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MESSAGE FROM THE INSPECTOR GENERAL

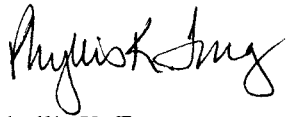
The second half of fiscal year (FY) 2006 continued to be a time of great challenge for American agriculture and the U.S. Department of Agriculture (USDA). USDA faced challenges ranging from providing continued assistance to the Gulf Coast region devastated by Hurricane Katrina to responding to the threatened avian influenza (AI) pandemic and to implementing an effective information technology (IT) security system. We are pleased to report that the Office of Inspector General (OIG) has had work underway in these areas, as well as other critical areas related to financial management, food safety, homeland security, and the farm programs. Our report for this semiannual period summarizes our most significant activities by our three strategic goals:

- **Safety, Security, and Public Health** – Our audit work determined that the Animal and Plant Health Inspection Service needed to make improvements in its surveillance and monitoring of AI in domestic poultry as well as in its oversight and controls for its Bovine Tuberculosis Eradication program; the Forest Service (FS) should tighten controls over its stored munitions; and the Food Safety and Inspection Service should ensure that all establishments subject to *Salmonella* testing are included in the testing database. Our investigative work saw convictions or pleas and recoveries related to violations of the Animal Welfare Act, the Federal Endangered Species Act, and the food safety laws.
- **Integrity of Benefits and Entitlements Programs** – Our audit work found that the Food and Nutrition Service needed to strengthen access controls over its Electronic Benefit Transfer system and improve controls over the Child Nutrition Labeling program; the Farm Service Agency (FSA) should improve how it secures farm-stored loan collateral; and the Rural Housing Service needed to make improvements in the collection of unauthorized payment subsidies. Our investigative work resulted in convictions or pleas and money recoveries for schemes to defraud the National School Lunch program, the crop insurance and disaster payment programs, and the Market Access Program. One matter saw the conviction of a store owner for food stamp trafficking, as well as providing material support to terrorism.
- **Management of Public Resources** – In the area of IT security, we reviewed the Universal Telecommunications Network and found issues related to system and security control testing and accreditation. Our annual evaluation under the Federal Information Security Management Act similarly found continuing significant weaknesses in the Department's IT security program. We also found that FS needs to further improve controls related to its Healthy Forests initiative, the National Resources Conservation Service should better maintain data integrity in its Program Contracts System, and the Agricultural Research Service should maintain better oversight of its Scientific Cooperation Program. Our early work related to Hurricane Katrina recommended that USDA increase accountability in these programs by pre-establishing agreements with vendors for critical goods and services and better coordinating information on housing assistance to avoid duplicating benefits. Our investigations resulted in the convictions or pleas of an FSA employee for illegally copying and selling mapping software and a Rural Utilities Service borrower for bribery and false statements. The investigation by our National Computer Forensics Division related to the June 2006 computer intrusion confirmed multiple incidences of hacking but not the ultimate compromise of data.

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During this reporting period, we conducted successful investigations and audits that led to 632 arrests, 181 convictions, \$78.5 million in recoveries and restitutions, 186 program improvement recommendations, and \$35.6 million in financial recommendations. That makes our return on investment \$5.56 for every dollar invested in the OIG since FY 2003 when we started collecting the data.

In closing, we would like to thank Secretary Mike Johanns and Deputy Secretary Chuck Conner for their strong support for OIG and the commitment they have shown to improving USDA programs and operations. Their efforts, as well as the efforts of the subcabinet and program officials at all levels of the Department, have greatly contributed to the results we are reporting. We also greatly appreciate the interest and support of the Members of the Senate and House of Representatives with whom we work.



Phyllis K. Fong
Inspector General

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Safety, Security, and Public Health

OIG Strategic Goal 1:

Support USDA in the enhancement of safety and security measures to protect USDA and agricultural resources and in related public health concerns

To help USDA and the American people meet the critical challenges in safety, security, and public health, it is our responsibility in OIG to provide independent, professional audits and investigations in these areas. Our work addresses such issues as the ongoing challenges of protecting the American public and the American herd from the spread of bovine spongiform encephalopathy (BSE, or more commonly “mad cow disease”), strengthening controls over genetically engineered organisms, preparing for and responding to avian influenza, and investigating crimes by or against Federal employees on Federal property.

In the second half of fiscal year (FY) 2006, we devoted 13.2 percent of our total audit and investigative resources to Goal 1, with 91.2 percent of these resources assigned to critical/high impact work. A total of 91.1 percent of our audit recommendations under Goal 1 resulted in management decision within 1 year, and 41.7 percent of our investigative cases had criminal, civil, or administrative action taken. OIG issued 6 audit reports under Goal

1 during this reporting period and a total of 12 during the full fiscal year. OIG’s investigations under Goal 1 yielded 26 indictments, 27 convictions, and \$978,809 in monetary results during this reporting period and a total of 34 indictments, 37 convictions, and about \$1.3 million in monetary results during the full fiscal year.

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 1

Comprehensive Approach to Surveillance and Monitoring of Avian Influenza (AI) Needed

In our June 2006 review of the Animal and Plant Health Inspection Service’s (APHIS) oversight of AI, we concluded that APHIS has made commendable progress in developing plans and establishing the networks necessary to prepare for, and respond to, outbreaks of AI. However, APHIS has not yet developed a comprehensive approach for surveillance and monitoring of AI in domestic poultry. APHIS relies on a variety of voluntary State and commercial programs to monitor and test domestic poultry and wild birds. Because these programs are voluntary, APHIS does not know the extent of surveillance activity in place and is not gathering consistent data to enable it to draw conclusions, to permit the detection of changes in epidemiological parameters (e.g., subtype of AI or rate of prevalence), or to

Management Challenges Addressed Under Goal 1

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 2 and 3)
- Continuing Improvements Needed in IT Security (also under Goal 3)
- Departmental Efforts and Initiatives in Homeland Security Need To Be Maintained
- Departmentwide Efforts and Initiatives on GEOs Need To Be Strengthened

report incidents of AI in accordance with new international trade requirements.

On December 12, 2005, we had issued a management alert to APHIS that outlined concerns regarding the development of a comprehensive AI surveillance plan, identifying gaps in sampling surveillance and assessing risk as a basis for determining the need for additional sampling.

Our final report found that, in regard to its National AI Preparedness and Response Plan, APHIS needs to provide additional guidance on preparing and responding to highly pathogenic AI (HPAI) or notifiable AI outbreaks in live bird markets or other “off farm” environments. APHIS needs to clarify actions that employees should take in obtaining and administering necessary vaccines and anti-virals in the event that a culling operation for HPAI occurs. Also, APHIS needs to finalize interagency coordinated processes and procedures for notifying owners of susceptible animals of current infectivity risks, and the necessary protective actions they should take when an outbreak of AI occurs. In its response, APHIS described a number of initiatives planned and in-process to address our concerns. (Audit Report No. 33099-11-Hy, Oversight of AI)

Oregon Woman Sentenced to Prison for Illegal Sale of Ocelot

In April 2006, an Oregon woman was sentenced to 30 days in prison, 9 months of house detention, and 12 months of supervised release for illegally offering to sell an ocelot, a rare leopard species protected under the Federal Endangered Species Act. The woman also was ordered to make a \$25,000 community service payment to the World Wildlife Fund North American Endangered Species Trafficking Program. As few as 70 ocelots are known to remain in the wild in the United States.

Husband and Wife Kennel Owners Sentenced for Mail Fraud Scheme

In July 2006, the husband and wife owners of a USDA-licensed kennel in Arkansas were sentenced after pleading guilty to charges of mail fraud and failure to report a felony, respectively. The husband was sentenced to 6 months of home detention with 36 months of probation and was fined \$7,500, while his wife was sentenced to 24 months of probation and fined \$2,500. They also forfeited \$200,000 in cash and 700 acres of land valued at \$1.1 million and paid \$42,400 in partial reimbursements to 12 animal rescue organizations. Stemming from Animal Welfare Act violations, the owners paid APHIS \$262,700 in fines and forfeited their USDA licenses. From January 1999 to December 2003, the owners made approximately \$3.5 million by selling dogs and cats to USDA-licensed research facilities nationwide. They prepared false purchase documents with fictitious names and addresses and paid a local veterinarian to sign blank APHIS health certificates and to not conduct health inspections of animals before shipment. This investigation was worked jointly with the U.S. Postal Inspection Service.

APHIS' Oversight of Bovine Tuberculosis Eradication Program (BTEP) Needs Improvements

We found that APHIS had made some improvements to BTEP since the Secretary's Emergency Declaration in October 2000, but weaknesses in oversight and controls made it difficult for APHIS to timely detect and eradicate the disease. APHIS' status system—important because it dictates the extent of Federal testing and movement controls for cattle in each State or zone—did not accurately represent tuberculosis (TB) in the United States because it did not capture most of the TB cases. From FY 2001 through 2005, 272 TB-infected cattle were detected through slaughter surveillance, but APHIS excluded 96 percent of them from the status system because it could not locate the source herd and find an additional infected animal in that herd.

In addition, approximately 75 percent of the TB-infected cattle detected through slaughter surveillance originated in Mexico, but these animals spent 5 to 14 months at U.S. farms and feedlots with no restrictions to prevent commingling with domestic cattle. Cattle imported from Mexico are tested before entry, but APHIS had not established controls to compensate for the 3- to 12- month incubation period for TB.

We recommended that APHIS perform program reviews periodically; review and approve States' annual and monthly reports, use those reports to assess areas of highest risk, and work to minimize those risks; enhance its two key BTEP control functions, the status classification and slaughter surveillance systems; and strengthen movement and testing controls to address the disease's incubation period. In addition, APHIS and the Food Safety and Inspection Service (FSIS) could amend their June 2005 memorandum of understanding (MOU) to further solidify recent improvements to detect TB. APHIS and FSIS agreed to take corrective actions based on our findings and recommendations. (Audit Report No. 50601-9-Ch, Effectiveness of Controls Over BTEP)

Owner and Warehouse Manager Sentenced for Violating Federal Food Safety Laws

In April 2006, the owner of a Kansas deli-processing company and his warehouse manager were each sentenced to 24 months of probation and fined \$2,300 for conspiracy to create at least 58 false laboratory reports, which showed fictitious *Listeria monocytogenes* results. The firm was required to monitor levels of *Listeria*, a potentially fatal pathogenic bacterium that can be found in ready-to-eat food products. The pair intentionally provided false and misleading documents to FSIS as evidence that the required sampling was conducted and that *Listeria* was not present at the facility.

