (7) controls over purchase and fleet card transactions. The firm also disclosed that NRCS did not fully comply with FFMIA. NRCS generally acknowledged the significant deficiencies discussed in this report and is implementing corrective action. (Audit Report 10401-04-FM, Natural Resource and Conservation Service Financial Statements for Fiscal Years 2010 and 2009)
- **Federal Crop Insurance Corporation (FCIC)/RMA—Unqualified Opinion on FY 2010/2009 Financial Statements.** An independent certified public accounting firm audited FCIC/RMA's financial statements for FY 2010/2009 and issued an unqualified opinion. The firm found no weaknesses related to internal controls or noncompliances with laws and regulations to report. (Audit Report 05401-19-FM, Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2010 and 2009)
- **FNS—Unqualified Opinion on FY 2010/2009 Financial Statements.** OIG audited FNS' financial statements for FY 2010/2009 and issued an unqualified opinion on the agency's financial statements. Although FNS reported no material weaknesses under FFMIA, OIG found that it should have reported a weakness related to a Departmentwide material weakness on unliquidated obligations. FNS also reported that it corrected the seven significant deficiencies relative to a minor agency financial system, which we had identified and reported in FY 2009. OIG agreed, but found that the agency was not in full compliance with the Improper Payments Information Act of 2002. Agency officials generally agreed to take appropriate action in response to our recommendations. (Audit Report 27401-35-Hy, Food and Nutrition Service's Financial Statements for Fiscal Years 2010 and 2009)

FS Needs To Improve How It Approves Contracts at Its Rocky Mountain Research Station

In response to a hotline complaint alleging that FS' Rocky Mountain Research Station mismanaged a $7 million contract to develop computer software modeling the behavior, effect, and chemistry of fire, OIG did not find evidence that FS staff or contractor employees engaged in fraud. However, during the administration of this contract, a FS employee violated various Federal acquisition regulation requirements. For example, the employee chose a contract typically used to procure information technology equipment and software to procure fire model research and development services, and was able to make improper contracting decisions without detection because management was not properly overseeing her work. Due to her mistakes, FS did not award the contract in the best interest of the Government and did not have reasonable assurance that the services were procured in the most cost-effective manner. We recommended that FS implement a contract review process to ensure that the contracts the station awards comply with Federal acquisition regulation requirements. FS generally agreed with our recommendations and is taking action to correct problems at Rocky Mountain Research Station. (Audit Report 08017-5-Hy, Review of Forest Service's Contract for Fire Modeling Programs)

Former FSA Program Technician Sentenced for Theft of Funds

As noted in the *SARC, Second Half of FY 2010*, an FSA program technician in Montana destroyed at least six USDA forms in order to increase her husband's loan deficiency payment from CCC by $14,680. The woman admitted that she defrauded FSA and resigned her position with FSA in December 2009. The woman subsequently pled guilty to two felony counts of theft of Government funds and acts affecting a financial interest, and was sentenced in November 2010 to serve 24 months' probation and pay a $1,200 fine.

FAS Employee Falsified Earnings Statements To Receive Housing and Urban Development Assistance

An FAS employee living in Maryland altered her USDA earnings statements in order to fraudulently receive Federal housing assistance payments from 2006 through 2010. The

employee pled guilty in the Circuit Court for Prince George's County, Maryland, to making false statements on her subsidy application. In January 2011, she was sentenced to 24 months' unsupervised probation and ordered to pay $5,327 in restitution. This investigation was worked jointly with the U.S. Department of Housing and Urban Development OIG.

APHIS Entomologist in Arizona Pleads Guilty To Pawning APHIS Lab Equipment

An OIG investigation disclosed that an APHIS entomologist in Phoenix, Arizona, removed approximately $180,000 of scientific equipment from several labs he was working in and pawned them at local pawn shops. He used the lab equipment to secure cash loans and later repaid the loans. In addition, the employee misused his Government-issued credit card to take a cash advance from a casino. When interviewed, the employee admitted he had a gambling problem and was subsequently placed on indefinite suspension without pay. OIG special agents recovered all the scientific lab equipment from the pawn shop. In May 2010, the employee pled guilty in the U.S. District Court, District of Arizona, to theft of Government property. He was sentenced in January 2011 to 3 years' probation and ordered to pay $13,691 in restitution. He also resigned from his position.

RECOVERY ACT REVIEWS

RUS Improves How It Rolls Over Water and Waste Disposal Funds From One Grant Project to Another

Our audit of the $3.8 billion in funds the Recovery Act provided for sewer, storm water, and solid waste disposal systems in small cities and towns found that RUS' Maine Rural Development Office inappropriately funded a Water and Waste Disposal Loan and Grant Program Recovery Act project, counting $79,000 of unexpended grant funds from a previous project as part of the borrower's application for a new loan. RUS' action provided the town of Farmington with an unfair advantage over new applicants and violated grant limitation requirements. OIG recommended that RUS recover the $79,000 in rolled-over grant funding from Farmington and also determine if there were any other such discrepancies in the project approval process. RUS agreed to remove the unexpended grant funding from the project in question, but did allow the borrower to use the monies to make additions to the previous project, which is allowable under the program requirements. In early 2011, RUS conducted a review at the Maine State office to determine if other instances similar to the Farmington rollover of grant funds had occurred. RUS found no additional instances of unliquidated rollover of grant funds in its review, and held training for its Maine State office staff to emphasize that unused funds should not be carried over to future projects. Recovery Act *Fast Report* (Audit Report 09703-1-At (1), Rural Development American Recovery and Reinvestment Act Controls Over Water and Waste Disposal Loans and Grants, Inappropriate Use of Unexpended Grant Funds)

FSA Needs To Ensure Accurate Information Relating To Its Recovery Act Expenditures

The Recovery Act provided FSA with $50 million for salaries and expenses to assist in maintaining and modernizing information technology within the agency. Based on our review of FSA's expenditures, OIG found that the agency's purchases were within the guidelines mandated by the Recovery Act; however, FSA did not always follow the Recovery Act's reporting requirements. Specifically, FSA reported incorrect amounts on the Recovery Act weekly progress report from January to April 2010, because it based the amounts it reported on the dates that invoices were received and submitted to another agency for payment, rather than the date when payment was actually made. Furthermore, three recipients of Recovery Act funds did not submit information to FederalReporting.gov for the quarter ending March 31, 2010. It is the awarding agency's responsibility to monitor recipient reporting, but FSA, the funding agency, did not review the awarding agency's compliance with the Recovery Act. OIG recommended that FSA ensure that it comply with the reporting requirements of the Recovery Act; FSA agreed, and is addressing our recommendations. (Audit Report 03703-1-IT, American Recovery and Reinvestment Act Spending for Farm Service Agency Information Technology)

