

**TESTIMONY OF
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BEFORE THE HOUSE COMMITTEE ON
AGRICULTURE
SUBCOMMITTEE ON LIVESTOCK AND
HORTICULTURE
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Thank you, Mr. Chairman and members of the Subcommittee. Before we begin today, I would like to introduce a member of my staff who is here with me today:

Gregory S. Seybold, Assistant Inspector General for Investigations.

Thank you for asking me to discuss our investigations of Hunts Point Market, located in the Bronx, New York, which involve corrupt graders of the Agricultural Marketing Service's (AMS) Fruit and Vegetable Programs. These graders accepted bribes to help wholesalers cheat producers out of the true value of their goods.

As you know, AMS graders are responsible for inspecting shipments of fresh fruits and vegetables received at wholesale locations throughout the country. The inspections, which are voluntary and requested at the discretion of the wholesalers, are intended to determine whether the delivered produce meets the U.S. Department of Agriculture (USDA) grading standards—for example, "U.S. Extra Fancy, U.S. No. 1, or U.S. Utility"—as promised by the grower in the purchase contract with the wholesaler. USDA

grades take into account various factors affecting the quality and condition of produce, such as bruising, decay, color, and shape. Slight variances in grade can dramatically impact the overall contract price, sometimes by several thousands of dollars, depending on the size and value of the shipment. If a shipment of produce fails to meet the agreed-upon grade in the contract, generally the wholesaler is entitled to renegotiate the purchase price downward. Thus, the integrity of the AMS graders is essential for fair prices to be paid to producers.

Because of our concern about the potential for public corruption in the Federal inspection process at this market, for more than a decade we have been developing information relating to criminal activity at Hunts Point. We have conducted extensive electronic surveillance and undercover operations, reviewed business and inspection documents, and interviewed witnesses. These efforts led to our developing inside sources and cooperating witnesses. Only after developing these informants, were we able to penetrate the bond of mutual trust and silence that shielded this crime from discovery. These sources informed us that produce wholesalers on a daily basis were paying AMS graders \$50 to \$100 per inspection in order to ensure that the graders would “knock” loads, so that the wholesalers could then negotiate lower prices.

With our cooperating witnesses, we developed an extensive undercover operation. Our limited technical (i.e., video surveillance) resources were not sufficient, however, to carry out the operation, so we sought and obtained these resources from the Federal Bureau of Investigation (FBI).

Our subsequent investigation documented the massive corruption at Hunts Point, corruption that was systematic and had been occurring for more than 20 years. In fact, evidence of bribery was obtained against most of the graders who worked at the market and wholesaler firms that operated at the market. I have brought with me an enlargement of a photograph of Hunts Point, which gives you an idea of its size and the amount of produce it handles.

The bribes paid by wholesalers were paid in various ways and in various amounts. Sometimes wholesalers paid the cash to the graders after the shipments were downgraded. Other times, the wholesalers kept track of all shipments during a given period of time, including those that were downgraded and the names of the AMS grader who downgraded them. The wholesaler then provided one large payment to one of the corrupt graders, who shared the monies with the other corrupt graders, usually at lunch.

If a corrupt wholesaler did not know a grader conducting an inspection, the wholesaler declined the inspection with an excuse, and asked that it be rescheduled in hopes of having a corrupt grader conduct the rescheduled inspection. However, if the grader was “on the take,” he would use the code phrase, I am “one of the boys,” to signal that he accepts bribes. This was generally sufficient, and the wholesaler would then tell the grader to go back and conduct the inspection. New graders were sized up for several months to determine whether they should be approached with an offer to join this

scheme. A corrupt supervisory AMS official furthered the scheme by matching corrupt graders with corrupt wholesalers.

The investigation also found that the total amounts of bribe monies received by the graders were substantial and were used for a variety of purposes. One grader netted between \$40,000 and \$100,000 per year over a 15-year period. He lived off his bribe monies without touching his Federal salary, which he deposited directly into an account. The grader purchased a new sport utility vehicle with cash and when arrested had approximately \$3,600 in a shoebox in his closet. Another grader used his bribe monies to solicit prostitutes, purchase jewelry for these prostitutes, and purchase weapons (e.g., an 1861 Springfield rifle). Another grader used the monies to purchase illegal drugs to support his habit.

Thus far in the investigation, we have developed evidence of bribery against 9 AMS graders, including an AMS supervisory official, and 15 wholesalers at Hunts Point. The 9 graders were charged with violating the Racketeering Influenced Corrupt Organization statute (RICO) and the 15 wholesalers were charged with bribery. Investigation of multiple firms at Hunts Point is ongoing.

The public corruption by AMS employees and wholesalers at the Hunts Point Market reduced producers' income for their goods, provided illicit gains for wholesalers and for corrupt graders, and adversely affected the public's trust of Federal employees.

Combating this type of criminal activity is one of the Office of Inspector General's (OIG)

highest priorities. We are, therefore, conducting investigations of allegations relating to similar corruption in other markets around the Nation. I cannot discuss these investigations in detail as they are ongoing. To that end, I want to thank the Committee for assisting OIG by providing a link from the Committee's Internet Web site to the OIG homepage. This link has facilitated the process by which producers have a means to report fraudulent activity by USDA graders and Hunts Point produce wholesalers.

Before I close, I would be remiss if I did not inform you, as I have repeatedly informed Congress for the past five years, that our ability to combat crime and corruption, both internal and external to USDA, is in dire jeopardy due to steady erosion of our funding level. Today, I have approximately 100 less OIG special agents than our authorized ceiling 5 years ago. This equates to a "conservative" estimate of 500 fewer investigations of crimes against USDA and corruption internal to USDA operations that is unaddressed each year.

This concludes my statement, Mr. Chairman. I thank you again for the opportunity to address the Subcommittee and appreciate your continued assistance and support. I would be pleased to answer any questions you or other members of the Subcommittee might have.