FSIS Must Ensure That All Eligible Meat and Poultry Establishments Are Included in Laboratory Testing Programs

We found a significant number of establishments were excluded from the *Salmonella* sampling database because of ineffective controls to identify eligible establishments and also because district office personnel did not fully understand the process for including establishments in the database. The agency manually updated its sampling database and had insufficient controls to ensure that all required establishments were included. At one district we visited, 28 percent of the FSIS establishments had been excluded because district personnel did not understand the process for notifying the appropriate FSIS personnel about the eligibility of establishments for the sampling program. The problem was particularly apparent at State-inspected establishments under the Talmadge-Aiken Act because State officials were not notified of the requirements. We also found that establishments whose slaughter or processing activity falls below a specific threshold, and establishments producing certain types of raw ground beef products, including raw ground beef sausages and meatballs, are not tested for *E. coli* O157:H7.

We recommended that FSIS (1) strengthen its procedures to ensure that all establishments subject to *Salmonella* testing are identified and included in the testing database, (2) develop a risk assessment to determine which

establishments need to be tested for *Salmonella*, and (3) obtain scientific advice to evaluate whether its policy of not testing certain raw ground beef products for *E. coli* O157:H7 contamination should be continued. Agency officials generally agreed with the findings and recommendations. They have initiated corrective actions to include all establishments in the Salmonella testing program, and to begin a new testing program to strengthen controls against *E. coli* contamination. We continue to work with FSIS on the issue of whether small-volume establishments should be tested for *Salmonella*. (Audit Report No. 24601-7-Ch, Review of Pathogen Reduction Enforcement Program Sampling Procedures)

FSIS Oversight of State Meat and Poultry Inspection (MPI) Programs Needs Improvements

We determined that FSIS was not providing timely oversight of State MPI programs. From October 2003 through June 2005, FSIS had conducted only 8 of 28 initial onsite reviews of State MPI programs. After our fieldwork began and since July 2005, FSIS began reviews of 16 more State MPI programs, and developed plans to conduct the 4 remaining reviews prior to the end of FY 2006. FSIS needs to complete this process, especially since four of the eight programs initially reviewed needed corrective actions to achieve “at least equal to” Federal standards.

Moreover, FSIS did not perform timely onsite fiscal reviews and reviews of new programs and did not timely implement its yearend grant closeout procedures to ensure that State MPI programs promptly returned excess Federal funds. FSIS had not ensured that Texas returned \$260,201 in excess funds for FY 2004. Such retention of funds by Texas from FYs 1997 to 2004 resulted in unnecessary interest costs of about \$100,000 to the U.S. Treasury.

We recommended that FSIS establish criteria to (1) determine how deficiencies in meat processing establishments affect State acceptability determinations, (2) analyze the staffing requirements of State MPI programs, (3) determine whether State MPI programs have fully implemented employee performance systems, and

(4) confirm that laboratories adhere to standards at “least equal to” Federal requirements. We also recommended that FSIS eliminate the backlog of onsite fiscal reviews, implement controls to consistently and timely perform yearend grant closeouts of State MPI programs, and seek prompt recovery of \$260,201 in excess funds held by the Texas MPI program. FSIS responded positively to the recommendations, and management decision was reached and corrective action initiated on 6 of the 12 recommendations. (Audit Report No. 24005-1-At, State-Federal Cooperative Inspection Program)

Forest Service (FS) Has Not Implemented Critical Security Controls Over Explosives, Munitions, and Weapons

In a followup to our FY 2002 audit of explosives, munitions, and weapons stored on National Forest System lands, we found that FS had not fully implemented 11 of 24 critical security recommendations. This is an important safety issue as FS is responsible for explosives, munitions, and weapons—used to build roads and fire lines, remove trees and rocks, and control avalanches—in 335 facilities.

Our prior recommendations—dealing with explosive/munitions security standards, inventory, and security clearances of personnel, as well as recordkeeping controls—are designed to prevent and detect potential theft or misuse. This was demonstrated by a recent theft of explosives from an FS magazine. Because FS had implemented our recommendation to maintain an accurate inventory of its explosives, it was quickly able to determine what was stolen, which helped Federal law enforcement authorities recover the explosives.

We recommended that FS assign a high-level official at the Washington office to be responsible for the overall safety and security of FS’ explosives/munitions program and establish a realistic timeframe for implementing all remaining security recommendations. FS concurred with our recommendations and assigned responsibility to the Director of the Office of Safety and Occupational Health. (Audit Report No. 08601-45-SF, Followup Review of FS

Security Over Explosives/Munitions Magazines Located in National Forests)

Employee Convicted for Bringing Weapons Into USDA Headquarters

After a USDA Office of the Judicial Officer employee was found to be wanted on civil contempt charges related to his failure to remit court-ordered funds to his ex-wife, law enforcement authorities recovered two handguns from his vehicle, parked at USDA headquarters. In January 2006, the man pled guilty to firearms violations, and was sentenced to 60 days of imprisonment (suspended) with supervised probation and fined \$200. Administrative action by the agency is pending.

OIG Emergency Response Programs Maintain Readiness, Expand Capabilities

OIG's Emergency Response Team (ERT) responds to and investigates threats or attacks against the Nation's food supply, agriculture infrastructure, or USDA interests; and provides expertise to government agencies at all levels. ERT is specifically tasked with carrying out OIG's responsibilities under the National Response Plan, Emergency Support Function 11 (Natural and Cultural Resources and Historic Properties Protection). During the second half of FY 2006, ERT attended numerous agroterrorism working group meetings, and participated in agriculture-related and AI tabletop exercises. The team members continue to educate city, county, State, and other Federal agencies about ERT and its mission. Since May 2006, the team members have received certifications in Hazardous Waste Operations and Emergency Response (HAZWOPER) Level "A" Personal Protective Equipment orientation as well as Advanced Crime Scene Processing. ERT recently supported OIG special agents executing a search warrant at an Oklahoma cockfighting facility by assisting APHIS in the documentation, depopulation, and sampling of the game fowl found at the site. A total of 145 game fowl were collected and tested for AI and Exotic Newcastle Disease.

OIG's Wildland Fire Investigations Team (WFIT) is mandated by law to investigate any FS firefighter deaths

caused by wildfire entrapment or burnover and report to Congress and the Secretary of Agriculture on the results. This reporting period, two members of WFIT deployed to Utah to observe FS and the Bureau of Land Management's (BLM) Accident Investigation Team after the accidental death of a BLM employee in a burnover on national forest land. The team members shadowed the Accident Investigation Team to gain practical experience and prepare for any future investigation required of WFIT.

GOVERNMENT WIDE ACTIVITIES – GOAL 1

Review of Legislation, Regulations, Directives, and Memoranda

- OIG staff reviewed FSIS' proposed rule entitled "Availability of Lists of Retail Consignees During Meat or Poultry Product Recalls." Consumer groups and others have long advocated the public release of information on where recalled products have been distributed. We generally concurred with the action proposed but noted some needed clarification. Section 390.10(a) stated that the list of disclosed retail consignees comprises those that FSIS compiled to verify the removal of recalled product. This section should explain that FSIS uses a statistical sampling plan to identify a sample of consignees to verify the effectiveness of the recall and, therefore, the list will include only some of the retail consignees.

- OIG investigators are participating on the AI Implementation Task Group chaired by APHIS' Smuggling Interdiction and Trade Compliance. This group comprises representatives from several USDA agencies, the U.S. Department of Homeland Security's (DHS) Immigration and Customs Enforcement and Customs and Border Protection (CBP), and the U.S. Department of the Interior's Fish and Wildlife Service. The group is coordinating Governmentwide activities pertaining to smuggling investigations in accordance with the Implementation Plan for the National Strategy for Pandemic Influenza. The smuggling of prohibited poultry and poultry products into the United States could potentially facilitate transmission of HPAI.

Participation on Committees, Working Groups, and Task Forces

- OIG participated on the President's Council on Integrity and Efficiency's (PCIE) Homeland Security Roundtable and the Housing Working Group this past year. The emphasis has been on the recovery efforts resulting from the 2005 hurricanes. In addition, OIG investigators are working with the PCIE to update the Peer Review Guide.
- OIG investigators have actively participated in several Department of Justice Hurricane Katrina Fraud Task Forces throughout the country.
- OIG investigators led a USDA Smuggling Working Group to coordinate the pertinent regulatory and criminal investigative activities of USDA agencies.

ONGOING AND PLANNED REVIEWS FOR GOAL 1

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

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| <ul style="list-style-type: none"> ■ USDA's implementation of the national strategy for pandemic influenza (APHIS), ■ avian influenza testing laboratories (APHIS), ■ CBP's agricultural inspection activities (APHIS), ■ controls over permits to import agricultural products (APHIS), ■ animal care inspections of breeders (APHIS), ■ egg processing inspection (FSIS), ■ FSIS' management control system, ■ implementation of performance-based inspection system enhancements for specified risk material (SRM) violations and improved inspection controls over SRMs (FSIS), ■ Air Safety Program (FS), ■ assessment of FSA's new port approval and inspection process made effective July 1, 2004, | <ul style="list-style-type: none"> ■ implementation of flood control dam rehabilitation (Natural Resources Conservation Service (NRCS)), ■ USDA progress in enhancing agricultural biosecurity through diagnostic and reporting networks (APHIS, FSIS, and Cooperative State Research, Education, and Extension Service (CSREES)), ■ USDA's role in the export of genetically engineered agricultural commodities (Foreign Agricultural Service (FAS), Grain Inspection, Packers and Stockyards Administration (GIPSA), APHIS, and Agricultural Marketing Service (AMS)), ■ USDA controls over genetically engineered animals/insects research (APHIS and Agricultural Research Service (ARS)), and ■ USDA homeland security initiatives (APHIS, FSA, Risk Management Agency (RMA), FSIS, and Food and Nutrition Service (FNS)). |
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The findings and recommendations from these efforts will be covered in future semiannual reports as the relevant audits and investigations are completed.

Integrity of Benefits and Entitlements Programs

OIG Strategic Goal 2:

Reduce program vulnerabilities and enhance integrity in the delivery of benefits to individuals

OIG conducts audits and investigations to ensure or restore integrity in the various benefits and entitlements programs of USDA, including a variety of programs that provide payments directly and indirectly to individuals or entities. Their intended beneficiaries 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 and involve tens of billions of dollars in outlays for FY 2006.

In the second half of FY 2006, we devoted 46.5 percent of our total audit and investigative resources to Goal 2, with 91.7 percent of these resources assigned to critical/high-impact work. A total of 86.2 percent of our audit recommendations under Goal 2 resulted in management decision within 1 year, and 82.7 percent of our investigative cases had criminal, civil, or administrative action taken. OIG issued 18 audit reports under Goal 2 during this reporting period and a total of 37 audit reports during the full fiscal year. OIG investigations under Goal 2 yielded 162 indictments, 130 convictions, and about \$39.9 million in monetary results during the reporting period and a total of 257 indictments, 221 convictions, and about \$55.9 million in monetary results during the full fiscal year.