GOVERNMENTWIDE ACTIVITIES—GOAL 3

Review of Legislation, Regulations, Directives, and Memoranda

- *Proposed revisions to Appendix C, Part I and Part II of OMB Circular A-123, Management's Responsibility for Internal Controls.* We reviewed and provided comments on the draft revision to OMB Memorandum M-06-23, or OMB A-123, Appendix C, Part I and Part II. The revision will provide guidance to agencies for implementing the requirements of the Improper Payments Elimination and Recovery Act of 2010, which amended the Improper Payments Information Act of 2002 and generally repealed the Recovery Auditing Act. We generally concurred with the proposed guidance.
- *OMB Request for Review of its Consolidated FISMA Implementation Report. OMB* received a legislative request to consolidate and report, by agency, the annual FISMA results for 2010. OIG was asked to provide comments on this report. Our review found that the OMB's report contained the results of information security and privacy performance metrics reported submitted via Cyberscope, an OMB online portal. Regarding the metrics reported by OMB, we commented that we could not check OMB's calculations, as we did not have its methodology. In conducting its annual FISMA review of USDA, OIG relies on various OIG audits conducted throughout the year.
- *Whistleblower Protection Enhancement Act of 2010.* This legislation would expand protection for individuals involved in credible whistleblower-type activities. It would establish a Whistleblower Protection Ombudsman in Federal OIGs to educate agency employees about prohibitions on retaliation for protected disclosures and about related rights and remedies. Although OIG was not opposed to the establishment of a Whistleblower Protection Ombudsman, we recommended that the position not be placed in OIG in order to best preserve Federal IG independence and avoid giving OIGs a programmatic role that is more appropriate for agency management.
- *Council of the Inspectors General on Integrity and Efficiency (CIGIE) Legislation Committee.* OIG continues to serve on the CIGIE Legislation Committee, which is responsible for providing regular and ongoing communication regarding legislative issues and other matters of common interest between Congress and CIGIE. In addition to regular meeting attendance, OIG personnel monitored and tracked all IG-related legislation that was introduced in Congress and kept affected IGs notified about those bills' progress.

Participation on Committees, Working Groups, and Task Forces

- *Acreage/Crop Reporting Streamlining Initiative (ACRSI).* OIG participates in ACRSI, which is a Department-wide initiative intended to served as a "common USDA framework for producer commodity reporting in support of USDA programs." ACRSI's objectives are to (1) develop data standards for collection, reporting and maintenance of USDA program data and a multi-agency governance process; (2) publish the standards to support their adoption in agriculture service providers systems and technologies to assist producers in meeting USDA requirements; (3) establish a process to share and leverage data across agency systems; and (4) provide producers the option to report directly to a consolidated USDA reporting site.
- *Intra-Departmental Coordinating Committee on International Affairs.* OIG auditors continue to participate in this committee's meetings. Headed by FAS, part of the purpose of the committee (which includes most USDA agencies) is to coordinate international activities. Some of the committee's issues included USDA's role in implementing the President's national export initiative and the Department's global market strategy; reconstruction in Haiti, Pakistan, and Afghanistan; and international food security and assistance. Our comments on a draft of the Department's global market strategy stressed the need for performance measures and milestones.

- *Afghanistan Country Team.* As part of our committee involvement, OIG also attends the Afghanistan country team meetings, during which we learned that the Department was receiving funds from the United States Agency for International Development under the Foreign Assistance Act to help reconstruction and development. Section 632(a) of the Act gives audit and fiduciary responsibilities to OIG, and so we continue to work with the Department and United States Agency for International Development to ensure accountability and oversight for grants and agreements that use these funds.
- *Financial Statement Audit Network (FSAN) Workgroup.* OIG auditors are members of the FSAN workgroup, whose main purpose is to share ideas, knowledge, and experience concerning Federal financial statement audits. In conjunction with FSAN, OIG hosted the CIGIE/GAO Annual Financial Statement Audit Conference in the Department's Jefferson Auditorium on March 30, 2011.
- *Interagency Fraud and Risk Data Mining Group.* The Data Analysis and Special Projects Division in OIG is an active member of this data mining group. The purpose of the group is to share ideas, knowledge, and participate in shared training related to data mining techniques. The group consists of dataminers from numerous Federal agencies.
- *Interagency Suspension and Debarment Committee.* An OIG auditor is a member of the Interagency Suspension and Debarment Committee, which is a forum for the advancement of suspension and debarment policy and activities within the Federal Government. Our OIG official serves as a Co-Chair on the Subcommittee on Parallel Proceedings, whose goal is the coordination of suspension and debarment proceedings with contemporaneous civil and criminal actions.
- *Federal Audit Executive Council.* OIG participates in the Federal Audit Executive Council, whose main purpose is to discuss and coordinate issues affecting the Federal audit community with special emphasis on audit policy and operations of common interest to members. The council has six standing committees: Audit, Financial Statements, Information Technology, Professional Development, Contracting, and the Annual Conference. OIG's Assistant Inspector General for Audit serves as the Chair of the Audit Committee. Two areas the Audit Committee is currently focusing on are (1) reviewing the Government Auditing Standards 2010 Exposure Draft and submitting comments to GAO on the proposed standard changes, and (2) evaluating results of the peer reviews done on the Federal inspectors general for audit and determining if recommendations need to be made to improve the process.
- *Financial Fraud Enforcement Task Force (formerly National Procurement Fraud Task Force).* OIG is a member of this task force, formed by the U.S. Department of Justice in October 2006 as a partnership among Federal agencies charged with investigating and prosecuting Government contracting and grant illegalities. The focus of the task force has been expanded to include a wider variety of financial crimes, from securities fraud to identity theft crimes. The task force is working to better allocate resources, improve coordination in financial fraud cases, and accelerate their investigation and prosecution. At the regional level, OIG investigations field offices in the Northeast, Great Plains, Midwest, Southeast, Southwest, and Western Regions participate in task forces initiated by the local U.S. Attorney's offices. The Counsel to the IG participates as a member of the task force's legislation committee.
- *CIGIE IT Groups.* The National Computer Forensic Division works with a CIGIE subcommittee and working group concerned with IT investigations, computer forensics, and nationwide issues such as Internet connection integrity.
- *FBI's Heart of America Regional Computer Forensics Laboratory.* An analyst from OIG's computer forensics division works full-time with the laboratory and has helped us obtain direct access to regional laboratories, training, samples of applicable policies and procedures, and, when needed, FBI assistance for OIG computer forensic work.