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 2

Chicago Store Owner Convicted of Conspiracy To Provide Material Support to Terrorism Pleads Guilty to Food Stamp Trafficking Scheme

In August 2006, the owner of a grocery store in Chicago, Illinois, was sentenced to 51 months in prison with 36 months of supervised release, and was ordered to pay \$1.4 million in restitution after pleading guilty to wire fraud and money laundering. From May 1999 through December 2000, the store owner had redeemed approximately \$1.6 million in electronic food stamp benefits and conspired with other persons and unauthorized stores to conduct thousands of illegal electronic food stamp benefit transactions that resulted in a loss to the Government of approximately \$1.4 million. In June 2006, the store owner had also pled guilty in Federal court in Florida to conspiracy for providing funding to the Palestinian Islamic Jihad, which is in violation of the International Emergency Economic Powers Act. In July 2006, the store owner was sentenced to 37 months in prison for that conviction.

Massachusetts Woman To Repay Over \$435,000 in Civil Fraud Case

In April 2006, a civil judgment totaling \$435,798 was

Management Challenges Addressed Under Goal 2

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 1 and 3)
- Implementation of Strong, Integrated Management Control (Internal Control) Systems Still Needed (also under Goal 3)
- USDA's Response to the 2005 Hurricanes Needs Ongoing Oversight (also under Goal 3)

entered against a woman who fraudulently received, from multiple agencies, social service assistance, including food stamps, Medicaid, housing subsidies, and other income assistance. She was running a profitable restaurant business, and suspicion was raised after she was caught by U.S. Customs officials trying to smuggle more than \$60,000 in U.S. currency out of the country to the Dominican Republic. This investigation was worked jointly with the U.S. Department of Housing and Urban Development.

FNS National Office Oversight of Electronic Benefits Transfer (EBT) System Access Controls Needs Strengthening

As a follow-on to our January 2001 nationwide audit, we found inadequate control over EBT system access still remains a problem. State agencies now deliver Food Stamp Program (FSP) benefits primarily through the EBT system. OIG has monitored and audited implementation of EBT by FNS and States since its inception. Based on our earlier work, FNS had agreed to strengthen procedures for reviewing and controlling access to State EBT systems and directed States to conduct semiannual reviews of employee access. However, FNS does not independently confirm that States adequately controlled access. Since January 2001, our audits have identified system access deficiencies in seven States.

EBT trafficking through the illegal and unauthorized use of Point of Sale (POS) equipment is another weakness. Unscrupulous retailers have circumvented the EBT security controls by fraudulently obtaining new equipment and/or illegally moving existing machines to unauthorized locations. In their contract proposals to acquire EBT systems, States were not required to consider equipment functionality and/or technological specifications that could prevent the illegal removal and unauthorized use of existing EBT POS equipment.

FNS agreed to require (1) the regional offices to revise their management evaluations of State EBT operations to include tests of whether the States conducted proper system access reviews; (2) States to implement, via the EBT contract, a formal process for use during EBT POS

equipment replacement that would prevent retailers from fraudulently obtaining equipment; and (3) States to consider, in their proposals to acquire EBT systems, requests for POS equipment specifications to prevent the illegal removal and unauthorized use of the devices. (Audit Report No. 27099-66-Hy, FNS National Office Oversight of EBT Operations)

FSP Anti-Fraud Locator Using EBT Retailer Transactions (ALERT) Watch List System Needs Improvement

FNS' ALERT system analyzes data from food stamp transactions to detect patterns that indicate fraud. A subsystem, called the Watch List, targets specific stores for review. We could not achieve our overall objective to evaluate the Watch List as a tool for identifying fraud because the necessary information was not available in the ALERT system. This also precluded FNS from assessing the Watch List's effectiveness. We found that the system could be improved by limiting the number of "false hits" (stores appearing on the Watch List that do not warrant review). We recommended that FNS gauge the extent of false hits and minimize them by analyzing data on whether stores appearing on the Watch List were in fact violating program requirements. FNS agreed to our recommendations and is working on enhancements to the ALERT system to reduce the number of "false hits" and allow the system's effectiveness to be measured. (Audit Report No. 27099-32-SF, FSP – ALERT Watch List)

Three Family Members Sentenced for Money Laundering

In September 2005, three employees of a Texas charter school, who were also family members of the school's superintendent, were sentenced based on their guilty pleas to Federal prison terms ranging from 15 to 72 months. In March 2005, the superintendent had died of an apparent heart attack after he and his employees were criminally charged. From 1999 through 2001, the four individuals had conspired to defraud the National School Lunch and Breakfast Programs, the U.S. Department of Education, and the Texas Education Agency by inflating attendance

records to obtain program funds to which they were not entitled. The majority of the approximately \$2.5 million in Federal funds intended for the welfare of the students was instead used by the superintendent and his family members for a house, cars, gambling trips to Las Vegas, household furnishings, and real estate. In April 2006, the employees were ordered to pay \$2 million in restitution, jointly and severally.

New Jersey School Repays \$469,000 in Civil Fraud Settlement

In a June 2006 civil fraud settlement agreement, a New Jersey school agreed to repay \$469,487 for intentionally claiming meal reimbursements through the National School Lunch Program (NSLP) on days when classes were not actually in session. The school submitted numerous false certifications and information to USDA and the State under NSLP, which resulted in excessive and improper payments.

Additional Guidance Needed for Suppers Served in Schools

We found that FNS did not ensure the consistent application of the meal requirements for the Child and Adult Care Food Program (CACFP) suppers served in schools. Although FNS issued implementing guidance to the seven eligible States, FNS has not yet issued regulations on the provision of at-risk afterschool meals. (An at-risk area is a school service area that has 50 percent or more approved free and reduced-priced lunch applications.) In addition, due to a misinterpretation of a regulatory provision on the substitution of school meals and meal service rules permitted under NSLP, there was inconsistency in the reimbursement of substituted NSLP meals for at-risk supper meals. FNS has issued guidance on the circumstances when NSLP meals and NSLP meal service rules may be substituted for CACFP meals served under the at-risk afterschool care provisions. A proposed rule to implement at-risk meals is in agency clearance. (Audit Report No. 27601-35-Ch, CACFP Supper Meals Served in Schools)

FNS Controls Over the Child Nutrition (CN) Labeling Program Need Strengthening

FNS has overall administrative authority over the voluntary CN Labeling Program and is responsible for approving the accuracy of the CN label statement. We found that FNS did not implement the necessary controls to deter processors from using CN labels that had not been approved and did not ensure that processors' partial quality control programs (PQCP) adhered to established guidelines. Two of six processors visited produced CN-labeled products without FNS approval, and one distributed approximately 12,500 pounds of mislabeled product. FNS and the inspection agencies (FSIS and the Agricultural Marketing Service (AMS)) lacked coordination, and inspectors did not validate whether processors received FNS approval for their CN labels. The CN Labeling Program also lacks sufficient consequences (such as fines, penalties, and suspensions) for processors who abuse requirements for CN-labeled products. Further, all six processors visited had an FNS-required PQCP, but we identified deficiencies in four. In response to our recommendations, FNS agreed to implement procedures to ensure that CN-labeled products are approved by FNS, seek legal counsel from USDA's Office of the General Counsel (OGC) and inspection officials to impose consequences on abusers, and coordinate with the inspection agencies to revise the MOU. (Audit Report No. 27601-13-Hy, CN Labeling Program)

The Delta Regional Authority (DRA) Needs To Improve Controls for Approving, Disbursing, and Monitoring Grants

DRA has made progress toward establishing itself as an effective agency; however, our review of its grants for FYs 2003 and 2004 found that DRA needs to improve its controls for approving grant applications, disbursing grant funds, and monitoring grant projects. DRA, a Federal-State partnership, helps economically distressed communities in eight States develop infrastructure, improve transportation, encourage businesses, and train workers.

We questioned a \$150,000 feasibility study, which was funded in FY 2003. While our audit concluded that the

\$150,000 grant for the feasibility study was ineligible, DRA disagreed with this conclusion. In order to reach an agreement with DRA, OIG's Office of Counsel is examining whether the \$150,000 grant for the feasibility study was in fact eligible for funding by DRA. Additionally in FY 2003, DRA disbursed \$545,437 to three grantees without first verifying that their costs were documented and that project-related expenses were allowable. In FY 2004, DRA implemented checklists to help its project coordinators approve grant applications and disburse funds according to the agency's policies and procedures. Four of the eight grants reviewed had incomplete checklists for determinations of eligibility, and seven were not complete for distribution of \$220,000 to grantees. In addition, DRA policy is to conduct field visits for all grants. However, for the 20 grants sampled, DRA personnel had completed only 2 field visits. We also found that 72 percent of the grantee progress reports and 85 percent of the grantee financial reports were late or missing. DRA generally agreed with our findings and recommendations. (Audit Report No. 62099-1-Te, Controls Over Issuance of Appropriated Funds by DRA FYs 2003-2004)

Improvements Are Needed in Centralized Service Center (CSC) Procedures To Collect Unauthorized Payment Subsidies

Rural Housing Service (RHS) borrowers are eligible to receive payment assistance to subsidize their loan payments based mainly on their income, and RHS' CSC services these direct loans. We reviewed RHS' controls to ensure the propriety of \$357 million in borrower payment subsidies for FY 2004 and concluded that CSC was adequately monitoring payment subsidies to ensure their accuracy, but improvements are needed. CSC (1) had not performed a cost-benefit analysis to establish a minimum dollar threshold for collecting unauthorized payment subsidies and used this unsupported dollar threshold in its determination of what percentage of unreported borrower income to refer for investigation, (2) used a flawed sampling methodology to estimate the overall error rate in its universe of payment subsidies, and (3) did not request tax return information from the Internal Revenue Service (IRS) as a tool to verify borrower incomes. As a result, RHS had not maximized its

ability to collect unauthorized payment subsidies or ensure that payment subsidies were accurate.

CSC agreed to conduct a cost-benefit analysis and use a random sample to determine the overall error rate in its universe of payment subsidies. We are working with CSC to address the use of IRS tax information. (Audit Report No. 04099-341-At, Single-Family Housing Program Borrower Income Verification Procedures)

RHS Has Not Fully Implemented OIG Recommendations To Improve Management Controls in Multibillion-Dollar Loan Guarantee Program

In FY 2004, the Guaranteed Rural Housing Loan Program (GLP) guaranteed 34,817 loans valued at \$3.2 billion in order for low-income individuals or households to purchase homes in rural areas. In a recent review of RHS actions to follow up on recommendations RHS had agreed to in response to our 1999 audit, we found that RHS had not ensured that (1) lenders were informed of common areas of noncompliance regarding approval of loan applications and of ways to help ensure compliance, (2) lenders were submitting loss claim payments for eligible and supported costs only, (3) eligibility maps were current and thus allowed residents only in eligible areas to participate, (4) lenders were sharing future recoveries from the sale of inventory properties with RHS, (5) accounts receivable were established and collection efforts pursued for \$1.4 million for paid loss claims in accordance with the Debt Collection Improvement Act of 1996, and (6) appraisals and appraisers were monitored to ensure fair valuation of properties for which RHS provided guaranteed loans and/or paid loss claims. RHS has implemented permanent corrective actions for four of the six areas of concern, and states that permanent corrective action in the other two areas is being prepared through permanent regulatory modifications. (Audit Report No. 04601-3-At, GLP Followup)

FSA Needs To Strengthen Controls Over Farm-Stored Loan Collateral

Marketing Assistance Loans (MAL) help farmers store their

crops at harvest when prices are low and sell them later at more advantageous prices. In response to 2005 Hurricanes Katrina and Rita and their effect on grain storage, on-ground farm storage was approved for commodities offered as MAL collateral for crop years (CY) 2005 and 2006.