ONGOING AND PLANNED REVIEWS FOR GOAL 3

Topics that will be covered in ongoing or planned reviews under Goal 3 include:

- Section 632(a) funds provided by the U.S. Agency for International Development to USDA (FAS),
- international trade policy and procedures (FAS, FSIS, ARS, APHIS, FS),
- private voluntary organization grant fund accountability (FAS),
- Small Business Innovation Research Program (NIFA),
- economic adjustment assistance to users of upland cotton (FSA),
- review of FSA's error rate determination for payments made to estates and deceased individuals (FSA),
- Departmental management and oversight of the April 2010 oil spill—Deepwater Horizon (NRCS),
- NRCS' control over the Farm and Ranchland Protection Program in Michigan (NRCS),
- NRCS' utilization of geospatial information system data (NRCS),
- Department and stand-alone agencies' financial statements for FY 2011 (OCFO),
- FY 2011 National Finance Center general controls (OCFO),
- retirement, health, and life insurance withholdings and contribution and supplemental headcount report submitted to the Office of Personnel Management, FY 2011 (OCFO),
- Executive Order 13520 High Dollar Report (OCFO),
- oversight of Beef Research and Promotion Board (AMS),
- oversight of Federally authorized research and promotion board activities (AMS),
- FS firefighting cost share agreements with non-Federal entities (FS),
- followup on FS working capital fund audits (FS),
- database analysis (Rural Development),
- USDA's management and security over handheld devices (OCIO),
- International Technology Service's selected controls review (ITS),
- USDA's security over domain name system servers (OCIO),
- OCIO's FY 2010 funding audit (OCIO), and
- FY 2011 FISMA (OCIO).

We will cover the findings and recommendations from these efforts in future semiannual reports as we complete the relevant audits and investigations.

ONGOING AND PLANNED REVIEWS FOR GOAL 3 UNDER RECOVERY ACT FUNDS

Topics that will be covered in ongoing or planned reviews under Goal 3 under the Recovery Act include:

- Emergency Food Assistance Program—phase 2 (FNS),
- FS wood-to-energy projects—biomass (FS),
- FS acquisition of IT software and hardware (FS),
- individual rural business enterprise grants—phase 2 (RBS),
- rural business enterprise grants—phase 3 (RBS),
- controls over water and waste loans and grants—phase 2 (RUS),
- WIC IT systems management (FNS),
- National School Lunch Program equipment grants (FNS), and
- Recovery Act general procurement oversight audits (ARS).

The findings and recommendations from these efforts will be covered in future semiannual reports as the relevant audits and investigations are completed.

Stewardship Over Natural Resources

OIG Strategic Goal 4:

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

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

In the first half of FY 2011, we devoted 7 percent of our total direct resources to Goal 4, with 100 percent of these resources assigned to critical/high-impact work. One hundred percent of our audit recommendations under Goal 4 resulted in management decision within 1 year: no investigative cases resulted in criminal, civil, or administrative action. OIG issued six Recovery Act *Fast Reports* under Goal 4 during this reporting period. OIG's investigations under Goal 4 yielded three indictments, four convictions, and $166,200 in monetary results during this reporting period.

Management Challenges Addressed UNDER GOAL 4

- Better FS Management and Community Action Needed To Improve the Health of the National Forests and To Reduce the Cost of Fighting Fires
- Implementation of Strong, Integrated, Internal Control Systems Still Needed (also under Goals 1, 2, and 3)
- Implementation of the Recovery Act (also under Goals 2 and 3)

EXAMPLES OF INVESTIGATIVE WORK FOR GOAL 4

Texas Woman Steals Public Money From a County Soil and Water Conservation District Office

In August 2010, in the Federal court for the Northern District of Texas, a former Texas Soil and Water Conservation District employee was charged with theft of public money, which she obtained by altering and forging financial documents and accounts. The employee pled guilty and was sentenced to serve 6 months of imprisonment, 36 months of probation, and ordered to pay $3,797 in restitution.

RECOVERY ACT REVIEWS

FS Needs To Take Steps To Ensure the Accuracy of Information Reported to FedBizOpps

Of the $650 million the Recovery Act provided for FS' Capital Improvement and Maintenance Program, $271 million was approved for road maintenance and decommissioning, bridge maintenance and decommissioning, and watershed restoration and ecosystem enhancement. OIG reviewed a number of contracts for this work and found that FS was not always posting the relevant information to FedBizOpps, as required by Federal acquisition regulations. The responsible FS contracting officers were not aware of the posting requirement or believed the postings were not required. OIG recommended that FS take steps to remind its contracting officers of their reporting requirements to FedBizOpps, and the agency generally agreed with our recommendation. Recovery Act *Fast Report* (Audit Report 08703-3-SF (2), Forest Service: The Recovery Act—Forest Service Roads, Bridges, and Related Watershed Projects)

FS Needs To Ensure That Its Purchase Card Users Comply With All Federal Rules and Regulations

With part of the funding provided for Capital Improvement and Maintenance Program projects under the Recovery Act, FS approved $100,000 for the Hoosier National Forest in Bedford, Indiana, to hire temporary employees to conduct deferred maintenance on recreation sites, including clearing brush, removing hazardous trees, and resurfacing some sites with gravel. OIG found, however, that two employees of the Hoosier National Forest were unaware of the Recovery Act rules they must follow when using their purchase cards, and charged expenses in ways that did not comply with all Federal rules and regulations. We recommended that FS remind all cardholders of their responsibilities when using these cards, and that they must follow all Recovery Act transparency reporting and record-keeping requirements. FS agreed with our recommendations. Recovery Act *Fast Report* (Audit Report 08703-2-SF (3), Recovery Act—Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands)

FS Needs To Ensure That Only Allowable Costs Are Charged to Its Capital Improvement Projects in Gila National Forest

With respect to FS' use of Recovery Act funding for Capital Improvement and Maintenance Program projects, OIG reviewed two participating agreements for an estimated $643,000 in Gila National Forest—approximately $370,000 was allocated for a 185-mile trail maintenance project and $273,000 for a 145-mile trail maintenance project. We found that the non-profit organization responsible for these projects charged FS about $24,700 in questionable costs for improvements to its own office. We also found that the non-profit organization charged FS $7,699 in other questionable expenses. We recommended that the Gila National Forest recover any funds that were for unallowable expenses and work with the non-profit organization to ensure that all costs charged to the project are allowable and accurate. FS agreed with our recommendations and was able to recover $17,873 in unallowable costs. Recovery Act *Fast Report* (Audit Report 08703-4-SF (2), Recovery Act—Gila National Forest, New Mexico—Questionable Costs—Forest Service Trail Maintenance and Decommissioning*)*

FS Needs To Ensure That Grantees Properly Support Costs They Charge to Recovery Act Projects

The Recovery Act provided $200 million for FS to implement wildland fire management projects on State and private lands. OIG reviewed four Recovery Act grants FS awarded to recipients in FS' Pacific Southwest Region and found that one claimed $567,000 in indirect costs that were not supported. Additionally, this recipient claimed unsupported indirect costs totaling about $2 million for three of its non-Recovery Act-related FS grants. These problems occurred because FS staff responsible for awarding the Recovery Act and non-Recovery Act-funded grants were not fully aware of Office of Management and Budget's (OMB) indirect cost approval requirements. Without a properly approved indirect cost rate, FS has no reasonable assurance that grant recipients are accurately claiming their indirect costs in compliance with OMB requirements. OIG recommended that FS review both its existing Recovery Act and non-Recovery Act-funded non-Federal wildland fire management grants to ensure that grant recipients claiming indirect costs meet OMB approval requirements and have supporting documentation. FS agreed with our recommendation and is taking steps to correct the problem. Recovery Act *Fast Report* (Audit Report 08703-5-SF (4), Recovery Act—FS Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands)

FS Needs To Ensure That Recovery Act Funds Are Awarded to Projects in Economically Distressed Areas

OIG also reviewed 10 wildland fire management grants funded with Recovery Act monies to determine if the States that received the funds selected projects meeting Recovery Act eligibility requirements. We found that only 3 of these 10 grants met the requirement that funds would be awarded in economically distressed areas with the greatest environmental risk. Since FS did not require States to use a scoring system like the one it used to award the Recovery Act funds to the States, the States ultimately selected projects based primarily on natural resource needs, with little or no consideration for the economic conditions of their individual counties. OIG recommended that FS identify those on-the-ground projects that have not yet started and issue further guidance to the States requiring that they ensure that Recovery Act funds go to projects that best meet Recovery Act objectives. FS generally agreed with our recommendations and plans to issue guidance to the States by March 31, 2011. Recovery Act *Fast Report* (Audit Report 08703-5-SF (3), FS Hazardous Fuels Reduction and Ecosystem Restoration on Non-Federal Lands)

FS Needs To Verify That a Grant Recipient Used Recovery Act Funds for Legitimate Purposes

From the Recovery Act funds available for wood-to-energy grants, which promote increased use of biomass from Federal, State, and private lands, FS obligated $49 million for 23 grants, as of June 2009. OIG reviewed a grant that funded the site preparation and construction of a boiler heating facility, and found that the grant recipient overstated its request for reimbursement for site preparation and construction of a boiler heating facility by $250,000. The grant recipient requested these additional funds for contingencies, but this use of Recovery Act funds was not permitted. OIG recommended that FS verify that the $250,000 was used for grant purposes and recover any excess reimbursements. FS agreed with our recommendations. Recovery Act *Fast Report* (Audit Report 08703-01-SF (4), Grant Recipient Submits Inaccurate Payment Request)

GOVERNMENTWIDE ACTIVITIES—GOAL 4

Participation on Committees, Working Groups, and Task Forces

- *Strategic Planning and Accountability, Compliance Division, Corporate Compliance Strategic Framework.* We continue to work with and provide feedback to NRCS on its initiative to develop an effective and comprehensive compliance strategy. OIG reviewed and offered suggestions to improve the latest draft framework, stressing the need for outcome-based performance measures.
- *Environmental Crimes Working Groups.* OIG agents have joined working groups in the District of New Hampshire and the Eastern District of North Carolina, which were convened by U.S. Attorney's offices to enhance the cooperation and capabilities of member agencies in enforcing their respective environmental laws, as well as to exchange information and provide prosecutorial support and training opportunities. An OIG agent is also participating in an environmental and natural resources law enforcement working group in Arizona, which has similar goals of improving training and coordination for investigators working on natural resources cases.
- *Rural Crimes Task Force.* OIG is one of several law enforcement agencies participating on a task force to combat crimes in rural areas in southeastern California. Other participating agencies include the San Bernardino County Sheriff's Department, California Department of Food and Agriculture, California Department of Fish and Game, APHIS, FSIS, and environmental crimes prosecutors from San Bernardino and Riverside Counties.

ONGOING AND PLANNED REVIEWS FOR GOAL 4

Topics that will be covered in ongoing or planned reviews under Goal 4 include:

- Conservation Stewardship Program (NRCS),
- internal controls and management of drug enforcement issues on National Forest System lands (FS),
- evaluating FS' processes to obtain and grant rights of way and easements (FS),
- management of oil and gas resources on National Forest System lands (FS),
- administration of the Special Use Permit Program (FS),
- use of prescribed fire (FS), and
- Forest Legacy Program (FS).

We will cover the findings and recommendations from these efforts in future semiannual reports as we complete the relevant audits and investigations.

ONGOING AND PLANNED REVIEWS FOR GOAL 4 UNDER RECOVERY ACT FUNDS

Topics that will be covered in ongoing or planned reviews under Goal 4 under the Recovery Act include:

- Recovery Act watershed protection and flood prevention operations—phase 3 (NRCS),
- trail maintenance and decommissioning (FS),
- facility improvement, maintenance, and renovation (FS),
- road maintenance and decommissioning (FS),
- abandoned mine remediation (FS), and
- hazardous fuels reduction and ecosystem restoration on non-Federal lands (FS).

The findings and recommendations from these efforts will be covered in future semiannual reports as the relevant audits and investigations are completed.