FSA's controls were generally adequate, but the agency could improve how it secures farm-stored loan collateral. For instance, due to ambiguities in FSA's procedures and regulations, FSA overvalued high-moisture collateral for 16 loans by 80 percent, or nearly \$1.6 million, and county offices did not consistently use commodity seals to identify loan collateral. Moreover, even when regulations were clear, county offices did not always comply with them: 4 of 16 county offices did not perform required spot checks of loan collateral, 10 of 16 did not complete required loan documents when processing applications for MALs, and 1 State and county office made a number of errors (resulting in questioned loans of more than \$600,000) when administering MALs to a cooperative marketing association.

FSA agreed to (1) clarify its procedures regarding the MAL collateral value of low-quality, high-moisture commodities and the use of commodity loan seals; (2) take action to determine and recover the potentially overstated value of such collateral, as deemed appropriate; (3) strengthen its systems for performing spot checks of loan collateral and for completing and reviewing MAL documents; and (4) provide training to the State and county office that committed errors administering MALs. (Audit Report No. 03601-47-Te, Nonrecourse Marketing Assistance Farm-Stored Loans)

Management Controls Adequate for Direct and Counter-Cyclical Program (DCP) Yields

For CYs 2002 through 2007, FSA's DCP provides direct payments and market-based counter-cyclical payments to producers on farms for which payment yields and base acres were established. Under the 2002 Farm Bill, producers had a one-time opportunity to update the bases and yields used to calculate program payments. We determined that management controls were adequate to ensure updated DCP

yields were properly calculated and that State office oversight of county office operations for establishing and verifying DCP yields was adequate. While there were some differences in the processes used to establish yields, further audit work was not warranted because the errors we noted in DCP yields and their impact on DCP payments were generally immaterial. (Audit Report No. 03099-196-KC, DCP Yields)

Montana Producer and Loan Officer Pled Guilty to Defrauding FSA of \$1.4 Million

In March 2006, a Montana producer pled guilty to filing false claims with FSA in order to receive program payments to which he and his partners were not entitled. A former agricultural loan officer also pled guilty to conspiracy to defraud FSA for his role in assisting the producer. From October 1998 through January 2001, the producer circumvented program payment limits to fraudulently receive \$1.4 million. The private loan officer provided false financial documents to FSA to support the other partners' participation in the producer's farming operation. In July 2006, the producer was sentenced to serve 10 months in Federal prison, followed by 36 months of probation, and was ordered to pay \$226,035 in restitution. In August 2006, the former loan officer was sentenced to serve 4 months of home confinement, followed by 30 months of probation.

Mother and Son Sentenced for Conversion of FSA Collateral

In July 2006, a rancher and her son in Idaho were sentenced after pleading guilty to theft/conversion of 305 head of cattle pledged as collateral to FSA. The mother was sentenced to 36 months of probation with 80 hours of community service and ordered to pay \$1,085,000 in restitution. The son was sentenced to 36 months of probation, ordered to pay joint restitution, and fined \$4,000. FSA has a lien against the ranch, valued at more than \$1 million.

Producer Illegally Converts \$405,000 of USDA Funds to Own Use

In August 2006, a Virginia producer was sentenced to 5 months of home detention with 60 months of supervised

probation and fined \$5,000. Doing business as a corporation, the producer pledged his crop proceeds to secure FSA operating loans from 2001 to 2003. From August 2004 through June 2005, the producer converted FSA security to his own use by endorsing 55 checks totaling \$405,420, which represented the proceeds of his crop sales. The producer also forged an FSA representative's signature on 47 of the 55 checks, which were payable jointly to the representative and FSA.

Improving the Integrity of the Crop Insurance Program

OIG's audit, investigations, and inspections staffs reviewed the Federal crop insurance program and, in collaboration with FSA and RMA, identified a number of fraud indicators or conditions that are often associated with fraud, abuse, and mismanagement. We identified two major factors that must be in place to support the integrity of the crop insurance program: effective management controls to ensure program operations that meet objectives, and aggressive enforcement through criminal investigations and compliance reviews.

We highlighted prior recommendations that the crop insurance program (1) accelerate plans to create a single comprehensive information system for crop insurance, conservation, and farm programs; (2) increase coordination and communication between RMA and FSA to ensure more effective growing season inspections; (3) establish an effective quality control review system to evaluate the private sector delivery of the Federal crop insurance program; (4) strengthen RMA's oversight and monitoring of the private sector's application of the quality control review system; (5) establish positive incentives for good delivery performance by the private sector and strengthen sanctions and penalties for unacceptable program delivery; (6) continue data-mining efforts to review Federal crop insurance data; and (7) increase the use of geographic information systems to monitor producer compliance with program requirements.

Two Individuals and Three Corporations Sentenced in False Claims Scheme

From January 2000 through December 2000, two individuals and three corporations in the Texas Panhandle fraudulently obtained approximately \$400,000 in RMA crop insurance indemnity payments and FSA disaster program payments by shifting their unreported 2000 cotton production for program payment purposes. They assigned their hidden cotton production to other established accounts at a cotton gin owned by one of the individuals. On August 25, 2006, one producer and two corporations were sentenced. The producer was sentenced to serve 12 months of imprisonment, followed by 36 months of supervised release, and was ordered to pay a \$100 fine and \$331,291 in restitution. One of the corporations was sentenced to 60 months of probation and ordered to pay a \$400 fine and \$203,491 in restitution, and the other corporation was sentenced to 60 months of probation and was ordered to pay a \$400 fine and \$127,800 in restitution. On September 29, 2006, the last two defendants were both sentenced to 60 months of probation, and each was ordered to pay restitution of \$363,775 severally and jointly.

Former Bank President Sentenced to 108 Months in Prison

In July 2006, after pleading guilty to bank fraud, a former bank president in Wisconsin was sentenced to serve 108 months in Federal prison and ordered to pay \$13.42 million in restitution to the Federal Deposit Insurance Corporation (FDIC), including an immediate payment of \$50,000. The bank president had participated in a \$17 million check-kiting scheme (drawing against balances credited to uncollected checks), a \$10.3 million loan scheme, and a \$2.2 million wire fraud scheme. In the USDA aspect of the case, a Wisconsin farmer converted \$500,000 of chattel securing his USDA-guaranteed bank loans. The former bank president acknowledged that another USDA-guaranteed loan recipient had more than \$300,000 in overdrafts that were not reported to FSA. OIG provided assistance to the Federal Bureau of Investigation (FBI), IRS, and FDIC in this investigation.

False Claims to Commodity Credit Corporation (CCC) Net Prison Term for President of Export Company

In August 2006, the president of an export company in Arizona was sentenced to 12 months and 1 day in Federal prison and ordered to pay more than \$600,000 in restitution after pleading guilty to submitting false claims to FAS' Market Access Program (MAP). MAP uses funds from USDA's CCC to aid in the creation, expansion, and maintenance of foreign markets for U.S. agricultural products. From January 2001 to October 2003 while promoting milk and sports drinks in Mexico, the company president submitted 44 requests for payment totaling more than \$1.3 million to CCC, received more than \$600,000 in USDA reimbursements, and submitted fraudulent checks in support of his reimbursement claims.

Former Michigan Legislative Assistant Convicted Again

In May 2006, a former legislative assistant to a U.S. Congressman from Michigan was found guilty of failing to appear for a sentencing hearing stemming from a previous embezzlement conviction. As reported last period, the former staffer had been convicted of nine counts of fraud for stealing approximately \$40,000 in USDA bank funds through his involvement with a national farmer's organization. In September 2006, the former staffer was sentenced to serve 76 months in prison, followed by 36 months of supervised release, and was ordered to pay \$162,000 in restitution. This investigation was conducted jointly with the FBI.

GOVERNMENTWIDE ACTIVITIES – GOAL 2

Reviews Coordinated With Other Government Entities

■ As part of the PCIE Homeland Security Roundtable, we continue to look at the Department's recovery efforts relating to the 2005 hurricanes. OIG has worked with other Federal OIGs and agencies, submitted periodic status reports, participated in numerous "lessons-learned" surveys, provided to DHS OIG letters outlining issues for their consideration, and provided final reports to the roundtable.

ONGOING AND PLANNED REVIEWS FOR GOAL 2

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

- Disaster Food Stamp Program for Hurricanes Katrina, Rita, and Wilma (FNS),
- continued monitoring of EBT implementation (FNS),
- Summer Food Service Program (FNS),
- WIC Program in Puerto Rico (FNS),
- FSP retailer authorizations (FNS)
- Food Stamp Employment and Training Program (FNS),
- CACFP (FNS),
- Rural Rental Housing (RRH) maintenance costs and inspection procedures (RHS),
- selected Section 538 guaranteed loan projects (RHS),
- effectiveness and enforcement of debarment and suspension regulations in USDA,
- implementation of the Tobacco Transition Payment (Tobacco Buyout) Program (FSA),
- programmatic treatment of crop base on land included in conservation easements (FSA and NRCS),
- Conservation Reserve Program re-enrollments and extensions (FSA),
- interest assistance on guaranteed farm loans (FSA),
- emergency loan assistance (FSA),
- effectiveness of status reviews in assessing producer compliance with conservation provisions (NRCS and FSA),
- crop loss and quality adjustments for aflatoxin-infected corn (FSA and RMA),
- Conservation Security Program – program implementation (NRCS),
- Conservation programs – controls to prevent duplicate assistance (NRCS),
- Farm and Ranch Lands Protection Program – selected nongovernmental organizations nationwide (NRCS),
- adjusted gross income limitation (NRCS and FSA),
- zero acreage reporting abuse (RMA),
- Asian soybean rust (RMA),
- Florida Hurricane Disaster Program crop insurance requirements (RMA),
- penalties assessed for erroneous reporting of crop insurance acreage (RMA),
- RMA implementation of \$500,000 claim decision process,
- group risk crop insurance and group risk income protection (RMA),
- Adjusted Gross Revenue Program (RMA),
- RMA's oversight of approved insurance provider's quality control reviews,
- controls over optional unit provisions (RMA),
- RMA's national operation reviews (RMA),
- RMA's controls over catastrophic crop underwriting, and
- RMA prevented planting.

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

Management of Public Resources

OIG Strategic Goal 3:

Increase the efficiency and effectiveness with which USDA manages and employs public assets and resources, including physical and information resources

OIG conducts audits and investigations that focus on, for example, improved financial management and accountability, information technology (IT) security and management, protection of public assets, employee corruption, natural resources, research, 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 and hundreds of billions of dollars more in fixed assets such as the 192 million acres of national forests and wetlands. The effectiveness and efficiency with which USDA manages its assets are critical. USDA depends on IT to efficiently and effectively deliver its programs and provide meaningful and reliable financial reporting. One of the more significant dangers USDA faces is a cyberattack on its IT infrastructure, whether by terrorists seeking to destroy unique databases or criminals seeking economic gains.

In the second half of FY 2006, we devoted 40.3 percent of our total audit and investigative resources to Goal 3, with 92.1 percent of these resources assigned to critical/high-impact work. A total of 91.4 percent of

our audit recommendations under Goal 3 resulted in management decision within 1 year, and 80.6 percent of our investigative cases had criminal, civil, or administrative action taken. OIG issued 17 audit reports under Goal 3 during this reporting period and a total of 39 audit reports during the full fiscal year. OIG investigations under Goal 3 yielded 29 indictments, 24 convictions, and about \$37.6 million in monetary results during the reporting period and a total of 59 indictments, 40 convictions, and about \$61.2 million in monetary results during the full fiscal year.

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 3

RHS Provided Duplicate Rental Housing Assistance to Hurricane Victims

In the aftermath of Hurricanes Katrina and Rita, Rural Development (RD), through RHS, placed 11,000 evacuees into 4,100 RRH apartment units in 45 States and provided \$2.6 million in emergency rental assistance. We found that most victims placed into RRH units needed only adequate housing and not rental assistance because that was provided by the Federal Emergency Management Agency's (FEMA) Transitional Housing Assistance Program. Coordination failures between RHS and other Federal agencies caused much of the \$2.6 million in emergency rental assistance provided by RHS to be duplicative.

Management Challenges Addressed Under Goal 3

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 1 and 2)
- Implementation of Strong, Integrated Management Control (Internal Control) Systems Still Needed (also under Goal 2)
- Continuing Improvements Needed in IT Security (also under Goal 1)
- Implementation of Improper Payment Act Requirements Needs Improvement
- USDA's Response to the 2005 Hurricanes Needs Ongoing Oversight (also under Goal 2)

We also found that (1) the RHS database system contained generally inaccurate and incomplete information on the hurricane victims and the amount of rental assistance; (2) RHS lacked sufficient controls to identify victims who used other individuals' FEMA identifying numbers to obtain housing assistance; (3) RHS did not adequately monitor the activities of owners and management agents, so some owners required victims to pay rent for their RRH unit even though the owner had received rental assistance for those victims directly from RHS; and (4) some owners had reclassified pre-existing tenants as hurricane victims when they had no change in income or other circumstances, resulting in unnecessary RRH rental assistance to those tenants.

RHS is implementing corrective actions to (1) prepare for future disasters by developing policy and procedures for coordinating actions and sharing computer information related to housing assistance with other Federal agencies that also provide such assistance and (2) improve the agency's information system and related controls over the accuracy and completeness of data. (Audit Report No. 04601-13-Ch, Controls Over Multi-Family Housing Funds Provided for Hurricane Relief Efforts)

Water Authority Manager Gets 8 Years in Prison

In June 2006, the former general manager of a rural water authority in Ohio, which was a Rural Utilities Service (RUS) borrower, was sentenced to 96 months of imprisonment for a variety of illegal activities including bribery, acceptance of gratuities, and false statements. The former official was also ordered to pay \$88,000 in restitution and will be subject to 36-60 months of post-release supervision. The former general manager accepted bribes (money and home remodeling) and gratuities (hunting trips and hunting and fishing equipment) from vendors and contractors; offered bribes and directed potential witnesses to destroy documentary evidence and make false statements to investigators; directed a vendor to issue checks to a contractor who in turn wrote checks to him; defrauded the rural water company by having contractors bill the water company for the remodeling of his home, the repair of his

family's automobiles, and repairs to his home computer (which was purchased by the rural water company); and diverted the rural water company's purchased merchandise and services to his and his family's use. Also in June 2006, the water authority's former fiscal officer was sentenced to 24 months of probation, fined \$5,000, and ordered to perform 200 hours of community service for aiding the general manager in the illegal activities. This investigation was conducted jointly with the Ohio Auditor of State's Office.

Controls for Maintaining FS' Infrastructure Still Lacking

We followed up on audit reports issued in 1998 and determined that FS still lacked effective processes and controls to ensure the reliability and validity of the deferred maintenance costs recorded in the infrastructure (INFRA) database. FS had not fully implemented our recommendations, which were intended to strengthen the reliability and accuracy of this information. For example, assessments to evaluate the condition of agency assets were not completed, and data on dams were not complete and timely. In addition, the agency had no strategy for addressing its deferred maintenance backlog.

The INFRA database included records on assets that were not assigned to a specific FS location and did not identify assets that were not likely to be repaired. Also, the amounts reported for deferred maintenance in the Performance and Accountability Report and the INFRA database did not match. We identified a difference of more than \$1.2 billion between the two systems for roads alone. As a result, the information from these systems is less useful for agency administrators, oversight bodies, and the public. FS agreed with our recommendations; however, we are still working with the agency to establish interim milestones and timely corrective actions. (Audit Report No. 08601-02-Hy, Followup on Recommendations Made on the Maintenance of FS' Infrastructure)

FS Management Controls To Reduce Hazardous Fuels Need Improvement

Effectively treating acres of forest to reduce hazardous fuels (by thinning trees and brush and removing dead wood) is critical to improving FS' ability to protect natural resources and the public. However, FS does not have adequate processes to identify, determine the cost-effectiveness of, prioritize, select, and fund hazardous fuels projects; and its performance measures and reporting standards do not allow for qualitative distinctions of the level of need for treatment. Thus, there is no way to allocate funds to the most critical projects, and no controls preventing funds from being allocated to projects to achieve targets of acres treated instead of reducing the most risk.

Further, FS' performance measures and standards do not indicate whether the treatment of an acre improved its condition and whether a treatment reduced the risk of catastrophic wildland fire. Instead of emphasizing the achievement of annual targets for number of acres treated, FS should develop the necessary information and target treatments to areas most at risk. FS agreed with our findings and recommendations and has begun implementing corrective actions. (Audit Report No. 08601-6-At, Implementation of the Healthy Forests Initiative)

Firefighter Sentenced to Prison Term for Setting Wildland Fires

As reported last period, in February 2006 an FS firefighter pled guilty to three counts of setting wildland fires on the Los Padres National Forest in California. The firefighter intentionally set three fires in July, August, and September 2004 that burned 800 acres of forest and cost \$2.5 million in fire-suppression costs. In July 2006, the firefighter was sentenced to 4 months in prison with 4 months of home confinement and 36 months of probation, and ordered to pay restitution of nearly \$2.5 million. This investigation was worked jointly with FS.

Stronger Controls Needed To Ensure the Integrity of Program Contracts System (ProTracts) Data

We found that NRCS had not implemented adequate controls to ensure the integrity of data maintained in its ProTracts system, which may affect its ability to manage its Farm Bill Programs. We found shortcomings with program ownership, physical or logical controls over access to data and change control processes, security clearances, and assurance that controls would yield accurate payment amounts. Payment amounts were sometimes calculated based on verbal instructions from Headquarters staff. NRCS agreed to (1) assign program managers as systems and information owners for its business-critical applications, (2) establish access control policies in accordance with Federal guidelines, (3) develop and implement an effective change control process, (4) establish and implement procedures to ensure that appropriate security clearances are obtained for employees and contractors with access to ProTracts, and (5) establish automated controls within ProTracts to ensure payments are accurately calculated. (Audit Report No. 10501-5-FM, NRCS Application Controls – ProTracts)

Control Weaknesses Found in NRCS Fleet Operations

We found that officials at the NRCS National Office had not performed management reviews of the agency's motorized vehicle fleet operations—USDA's second largest—and thus were unaware of significant control weaknesses. This led to \$1.3 of the \$10.5 million in maintenance expenses charged to fleet credit cards being unsupported. Approximately \$1.1 million of the unsupported amount was for unusual transactions charged without adequate documentation. Such transactions included \$88,177 in excess fuel costs, \$947,279 in miscellaneous and unidentifiable expenses, \$101,393 for maintenance of equipment, and \$12,914 spent on Federal holidays.

Each NRCS fleet credit card should be associated with a particular vehicle, yet Local Fleet Program Coordinators nationwide kept 1,769 extra credit cards unassociated

with any particular NRCS-owned vehicle—\$161,535 was charged to 327 of those extra cards. We found that many of these cards were, in fact, being used to fuel and maintain vehicles not listed in the agency's inventory. In the 4 States we visited, we identified 62 vehicles that NRCS owned but did not list on its inventory.

NRCS agreed to (1) conduct management reviews of its fleet operations; (2) improve controls over how it uses fleet credit cards by prohibiting the purchase of premium and midrange fuels, requiring documentation for credit transactions, and resolving Purchase Card Management System-generated alerts; and (3) reconcile fleet credit cards to the vehicles it owns and cancel credit cards unassociated with vehicles. (Audit Report No. 10601-7-Te, Controls Over Vehicle Maintenance Costs)

NRCS Employees Suspended for Conflict of Interest

In April 2006, two NRCS employees were suspended and issued letters of warning and reprimand for conflict of interest/misuse of position while performing their official duties in the NRCS cost-share program. The two were partners in a company that planted trees. One, as part of her official duties, was directly involved in the Conservation Reserve Program, which involved planning and partially funding windbreaks. While on official duty to meet with potential NRCS cost-share clients, the employee provided information about their tree planting company and its services as an option for prospective clients. The same employee later resigned while on suspension. In addition to the two employees, an NRCS supervisor was suspended for having knowledge of the former employee's connection with the tree planting company.

Land Trust Circumvents Program Controls

Prompted by a request from the NRCS Chief, we audited a land trust's operation of the Farm and Ranch Lands Protection Program (FRPP) in one State and found serious noncompliance problems in the trust's operation. The NRCS State Office had found prior to our audit that the trust failed to pay its required 25-percent share in cash for

the conservation easement purchases, and instead charged the landowner an "easement fee" equal to 25 percent of the easement's appraised fair market value. We found that the trust continued similar practices even after NRCS provided additional direction to the trust and required it to certify in writing that it had used its own funds to pay for its share of the easement purchase price. The trust continued its prior arrangements with the landowners that their continued participation was contingent on donating up to 50 percent without disclosing this arrangement to NRCS; providing certification to NRCS that it contributed its matching funds from its own cash and not from landowner donations; providing settlement documents showing that it had paid its matching funds, while not disclosing after-closing donations from the landowners; and then pursuing additional donations from the landowners after the closing. In three of the four easement transactions processed after receiving NRCS direction, the trust was able to recover \$202,067 of its required matching funds from the landowners after closing. If the trust had fully disclosed the total donations made by the landowners, NRCS payments for the easement transactions would have been significantly reduced.