Gauging the Impact of OIG

MEASURING PROGRESS AGAINST THE OIG STRATEGIC PLAN

The first way we gauge our impact is by measuring the extent to which our work focused on the key issues under our FY 2010 goals:

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

IMPACT OF OIG AUDIT AND INVESTIGATIVE WORK ON DEPARTMENT PROGRAMS

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

For audits we show:

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

For investigations we show:

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

PERFORMANCE RESULTS TOTALS UNDER OUR STRATEGIC GOALS			
Performance Measures	**FY 2010 Actual**	**FY 2011 Target**	**FY 2011 1st Half Actual**
OIG direct resources dedicated to critical-risk and high-impact activities.	91.8%	90%	96.4%
Audit recommendations where management decisions are achieved within 1 year.	90.2%	90%	88%
Audits initiated where the findings and recommendations are presented to the auditee within established or agreed-to timeframes.	100%	85%	100%
Closed investigations that resulted in a referral for action to the U.S. Department of Justice, State/local law enforcement officials, or relevant administrative authority.	84.8%	70%	85.3%
Closed investigations that resulted in an indictment, conviction, civil suit or settlement, judgment, administrative action, or monetary result.	72.8%	65%	72.9%

RECOVERY ACT PERFORMANCE RESULTS TOTALS UNDER OUR STRATEGIC GOALS			
Performance Measures	**FY 2010 Actual**	**FY 2011 Target**	**FY 2011 1st Half Actual**
Notify USDA agency managers of significant audit findings related to Recovery Act programs along with recommendations for corrective action within 30 days after identification.	83.3%	85%	87.5%
Respond to Recovery Board-sponsored requests and projects within established schedules or agreed-upon timeframes.	100%	85%	100%
An investigative determination to accept or decline an allegation of whistleblower retaliation is made within 180 days of receipt.	100%	100%	100%
Investigations staff will participate in 10 outreach/training meetings each quarter on Recovery Act work.	135%	80%	80%
Whistleblower retaliation allegations are investigated and reported within 180 days of receipt.[a]	100%	75%	N/A
Timely and accurate monthly Recovery Act funds reports submitted to the Recovery Board.	100%	88%	100%

[a] No whistle blower retaliation allegations were investigated.

SUMMARY OF AUDIT ACTIVITIES — OCTOBER 2010-MARCH 2011	
Reports Issued	**21**
Audits Performed by OIG	18
Evaluations Performed by OIG	0
Audits Performed Under the Single Audit Act	0
Audits Performed by Others	4
Management Decisions Made	
Number of Reports	21
Number of Recommendations	133
Total Dollar Impact (Millions) of Management-Decided Reports	**$11.1**
Questioned/Unsupported Costs	$5.0[a,b]
Recommended for Recovery	$4.9
Not Recommended for Recovery	$0.1
Funds To Be Put to Better Use	$6.1

[a] These were the amounts the auditees agreed to at the time of management decision.
[b] The recoveries realized could change as auditees implement the agreed-upon corrective action plan and seek recovery of amounts recorded as debts due the Department.

SUMMARY OF INVESTIGATIVE ACTIVITIES — OCTOBER 2010-MARCH 2011	
Reports Issued	**182**
Cases Opened	274
Cases Referred for Prosecution	42
Impact of Investigations	
Indictments	199
Convictions[a]	249
Searches	112
Arrests	516
Total Dollar Impact (Millions)	**$47.8**
Recoveries/Collections[b]	$16.7
Restitutions[c]	$26.6
Fines[d]	$1.5
Asset Forfeitures[e]	$1.0
Claims Established[f]	$0.5
Cost Avoidance[g]	$1.4
Administrative Penalties[h]	$0.1
Administrative Sanctions	**134**
Employees	41
Businesses/Persons	93

[a] Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 249 convictions do not necessarily relate to the 199 indictments.
[b] Includes money received by USDA or other Government agencies as a result of OIG investigations.
[c] Restitutions are court-ordered repayments of money lost through a crime or program abuse.
[d] Fines are court-ordered penalties.
[e] Asset forfeitures are judicial or administrative results.
[f] Claims established are agency demands for repayment of USDA benefits.
[g] Consists of loans or benefits not granted as the result of an OIG investigation.
[h] Includes monetary fines or penalties authorized by law and imposed through an administrative process as a result of OIG findings.

INVENTORY OF AUDIT REPORTS WITH QUESTIONED COSTS AND LOANS
FROM OCTOBER 1, 2010 THROUGH MARCH 31, 2011

		DOLLAR VALUES		
		NUMBER	QUESTIONED COSTS AND LOANS	UNSUPPORTED[a] COSTS AND LOANS
A.	FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 2010	12	$259,675,051	$2,101,093
B.	WHICH WERE ISSUED DURING THIS REPORTING PERIOD	3	$1,406,149	$0
	TOTALS	**15**	**$261,081,200**	**$2,101,093**
C.	FOR WHICH MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	5		
	(1) DOLLAR VALUE OF DISALLOWED COSTS			
	RECOMMENDED FOR RECOVERY		$4,878,712	$774,325
	NOT RECOMMENDED FOR RECOVERY		$63,865	$41,287
	(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		$8,337,527	$246,346
D.	FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	10	$247,801,096	$1,039,135
	REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	8	$247,334,247	$1,039,135

[a] Unsupported values are included in questioned values.

INVENTORY OF AUDIT REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE
FROM OCTOBER 1, 2010 THROUGH MARCH 31, 2011

		NUMBER	DOLLAR VALUE
A.	FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 2010	4	$9,955,862
B.	WHICH WERE ISSUED DURING THE REPORTING PERIOD	3	$1,054,218
	TOTALS	**7**	**$11,010,080**
C.	FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	5	
	(1) DOLLAR VALUE OF DISALLOWED COSTS		$6,140,741
	(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		$926,745
D.	FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	2	$3,942,594
	REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	1	$3,370,602

PROGRAM IMPROVEMENT RECOMMENDATIONS

A significant number of our audit recommendations carry no monetary value per se, but their impact can be immeasurable in terms of safety, security, and public health. They can also contribute considerably toward economy, efficiency, and effectiveness in USDA's programs and operations. During this reporting period, we issued 98 program improvement recommendations, and management agreed to implement a total of 114 that were issued this period or earlier. Examples of those issued this period (see the main text of this report for a summary of the audits that prompted these recommendations) include the following:

- FSIS agreed to implement a more risk-based approach for sampling ground beef for *E. coli* so that its limited testing resources can be used as effectively as possible.
- FSIS agreed to work more closely with FDA to establish the FERN program more formally and to tier the laboratories they use so that they can be brought online effectively during an emergency.
- FSA agreed to improve its Emergency Conservation Program so that its field employees would have a more accurate understanding of the disaster damage producers suffered before they are compensated for the costs of repairing their land.

INVESTIGATION AND AUDIT PEER REVIEWS

- During the current semiannual reporting period, there were no audit peer reviews of USDA OIG. USDA OIG received a grade of pass on the peer review report issued by the U.S. Housing and Urban Development OIG on September 30, 2009—this report contained no findings or recommendations.
- In August 2010, the U.S. Department of Homeland Security OIG conducted a CIGIE Quality Assessment Review of USDA OIG Investigations in our Washington, D.C. Headquarters office and our Chicago regional office for the period October 1, 2008 through September 31, 2009. The report was issued November 10, 2010—it contained no recommendations, and determined that Investigations is in compliance with the quality standards established by CIGIE and the Attorney General.