We also concluded that the appraisals used to obtain NRCS matching funds were unreliable and may have potentially overstated easement values and that there were serious deficiencies in all five appraisals provided to NRCS for the FY 2003 easement purchases. We found there were incorrect methodologies, unsupported and inaccurate assumptions, unqualified appraisers, incorrect type of reports, ineffective administrative reviews, and nonexistent technical reviews.

NRCS agreed with our recommendations and concluded that the trust's actions demonstrated material noncompliance. NRCS terminated its FY 2004 FRPP cooperative agreements with the trust, and deobligated \$1,021,438. NRCS is also consulting with legal counsel to consider legal remedies available concerning the trust's material noncompliance with the appraisal requirements for the FY 2003 easement transactions. (Audit Report No. 10099-5-SF, FRPP in Alabama)

Mississippi Catfish Producers Benefit From Federally Donated Nonfat Dry Milk

In May 2005, the then-FSA Administrator requested that OIG review a proposed 2005 sole-source sale of 15 million pounds of nonfat dry milk (NDM) to Mississippi State University (MSU) for catfish nutrition research and a similar 2003 donation of more than 24 million pounds of NDM to MSU. The Administrator terminated the proposed 2005 sale on his discovery that it had been put forth for his approval in direct contravention of OGC advice. For the donation in 2003, 24.7 million pounds of NDM, worth more than \$19 million, was delivered to a private feed mill and affiliated research facility in Mississippi. We found less than 2,000 pounds of the donated NDM was used in actual research. The remainder was incorporated into catfish feed produced by the feed mill for sale to its private customers. Because of the principal contact's relationship with both MSU and the research facility, FSA officials mistakenly believed they were donating NDM to the university. The donation was transacted without an underlying agreement subject to approval by OGC or by the FSA Administrator and directly violated the CCC Charter Act. The Act provides that any research financed by CCC be conducted in collaboration with USDA research agencies.

The events related to both the donation and the proposed sale took place without a formal decision-making process for commodity dispositions because CCC docket procedures no longer provide specific authorities, leaving agencies to implement the docket guidelines as they see fit. We recommended that FSA consult with OGC about the noted violations and obtain legal counsel for corrective actions, and develop and codify specific decision-making policies and procedures for commodity dispositions. FSA has requested written legal opinions from OGC on several matters raised in the review and is working expeditiously to complete all required and necessary actions in line with the audit recommendations. (Audit Report No. 03099-197-KC, Disposition of Nonfat Dry Milk)

Former Indiana State FSA Employee Sentenced for Illegally Copying Mapping Software

In June 2006, after pleading guilty to copyright infringement, a former FSA employee was sentenced to 60 months of probation with the first 18 months in home detention with electronic monitoring, and was ordered to pay restitution of \$7,120 and forfeit all computer-related items used to facilitate the scheme. From October 1, 2003, through December 24, 2003, the former geographic information systems (GIS) technician illegally copied and sold 41 copies of GIS mapping software used by FSA and NRCS. Profit on the sale of the software was \$7,120, but the retail value of the software pirated was more than \$70,000. This was the first Federal criminal conviction in Indiana involving the illegal sale of copyrighted materials over the Internet.

Research Projects Need Additional Oversight

We determined that ARS collaborators did not conduct all of the required site visits to Former Soviet Union (FSU) institutes participating in the Scientific Cooperation Program administered by ARS. In addition, the Science and Technology Centers in Moscow and Kiev, which are responsible for providing management oversight of the research activities and project expenditures at the project locations in various FSU institutes, did not complete all required on-site project monitoring reviews. We also found that ARS was not adequately tracking and reviewing quarterly and annual technical reports submitted by FSU participants in the projects, and that ARS had not fully developed and implemented controls for ensuring the accountability of funds.

ARS agreed to ensure that (1) its collaborators conduct site visits to the FSU institutes annually and that the science centers consistently conduct on-site monitoring of the FSU projects, (2) all quarterly technical reports are submitted and reviewed with timely feedback provided, and (3) program funds are used appropriately and costs incurred are allowable. (Audit Report No. 02001-2-Hy, ARS Accountability Over the FSU Scientific Cooperation Program)

Operation Talon Arrests Take Hard-Core Criminals Off the Streets

OIG began Operation Talon in 1997 to locate and apprehend fugitives, many of them violent offenders, who are current or former food stamp recipients. As of September 30, 2006, Operation Talon had resulted in 10,980 arrests of fugitive felons during joint OIG-State and local law enforcement operations. During this reporting period, OIG agents conducted multiple Talon operations in California, Oregon, and Washington to make 137 arrests of both males and females, juveniles and adults. OIG worked with Federal, State and local law enforcement agencies to arrest 57 fugitives in California, 29 in Oregon, and 51 in Washington for offenses including murder, assault, burglary, assorted drug charges, robbery, sex offenses, ID theft, and general larceny. Six individuals involved with violent gang activity were arrested in California, one of whom had an outstanding felony warrant for murder. OIG agents also conducted a Talon operation in Massachusetts and arrested 265 fugitives wanted for weapons violations, sex offenses, robbery, larceny, assorted drug charges, burglary, assault, and other offenses.

Employee Steals and Resells Over \$162,000 in USDA-Owned Software

In April 2006, a former AMS supervisor pled guilty to theft of Government property and was later terminated by AMS. From November 2000 through December 2003, the former employee purchased and/or directed subordinate employees to purchase 294 copies of computer software from various vendors at the expense of the Government. The software, valued at \$162,859, was re-sold by the former employee for personal gain. In September 2006, the former AMS supervisor was sentenced to serve 18 months in prison, to be followed by 36 months of supervised release, and was ordered to pay restitution of \$162,859.

IT Security Improvements Have Been Made, But More Are Needed for an Effective Departmentwide Security Program

The efforts of USDA's Office of the Chief Information

Officer (OCIO) and OIG in the past few years have heightened USDA program management's awareness of the need to plan and implement effective IT security. The National Information Technology Center (NITC), located in Kansas City, Missouri, sustained its unqualified opinion on its general control structure. The Office of the Chief Financial Officer's (OCFO) National Finance Center (NFC), located in New Orleans, Louisiana, received its first unqualified opinion on the design of its general control structure. While its opinion on the effectiveness of its controls remained qualified, this was primarily attributed to the devastation caused by Hurricane Katrina. Although other USDA agencies accelerated their efforts to comply with Federal information security requirements during the fiscal year, we continued to find significant weaknesses that can be attributed in part to a lack of time for OCIO's policies and procedures to be effectively implemented. While progress has been made, there is still much to be accomplished. IT security remains a material weakness for USDA, as the Department cannot be assured that its systems and data are adequately secured.

OCIO noted in its Federal Information Security Management Act (FISMA) report that it is formulating a process for initiating, reviewing, and updating the Department's policies to improve compliance with Office of Management and Budget (OMB) and National Institute of Standards and Technology policies, and Departmental Regulations. OCIO reported that it is performing a gap analysis to prioritize required policy work and developing a program to review and update existing policies. In addition, OCIO has implemented a security review program to evaluate the accuracy of information provided by the agencies to improve the effectiveness of their security programs. However, until these controls are in place, operating, and effectively established, IT management and security remain a material internal control weakness for the Department. (Audit Report No. 50501-7-FM, FY 2006 FISMA)

OIG Investigates Computer Intrusion Involving 26,000 USDA Employees

In response to a request by the Department, OIG's National Computer Forensic Division determined that two computer

servers had been compromised multiple times by hackers in June 2006 but that the database containing personal identity information for 26,000 USDA employees had not been compromised or transferred from USDA computers. OIG continues to work with OCIO to ensure that all USDA networks and employee personal information are secure.

Stronger Controls Needed To Protect Data Transmitted Over USDA Universal Telecommunications Network (UTN)

We reviewed the UTN maintained by USDA's OCIO with specific emphasis on network management and security. The UTN is intended to function as a new shared corporate data network backbone for USDA to provide its customers with secure and cost-effective telecommunication capabilities and network support services. We found that OCIO implemented UTN without adequate security controls because it had not conducted the required system testing, security control testing, and certification and accreditation. OCIO agreed with and is implementing our recommendations. (Audit Report No. 88501-6-FM, Management and Security Over UTN)

OCIO/NITC Controls Are Suitably Designed

Our review of the OCIO/NITC internal control structure, as of June 30, 2006, disclosed that the documentation of control objectives and techniques provided by OCIO/NITC presented fairly, in all material aspects, the relevant aspects of OCIO/NITC's control environment taken as a whole. Also, in our opinion, the policies and procedures are suitably designed to provide reasonable assurance that the control objectives would be achieved and operate effectively. (Audit Report No. 88501-9-FM, OCIO/NITC General Controls Review – FY 2006)

Application Controls for Processed Commodities Inventory Management System (PCIMS) Were Adequate

AMS, FNS, and FSA use PCIMS to purchase, track, and distribute approximately \$2.5 billion of domestic and foreign food assistance annually. We found that USDA had implemented adequate application controls to ensure

that PCIMS transactions were valid, properly authorized, and accurately processed. However, we did note that PCIMS' security plan had not been revised since July 2004. FSA was aware of this problem and updated the plan on April 28, 2006. This new plan has been submitted to the Associate Chief Information Officer for Cyber Security, and, once implemented, will improve USDA's control over information entered into PCIMS. (Audit Report No. 50601-13-Te, Application Controls Over PCIMS)

NFC Controls Not Operating Effectively

OCFO/NFC received its first unqualified opinion on the design of its general control structure. However, NFC also received a qualified opinion on its operational effectiveness because controls had not operated effectively to ensure that certain entity-wide security program planning and management, access, application change, system software, and service continuity control objectives were consistently achieved from October 1, 2005, through June 30, 2006. This occurred mainly because of disruptions to normal operating procedures while NFC recovered its operations and reconstituted its workforce in New Orleans, Louisiana, after Hurricane Katrina. During the course of the audit, we also identified certain controls that were not adequately designed. NFC updated its procedures during our review to address these issues. (Audit Report No. 11401-24-FM, FY 2006 NFC General Controls)

Retirement, Health, and Life Insurance Withholdings/Contributions Were Reasonable

As required annually by OMB, we assisted the Office of Personnel Management (OPM) in assessing the reasonableness of retirement, health, and life insurance withholdings/contributions and employee data submitted by OCFO/NFC. We found that no differences exceeded the allowable OPM thresholds. (Audit Report No. 11401-25-FM, Agreed-Upon Procedures: Retirement, Health Benefits, and Life Insurance Withholdings/Contributions and Supplemental Semiannual Headcount Report Submitted to OPM)

GOVERNMENT WIDE ACTIVITIES – GOAL 3

Review of Legislation, Regulations, Directives, and Memoranda

- The American Institute of Certified Public Accountants (AICPA) reviewed concerns regarding governance and proposed a new standard. OIG auditors commented on the AICPA Proposed Statement of Auditing Standards and agreed that establishing a requirement for the auditor to communicate with those charged with governing certain significant matters related to the audit would be an effective way to ensure open and direct communications. OIG recommended adoption of the new standard.
- The PCIE solicited comments on its Federal Employees Compensation Act protocol. OIG auditors assessed the protocol and its impact on OIG operations, and recommended its adoption.
- OIG auditors commented on proposed revisions by the Department of the Treasury’s Financial Management Service to the Treasury Financial Manual, Part 2, Chapter 4700, “Agency Reporting Requirements for the Financial Report of the U.S. Government.” OIG provided comments pertaining to administrative and timing concerns for the new reporting requirements.
- OIG participated in the revision of “Audit Requirements for Federal Financial Statements” (OMB Bulletin No. 06-03, formerly 01-02) as well as OMB Circular No. A-136, “Financial Reporting Requirements.”
- CCC and FAS published a notice in the *Federal Register* soliciting public comments on USDA’s Supplier Credit Guarantee Program (SCGP), as they consider revising SCGP to address program vulnerabilities manifested by past potentially fraudulent activities and to make SCGP more consistent with World Trade Organization requirements. Based upon our audit and investigative experiences with SCGP, OIG provided comments to CCC and FAS addressing program vulnerabilities and suggesting processes that would reduce incidences of fraud and abuse. OIG comments dealt with SCGP’s origination fee rates, levels of guarantee coverage, guarantees during periods of price volatility,

creditworthiness assessment of importers/foreign buyers, methods of payments, analyses of exporters, and the claims and recovery process. CCC and FAS are still considering appropriate revisions to SCGP.

Participation on Committees, Working Groups, and Task Forces

- USDA OIG is participating in a Governmentwide effort coordinated by DHS OIG to monitor and assess agency relief efforts related to the recent hurricanes. During our audits of FS and RD, we identified several issues to improve accountability over future disaster relief funding and made DHS OIG aware of them. These included the use of pre-established agreements with vendors for critical goods and services to ensure prompt and economical acquisitions (such as the FS’ Emergency Equipment Rental Agreements), coordination between supporting agencies to determine needed supporting documentation for expenses, the need for more specific guidance for accountable items, and the need to coordinate information on housing assistance in order to avoid duplicating benefits.
- OMB Memorandum M-06-16, “Protection of Sensitive Agency Information,” requires departments and agencies to properly safeguard their information assets while using IT. The PCIE/Executive Council on Integrity and Efficiency’s Federal Audit Executive Council (FAEC) IT Committee developed a data collection instrument (DCI) to capture the results of the IG community’s assessment of agency efforts to protect sensitive information. OIG auditors completed the DCI and provided requested results to FAEC for inclusion in a PCIE report to OMB.
- OIG responded to selected Federal Accounting Standards Advisory Board inquiries. Specifically, OIG auditors responded to a questionnaire relating to implementation issues regarding Statement of Federal Financial Accounting Standards (SFFAS) No. 30, “Inter-Entity Cost Implementation,” amending SFFAS 4, “Managerial Cost Accounting Standards

and Concepts.” In addition, OIG auditors responded to the survey pertaining to the Proposed Statement of Federal Financial Accounting Concepts, Exposure Draft, “Definition and Recognition of Elements of Accrual Basis Financial Statements.”

- During the prior audit of the Wetlands Reserve Program and our ongoing review of crop bases on lands with conservation easements, OIG auditors noted an apparent breakdown of communication and coordination between NRCS and FSA to ensure such bases are correctly adjusted (or retired) for farm program payment purposes. If bases are not correctly adjusted, then the Department could doubly compensate producers/landowners through conservation easement payments and also farm program payments for crop bases. At FSA’s request, OIG met with FSA and NRCS program officials to draft integrated corrective actions to address duplicate payments. The parties agreed to establish a working group from both agencies to develop procedures and forms that both agencies could use. OIG provided feedback on what the draft documents should include and agreed to comment on the working group’s draft documents.
- In response to a request from the Under Secretary for RD for a comprehensive examination of the internal review process in RD, OIG participated in a task force to contribute our experience and insight into the re-engineering process. The task force focused on streamlining and making more efficient the myriad of different types of RD internal control reviews, while meeting the requirements for internal controls in revised OMB Circular A-123, “Management Accountability and Control.” OIG attended meetings, suggested ways to restructure the RD internal control process, and commented on the draft briefing paper for the Under Secretary. Our recommendations included input on the environment necessary for the restructured process to be effective (i.e., assumptions), specific actions and descriptions of how to develop a consolidated management control review that would incorporate the requirements of A-123, and benchmarks and timeframes for implementation. The final briefing paper was scheduled to be presented to the Under Secretary by October 31, 2006.

- OIG staff presented an update on April 12, 2006, to the PCIE’s Misconduct in Research Working Group regarding the Department’s implementation of Federal guidelines on research misconduct. A Secretary’s Memorandum, issued on July 11, 2006, was prepared in response to Audit Report No. 50099-11-Hy, Implementation of Federal Research Misconduct Policy in USDA. The working group members meet periodically to exchange information on the status of Governmentwide research misconduct policies and procedures in accordance with guidelines established by the Office of Science and Technology Policy (OSTP).
- On August 10, 2006, OIG staff participated in an interagency IG meeting regarding the development of voluntary Governmentwide compliance guidance for recipients of Federal research funding. The project is being promoted by OSTP, with its Research Business Models Subcommittee of the National Science and Technology Council’s Committee on Science leading the effort. The IG community represented at the meeting agreed it would be beneficial to have uniform, Governmentwide compliance guidance and provided feedback to the OSTP representative.

ONGOING AND PLANNED REVIEWS FOR GOAL 3

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

Hurricane Relief Initiatives:

- barge movement and transportation differential agreements (CCC),
- emergency and alternative grain storage (FSA and CCC),
- Emergency Watershed Protection Program, Dead Animal Debris Disposal Project, and Emergency Conservation Program (NRCS and FSA),
- Section 32 disaster programs including the Feed, Hurricane (crop), Livestock, and Tree Indemnity Programs and aquaculture grants (FSA and CCC), and
- Emergency Forestry Conservation Reserve Program (FSA).

Other Goal 3 Work:

- review of USDA employee civil rights complaints (Office of Civil Rights),
- annual audits of the Department and standalone agencies' Financial Statements for FY's 2006 and 2007 (OCFO),
- improper payments continued review of risk assessment process and monitoring the progress of corrective actions for USDA agencies (NRCS, FS, FSA, RHS, and RMA),
- FY's 2006 and 2007 NFC IT Controls,
- FISMA - FY 2006 and 2007 (OCIO)
- FY 2007 Working Capital Fund financial statements (OCFO),
- monitoring of USDA implementation of Cost Accounting System (OCFO),
- e-Gov security (OCIO),
- ARS contract management over technology transfer agreements,
- IT services general controls - FY 2007 (OCIO),
- management and security over USDA wireless connections (OCIO),

- minimum security requirements in USDA information systems (OCIO),
- agreed-upon procedures: retirement, health benefits, and life insurance withholdings/contribution and supplemental headcount report submitted to OPM FY's 2006 and 2007 (OCFO),
- controls over e-payments at OCFO/NFC
- FS' large-fire suppression costs,
- Stewardship Contraction Program (FS),
- oversight and control of FS activities,
- replacement plan for firefighting aerial resources (FS),
- Management of Forest Legacy Program (FS),
- controls over recovery of advance countercyclical payments that exceed the final payments (FSA),
- controls over producers disqualified from farm programs (FSA),
- crop bases on conservation easements - State of California (NRCS and FSA),
- crop bases on conservation easements - nationwide (NRCS and FSA),
- Chesapeake Bay Program - joint review with the U.S. Environmental Protection Agency (NRCS, FS, FSA, CSREES, and ARS),
- effective use of satellite imagery by USDA agencies (FSA and NRCS),
- Wetland Reserve Program restoration compliance (NRCS),
- contract administration at NRCS,
- RMA contracting for services under the Agricultural Risk Protection Act of 2000,
- financial reviews of RMA's reinsured companies,
- RMA Compliance Office activities,
- Tribal Land Grant Institutions (CSREES),
- National Research Initiative Competitive Grants (CSREES),

ONGOING AND PLANNED REVIEWS FOR GOAL 3

- international trade policy and procedures (FAS),
- Export Credit Guarantee Program (FAS),
- Trade Adjustment Assistance for Farmers (FAS), and
- ARS research agreement monitoring.

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 the OIG

PROGRESS AGAINST THE OIG STRATEGIC PLAN

The first way we gauged our impact was by measuring the extent to which our work focused on the key issues under our three strategic goals:

- Support USDA in the enhancement of safety and security measures to protect USDA and agricultural resources and in related public health concerns.
- Reduce program vulnerabilities and enhance integrity in the delivery of benefits to individuals.
- Increase the efficiency and effectiveness with which USDA manages and employs public assets and resources, including physical and information 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 Inspector General 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
- Audits without management decision

FOR INVESTIGATIONS WE SHOW

- Indictments
- Convictions
- Arrests
- Total dollar impact (recoveries, restitutions, fines)
- Administrative sanctions
- OIG Hotline complaints

PERFORMANCE RESULTS TOTALS UNDER OUR STRATEGIC GOALS

Performance Measures	FY 2005 Baseline	FY 2006 Target	FY 2006 2nd Half Actual	FY 2006 Full Year Actual
Audit/Investigative resources dedicated to critical/high-impact work	81%	90%	91.8%	92.6%
Audit recommendations resulting in management decision within 1 year	78%	85%	90.2%	89.5%
Investigative cases where criminal, civil, or administrative action is taken in response to OIG reports	61.6%	65%	78.3%	77.4%

RECOGNITION OF OIG EMPLOYEES BY THE DEPARTMENT AND IG COMMUNITY

Secretary's Annual Honors Awards

USDA Human Capital Team

Operation Salsa Joint Task Force

FS Firefighting Contract Crew Audit Team

2006 Employee Recognition and Remembrance Award

Animal Welfare Act Investigation and Prosecution Team

BSE Audit and Investigation Team

PCIE Awards

FS Firefighting Contract Crews Audit Team

Broadband Loan and Grant Programs Audit Team

Competitive Marketing Conditions for Livestock and Meat Audit Team

Food Safety and Inspection Initiatives

Puerto Rico Special Wage Incentive Program Audit Team

Genetically Engineered Organism Release Permit Team

APHIS Animal Care Audit Team

Helping USDA Ensure the Quality of Meat Imported From Canada Audit Team

Operation Salsa Joint Task Force

BSE Surveillance Audit Team

Employee Relations Enhancement Team

Research Integrity and Safety Audit Teams

Interagency Export Controls Working Group

Ohio Organized Crime Investigations Commission Taskforce 02-3

Guymon Livestock Auction Investigation and Prosecution Team

U.S. Mexico Foundation Audit Resolution Team

SUMMARY OF AUDIT ACTIVITIES

APRIL-SEPTEMBER 2006

REPORTS ISSUED		41
AUDITS PERFORMED BY OIG		35
EVALUATIONS PERFORMED BY OIG		1
AUDITS PERFORMED UNDER THE SINGLE AUDIT ACT		0
AUDITS PERFORMED BY OTHERS		5
MANAGEMENT DECISIONS MADE		
NUMBER OF REPORTS		33
NUMBER OF RECOMMENDATIONS		214
TOTAL DOLLAR IMPACT (MILLIONS) OF MANAGEMENT-DECIDED REPORTS		\$35.6
QUESTIONED/UNSUPPORTED COSTS		\$31.2 ^{ab}
RECOMMENDED FOR RECOVERY	\$29.7	
NOT RECOMMENDED FOR RECOVERY	\$1.5	
FUNDS TO BE PUT TO BETTER USE		\$4.4

^a These were the amounts the auditees agreed to at the time of management decision.