SUMMARY OF AUDIT REPORTS RELEASED FROM OCTOBER 1, 2010 THROUGH MARCH 31, 2011

From October 1, 2010 through March 31, 2011, OIG issued 21 audit reports, including 4 performed by others. The following is a summary of those audits by agency.

AGENCY	AUDITS RELEASED	QUESTIONED COSTS AND LOANS	UNSUPPORTED[a] COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
COMMODITY CREDIT CORPORATION	1			
FARM SERVICE AGENCY	3			
FOOD AND NUTRITION SERVICE	1			
FOOD SAFETY AND INSPECTION SERVICE	2			
FOREST SERVICE	2	$724,000		
MULTIAGENCY	6	$682,149		$571,992
NATURAL RESOURCES CONSERVATION SERVICE	2			$29,777
RISK MANAGEMENT AGENCY	1			
RURAL BUSINESS-COOPERATIVE SERVICE	1			
RURAL DEVELOPMENT	1			
RURAL HOUSING SERVICE	1			$452,449
TOTALS	**21**	**$1,406,149**		**$1,054,218**
TOTAL COMPLETED:				
SINGLE AGENCY AUDIT	15			
MULTIAGENCY AUDIT	6			
SINGLE AGENCY EVALUATION	0			
MULTIAGENCY EVALUATION	0			
TOTAL RELEASED NATIONWIDE	21			
TOTAL COMPLETED UNDER CONTRACT[b]	4			
TOTAL SINGLE AUDIT ISSUED[c]	0			

[a] Unsupported values are included in questioned values.
[b] Indicates audits performed by others.
[c] Indicates audits completed under the Single Audit Act.

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES FROM OCTOBER 1, 2010 THROUGH MARCH 31, 2011						
AUDIT NUMBER	**RELEASE DATE**	**TITLE**		**QUESTIONED COSTS AND LOANS**	**UNSUPPORTED COSTS AND LOANS**	**FUNDS TO BE PUT TO BETTER USE**
Commodity Credit Corporation						
06401-25-FM	11/12/10	FY 2010 CCC Financial Statements				
Total: Commodity Credit Corporation			1			
Farm Service Agency						
03099-199-KC	12/10/10	FSA Average Crop Revenue Election Program, Sheridan County, Montana				
03703-1-IT	03/31/11	Recovery Act Spending for FSA Information Technology Issues				
03703-2-Te	01/13/11	Recovery Act – Direct Farm Operating Loans (Phase 2)				
Total: Farm Service Agency			3			
Food and Nutrition Service						
27401-35-Hy	11/05/10	FY 2010 FNS Financial Statements				
Total: Food and Nutrition Service			1			
Food Safety and Inspection Service						
24601-6-At	03/22/11	Food Emergency Response Network				
24601-9-KC	02/24/11	FSIS Sampling Protocol for Testing Beef Trim for *E. Coli* O157:H7				
Total: Food Safety and Inspection Service			2			
Forest Service						
08017-5-Hy	03/31/11	FS Contract Review for Fire Effect Modeling Programs		$724,000		
08401-11-FM	11/08/10	FY 2010 FS Financial Statements				
Total: Forest Service			2	$724,000		
Multiagency						
50024-2-FM	03/23/11	Calendar Year 2010 Executive Order 13520, Reducing Improper Payments, Accountable Official Annual Report Review				
50099-46-At	03/23/11	USDA Payments for 2005 Citrus Canker Tree Losses		$633,717		
50401-70-FM	11/15/10	FY 2010 USDA Financial Statements				
50401-71-FM	11/15/10	FY 2010 Audit of USDA's Closing Package				
50501-2-IT	11/15/10	FY 2010 Federal Information Security Management Act Report				
50601-16-KC	03/31/11	Emergency Disaster Assistance for 2008 Floods: Emergency Conservation Program		$48,432		$571,992
Total: Multiagency			6	$682,149		$571,992

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES FROM OCTOBER 1, 2010 THROUGH MARCH 31, 2011						
AUDIT NUMBER	**RELEASE DATE**	**TITLE**		**QUESTIONED COSTS AND LOANS**	**UNSUPPORTED COSTS AND LOANS**	**FUNDS TO BE PUT TO BETTER USE**
Natural Resources Conservation Service						
10401-4-FM	11/08/10	FY 2010 NRCS Financial Statements				
10601-6-KC	03/30/11	NRCS Emergency Disaster Assistance: Emergency Watershed Protection Program				$29,777
Total: Natural Resources Conservation Service			2			$29,777
Risk Management Agency						
05401-19-FM	11/08/10	FY 2010 Federal Crop Insurance Corporation Financial Statements				
Total: Risk Management Agency			1			
Rural Business-Cooperative Service						
34099-8-Te	12/27/10	Request Audit of a Business and Industry Guaranteed Lender				
Total: Rural Business-Cooperative Service			1			
Rural Development						
85401-18-FM	11/12/10	FY 2010 Rural Development Financial Statements				
Total: Rural Development			1			
Rural Housing Service						
04601-19-Ch	02/07/11	Controls Over RHS Disaster Assistance Payments				$452,449
Total: Rural Housing Service			1			$452,449
Grand Total			**21**	**$1,406,149**		**$1,054,218**

AUDITS WITHOUT MANAGEMENT DECISION

The IG Act has a number of reporting requirements, including tracking audits without management decision. The following audits did not have management decisions made within the 6-month limit set by Congress. Narratives for new entries follow this table.

NEW SINCE LAST REPORTING PERIOD

Agency	Date Issued		Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt Decision (in dollars)
Multi-agency	08/16/10	**1.**	Effectiveness and Enforcement of Debarment and Suspension Regulations in USDA (50601-14-At)	0	0
Multi-agency	08/27/10	**2.**	Pasture, Rangeland, and Forage Loss Pilot Program (50601-18-Te)	$1,169,645	$1,169,645
RBS	06/25/10	**3.**	Rural Business Cooperative Services – Intermediary Relending Program (34601-6-At)	$7,909,538	$7,909,538

AUDIT REPORTS PREVIOUSLY REPORTED BUT NOT YET RESOLVED

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

PREVIOUSLY REPORTED BUT NOT YET RESOLVED

FSA	02/02/09	**4.**	Hurricane Relief Initiatives: Livestock and Feed Indemnity Programs (03601-23-KC)	$1,866,412	$1,288,247
Multi-agency	09/30/03	**5.**	Implementation of the Agricultural Risk Protection Act (50099-12-KC)	0	0
NRCS	06/25/09	**6.**	Conservation Security Program (10601-4-KC)	$4,895,958	$4,895,958
	07/06/09	**7.**	Farm and Ranch Lands Protection Program – Nationwide Selected Non-Governmental Organization (10099-6-SF)	716,563	716,563
RMA	03/15/02	**8.**	Monitoring of RMA's Implementation of Manual 14 Reviews/Quality Control Review System (05099-14-KC)	0	0
	09/30/08	**9.**	Crop Loss and Quality Adjustments for Aflatoxin Infected Corn (05601-15-Te)	15,951,016	15,951,016
	03/04/09	**10.**	RMA's 2005 Emergency Hurricane Relief Efforts in Florida (05099-28-At)	217,256,417	217,256,417
	09/16/09	**11.**	RMA Compliance Activities (05601-11-At)	0	0

AUDITS WITHOUT MANAGEMENT DECISION - NARRATIVE FOR NEW ENTRIES

1. Effectiveness and Enforcement of Debarment and Suspension Regulations in USDA, 50601-14-At, Issued 8/16/10

OIG found that the Department had not fully implemented either procurement or nonprocurement suspension and debarment programs. Years ago, USDA had established exclusions for many of its programs and effectively much of its budget from application of the suspension and debarment rules established by two executive orders for the nonprocurement program. OIG made 27 recommendations to various Departmental agencies and offices to fully implement both procurement and nonprocurement suspension and debarment programs based on our findings, including (1) justifying all exclusions of transactions from the nonprocurement suspension and debarment programs; (2) clarifying regulations so that agencies would consider suspension or debarment actions for anyone who abused a Department program; (3) establishing a centralized division to provide coordination, guidance, and training for these programs; and (4) establishing needed controls to ensure the Department fully implements the regulations. We have reached management decision on 16 of the report's recommendations and continue to work with various agencies and offices to reach final management decision on the report.

2. RMA Pasture, Rangeland, and Forage Pilot Program, 50601-18-Te, Issued 8/27/10

We found that RMA needs to strengthen its controls over the Pasture, Rangeland, and Forage (PRF) Program. We have reached management decision on eight recommendations and are awaiting RMA's response on the remaining four recommendations. Open recommendations include making a determination on whether the producer we reviewed is ineligible and, if so, to recover any indemnity payments made to the producer, cancel any existing and future policies belonging to the producer, and to place the producer and his four entities on the list of ineligible persons who are prevented from receiving crop insurance.

3. Rural Business-Cooperative Services– Intermediary Relending Program, 34601-6-At, Issued 6/25/10

Based on our review, we concluded that the agency must monitor intermediaries more effectively to ensure they make loans to eligible borrowers for authorized purposes. We found that 33 of 435 loans totaling $7.9 million did not comply with program requirements, such as loan limit, purpose, or eligibility. In many cases, this occurred because intermediaries made the loans with "revolved" funds (money that loan recipients pay back to intermediaries), which they considered exempt from Federal requirements due to ambiguous regulatory language. We also determined that two of seven intermediaries did not promptly re-lend their revolved funds, totaling over $1.7 million. Regulations required intermediaries to re-lend funds promptly, but did not provide a specific timeframe.

RBS generally agreed with the report's recommendations, and we have reached management decision on four of the report's eight recommendations. In order to reach management decision on the four remaining recommendations, RBS needs to provide copies of bills for collection and documentation showing that an account receivable has been established on the agency's accounting records for the recovery of the ineligible loans for the portion of the $7.9 million that the Office of the General Counsel determines to be recoverable. RBS needs to provide documentation of the Office of the General Counsel's decisions concerning the definition of Federal funds and corrective actions based on that decision. RBS needs to describe the changes planned to the field visit form to be used for annual borrower visits. Finally, RBS needs to provide a plan for quantifying the amount that must be re-loaned for intermediaries to qualify for subsequent Intermediary Relending Program loans.

INDICTMENTS AND CONVICTIONS

From October 1, 2010, through March 31, 2011, OIG completed 182 investigations. We referred 42 cases to Federal, State, and local prosecutors for their prosecutive determination.

During the reporting period, our investigations led to 199 indictments and 249 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 249 convictions do not necessarily relate to the 199 indictments. Fines, recoveries/collections, restitutions, claims established, cost avoidance, and administrative penalties resulting from our investigations totaled about $47.8 million. The following is a breakdown, by agency, of indictments and convictions for the reporting period.

Indictments and Convictions—October 1, 2010 – March 31, 2011

Agency	Indictments	Convictions*
AMS	2	0
APHIS	12	121
FNS	139	87
FS	2	8
FSA	21	12
FSIS	5	3
GIPSA	0	1
NRCS	4	5
OIG	0	1
RHS	2	2
RMA	12	7
RUS	0	2
Totals	**199**	**249**

* This category includes pretrial diversions.

OFFICE OF INSPECTOR GENERAL HOTLINE

The OIG hotline serves as a national intake point for reports from both employees and the general public of suspected incidents of fraud, waste, mismanagement, and abuse in USDA programs and operations. During this reporting period, the hotline received 1,492 complaints, which included allegations of participant fraud, employee misconduct, and mismanagement, as well as opinions about USDA programs. Figure 1 displays the volume and type of the complaints we received, and Figure 2 displays their disposition.

Hotline Complaints Summary—FY 2011, 1st Half	
Total No. of Complaints Received	**1,492**

Figure 1. Volume and Type

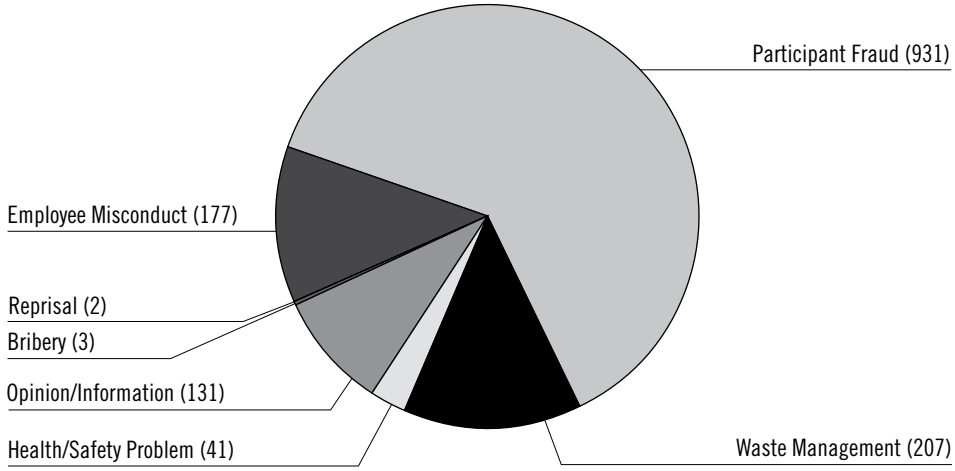
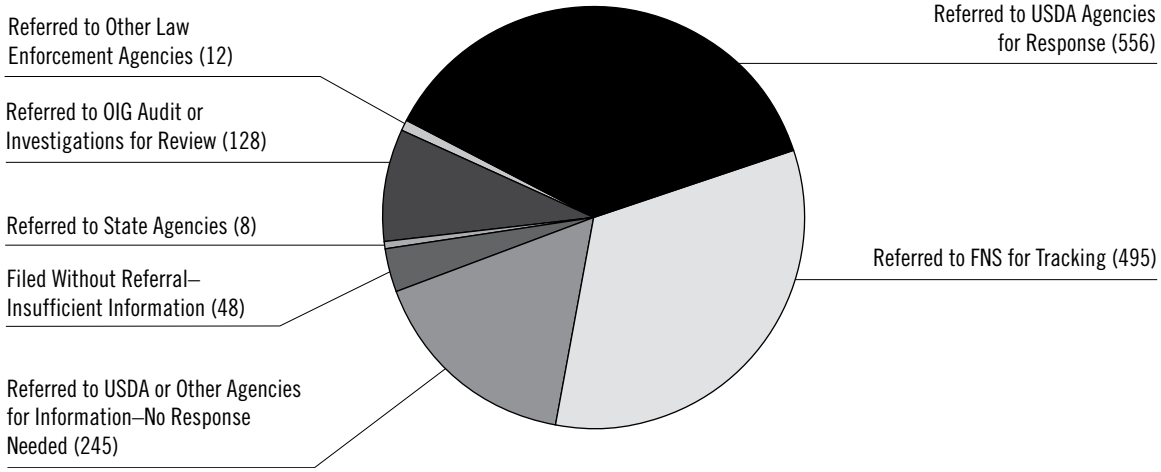


Figure 2. Disposition of Complaints Received



FREEDOM OF INFORMATION ACT (FOIA) AND PRIVACY ACT (PA) REQUESTS FOR THE PERIOD OCTOBER 1, 2010 THROUGH MARCH 31, 2011	
Number of FOIA/PA Requests Received	**77**
Number of FOIA/PA Requests Processed	**78**
Number Granted	9
Number Partially Granted	28
Number Not Granted	41
Reasons for Denial	
No Records Available	12
Referred to Other Agencies	2
Requests Denied in Full Exemption 5	2
Requests Denied in Full Exemption 7(A)	7
Requests Denied in Full Exemption 7(C)	0
Request Withdrawn	3
Fee-Related	2
Not a Proper FOIA Request	2
Not an Agency Record	1
Duplicate Request	0
Other	10
Requests for OIG Reports from Congress and Other Government Agencies	
Received	0
Processed	0
Appeals Received	**8**
Appeals Processed	**8**
Appeals Completely Upheld	3
Appeals Partially Reversed	2
Appeals Completely Reversed	1
Appeals Requests Withdrawn	0
Other	2
Number of OIG Reports/Documents Released in Response to Requests	**20**
NOTE 1: A request may involve more than one report. NOTE 2: During this 6-month period, 38 audit reports were posted online on the OIG Web site: http://www.usda.gov/oig	

Abbreviations

Abbreviation	Full Name
AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
BCAP	Biomass Crop Assistance Program
CACFP	Child and Adult Care Food Program
CCC	Commodity Credit Corporation
CHST	Collection, Harvest, Storage, and Transportation
CCWD	Community College Workforce Development
CIGIE	Council of the Inspectors General on Integrity and Efficiency
E. coli	*Escherichia coli* 0157:H7
EBT-POS	electronic benefits transfer-point of sale
ECP	Emergency Conservation Program
EWP	Emergency Watershed Protection
FAS	Foreign Agricultural Service
FBI	Federal Bureau of Investigation
FCIC	Federal Crop Insurance Corporation
FDA	U.S. Food and Drug Administration
FEMA	Federal Emergency Management Agency
FERN	Food Emergency Response Network
FFMIA	Federal Financial Management Improvement Act
FISMA	Federal Information Security Management Act
FNS	Food and Nutrition Service
FS	Forest Service
FSA	Farm Service Agency

Abbreviation	Full Name
FSIS	Food Safety and Inspection Service
GIPSA	Grain Inspection, Packers and Stockyards Administration
IG	Inspector General
IRS	Internal Revenue Service
IT	Information Technology
NASS	National Agricultural Statistics Service
NIFA	National Institute of Food and Agriculture
NRCS	Natural Resources Conservation Service
NSLP	National School Lunch Program
OCIO	Office of the Chief Information Officer
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	U.S. Office of Management and Budget
RBS	Rural Business-Cooperative Service
Recovery Act	American Recovery and Reinvestment Act of 2009
Recovery Board	Recovery Accountability and Transparency Board
RHS	Rural Housing Service
RMA	Risk Management Agency
RUS	Rural Utilities Service
SARC	Semiannual Report to Congress
SNAP	Supplemental Nutrition Assistance Program
USDA	U.S. Department of Agriculture
WIC	Special Supplemental Nutrition Program for Women, Infants, and Children

EXAMPLES OF PROGRAM IMPROVEMENT RECOMMENDATIONS MANAGEMENT AGREED TO DURING THIS REPORTING PERIOD (114 TOTAL)

- FSIS agreed to implement a more risk-based approach for sampling ground beef for *E. coli* so that its limited testing resources can be used as effectively as possible.
- FSIS agreed to work more closely with the U.S. Food and Drug Administration to establish the FERN program more formally, and to tier the laboratories they use so that they can be brought online effectively during an emergency.
- FSA agreed to improve its Emergency Conservation Program so that its field employees would have a more accurate understanding of the disaster damage producers suffered before they are compensated for the costs of repairing their land.

OIG MISSION

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

OIG STRATEGIC GOALS

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

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

To learn more about OIG, visit our website at
https://www.usda.gov/oig/index.html

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May 2011