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

SUMMARY OF INVESTIGATIVE ACTIVITIES

APRIL-SEPTEMBER 2006

Reports Issued		127
Cases Opened		213
Cases Closed		165
Cases Referred for Prosecution		82
IMPACT OF INVESTIGATIONS		
Indictments		217
Convictions		181 ^a
Searches		65
Arrests		632
TOTAL DOLLAR IMPACT (MILLIONS)		\$78.5
Recoveries/Collections	\$11.8 ^b	
Restitutions	\$57.7 ^c	
Fines	\$1.6 ^d	
Claims Established	\$6.2 ^e	
Cost Avoidance	\$1.0 ^f	
Administrative Penalties	\$0.2 ^g	
ADMINISTRATIVE SANCTIONS		150
Employees		22
Businesses/Persons		128

^a Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 181 convictions do not necessarily relate to the 217 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 Claims established are agency demands for repayment of USDA benefits.

^f Consists of loans or benefits not granted as the result of an OIG investigation.

^g Includes monetary fines or penalties authorized by law and imposed through an administrative process as a result of OIG findings.

FULL FY 2006 RESULTS IN KEY CATEGORIES

OCTOBER 2005-SEPTEMBER 2006

SUMMARY OF AUDIT ACTIVITIES	
Reports Issued	88
MANAGEMENT DECISIONS MADE	
Number of Reports	61
Number of Recommendations	428
TOTAL DOLLAR IMPACT (MILLIONS) OF UNMANAGEMENT-DECIDED REPORTS	
Questioned/Unsupported Costs	\$57.1
Funds To Be Put To Better Use	\$164.2
SUMMARY OF INVESTIGATIVE ACTIVITIES	
Reports Issued	251
IMPACT OF INVESTIGATIONS	
Indictments	350
Convictions	298
Arrests	882
TOTAL DOLLAR IMPACT (MILLIONS)	
Administrative Sanctions	\$118.6
	236

**INVENTORY OF AUDIT REPORTS
WITH RECOMMENDATIONS THAT
FUNDS BE PUT TO BETTER USE
FROM APRIL 1 THROUGH SEPTEMBER 30, 2006**

		NUMBER	DOLLAR VALUE
A.	FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY April 1, 2006	9	\$326,808,443
B.	WHICH WERE ISSUED DURING THE REPORTING PERIOD	4	\$1,261,713
	TOTALS	13	\$328,070,156
C.	FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	4	
	(1) DOLLAR VALUE OF DISALLOWED COSTS		\$4,374,093
	(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$0
D.	FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	9	\$323,696,063
	REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	7	\$323,455,788

**INVENTORY OF AUDIT REPORTS WITH
QUESTIONED COSTS AND LOANS**
FROM APRIL 1 THROUGH SEPTEMBER 30, 2006

		DOLLAR VALUES		
		NUMBER	QUESTIONED COSTS AND LOANS	UNSUPPORTED ^a COSTS AND LOANS
A.	FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 2006	22	\$106,385,047	\$48,990,144
B.	WHICH WERE ISSUED DURING THIS REPORTING PERIOD	7	\$34,248,821	\$240,282
TOTALS		29	\$140,633,868	\$49,230,426
C.	FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	8		
	(1) DOLLAR VALUE OF DISALLOWED COSTS			
	RECOMMENDED FOR RECOVERY		\$29,745,078	
	NOT RECOMMENDED FOR RECOVERY		\$1,460,826	\$174,763
	(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$2	
D.	FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	21	\$109,749,010	\$49,055,663
	REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	17	\$105,147,512	\$48,815,381

^a Unsupported values are included in questioned values.

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 151 program improvement recommendations, and management agreed to implement a total of 186 program improvement recommendations that were issued this period or earlier. During the full fiscal year, we issued 425 program improvement recommendations, and management agreed to implement a total of 384 program improvement recommendations. Examples of the program improvement recommendations issued this period include the following. (See the main text of this report for a summary of the audits that prompted these program improvement recommendations.)

- APHIS agreed to provide additional guidance on preparing and responding to HPAI or notifiable AI outbreaks in live bird markets or other "off farm" environments; clarify actions that employees should take in obtaining and administering necessary vaccines and anti-virals in the event that a culling operation for HPAI occurs; and finalize interagency coordination on the process and procedures for notifying owners of susceptible animals of the current infectivity risks, and the necessary protective actions they should take when an outbreak of AI occurs.
- FS agreed to assign a high-level official at the Washington office to be responsible for the overall safety and security of the FS' explosives/munitions program and establish a realistic timeframe for implementing all remaining security recommendations.
- FSIS agreed to (1) strengthen its procedures to ensure that all establishments subject to *Salmonella* testing are identified and included in the testing database, (2) develop a risk assessment to determine which establishments need to be tested for *Salmonella*, and (3) obtain scientific advice to evaluate whether its policy of not testing certain raw ground beef products for *E. coli* O157:H7 contamination should be continued.
- FNS agreed to require (1) the regional offices to revise their management evaluations of State EBT operations to include tests of whether the States conducted proper system access reviews; (2) States to implement a formal process for use during EBT POS equipment replacement that would prevent retailers from fraudulently obtaining equipment; and (3) States to consider requests for POS equipment specifications to prevent the illegal removal and unauthorized use of the devices.
- RHS' CSC agreed to conduct a cost-benefit analysis and use a random sample to determine the overall error rate in its universe of payment subsidies.
- ARS agreed to ensure that (1) its collaborators conduct site visits to the FSU institutes annually and that the science centers consistently conduct on-site monitoring of the FSU projects, (2) all quarterly technical reports are submitted and reviewed with timely feedback provided, and (3) program funds are used appropriately and costs incurred are allowable.

SUMMARY OF AUDIT REPORTS RELEASED FROM April 1 THROUGH SEPTEMBER 30, 2006

DURING THE 6-MONTH PERIOD FROM APRIL 1 THROUGH SEPTEMBER 30, 2006, THE OFFICE OF INSPECTOR GENERAL ISSUED 41 AUDIT REPORTS, INCLUDING 5 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
AGRICULTURAL RESEARCH SERVICE	2			
ANIMAL AND PLANT HEALTH INSPECTION SERVICE	1			
OFFICE OF THE CHIEF INFORMATION OFFICER	2			
DELTA REGIONAL AUTHORITY	1	\$915,437	\$220,000	
FARM SERVICE AGENCY	3	\$22,528,517		
FOOD AND NUTRITION SERVICE	7			
FOOD SAFETY AND INSPECTION SERVICE	2	\$1,498,783		\$100,000
FOREST SERVICE	4			
MULTIAGENCY	5			
NATURAL RESOURCES CONSERVATION SERVICE	4	\$1,285,802		\$1,021,438
OFFICE OF THE CHIEF FINANCIAL OFFICER	2			
RISK MANAGEMENT AGENCY	1			
RURAL BUSINESS-COOPERATIVE SERVICE (RBS)	1			
RURAL DEVELOPMENT	1	\$8,000,000		
RURAL HOUSING SERVICE	5	\$20,282	\$20,282	\$140,275
TOTALS	41	\$34,248,821	\$240,282	\$1,261,713
TOTAL COMPLETED:				
SINGLE AGENCY AUDIT	35			
MULTIAGENCY AUDIT	5			
SINGLE AGENCY EVALUATION	1			
MULTIAGENCY EVALUATION	0			
TOTAL RELEASED NATIONWIDE	41			
TOTAL COMPLETED UNDER CONTRACT ^b	5			
TOTAL SINGLE AUDIT ISSUED ^c	0			
^a Unsupported values are included in questioned values ^b Indicates audits performed by others ^c Indicates audits completed as Single Audit				

-Continued

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES

FROM APRIL 1 THROUGH SEPTEMBER 30, 2006

AUDIT NUMBER	RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
Agricultural Research Service						
020010002HY	2006/08/01	ARS Accountability Over Newly Independent States Scientific Cooperation Programs				
020170005HQ	2006/06/27	DCAA Audit of International Science and Technology Center Funded by ARS				
Total: Agricultural Research Service			2			
Animal and Plant Health Inspection Service						
330990011HY	2006/06/12	Oversight of Avian Flu Outbreak				
Total: Animal and Plant Health Inspection Service			1			
Office of the Chief Information Officer						
885010006FM	2006/08/07	Management and Security Over the Universal Telecommunication Network				
885010009FM	2006/09/19	National Information Technology Center – General Controls Review Fiscal Year 2006				
Total: Office of the Chief Information Officer			2			
Delta Regional Authority						
620990001TE	2006/08/11	Controls Over Issuance of Appropriated Funds by the Delta Regional Authority		\$915,437	\$220,000	
Total: Delta Regional Authority			1	\$915,437	\$220,000	
Farm Service Agency						
030990196KC	2006/04/24	Direct and Counter-Cyclical Program				
030990197KC	2006/09/20	FSA Violation on the Disposition of Non-Fat Dry Milk		\$20,361,521		
036010047TE	2006/09/13	Nonrecourse Marketing Assistance Farm-Stored Loans		\$2,166,996		
Total: Farm Service Agency			3	\$22,528,517		

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES

FROM APRIL 1 THROUGH SEPTEMBER 30, 2006

AUDIT NUMBER	RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
Food and Nutrition Service						
270170002HQ	2006/09/26	DCAA Audit of Mathematica Policy Research Inc.'s FY 2004 Incurred Cost				
270170003HQ	2006/04/06	DCAA Audit of Digital Access Corporation's FY 2003 Incurred Cost				
270990032SF	2006/07/28	Alert Watchlist				
270990061AT	2006/08/30	Monitoring FNS Hurricane Relief Effort				
270990066HY	2006/09/28	Continued Monitoring of EBT Operations				
276010013HY	2006/09/28	FNS Child Nutrition Labeling Program				
276010035CH	2006/07/14	CACFP Supper Program in Schools				
Total: Food and Nutrition Service			7			
Food Safety and Inspection Service						
240050001AT	2006/09/19	FSIS State Operated Inspection Programs		\$1,498,783		\$100,000
246010007CH	2006/09/28	Review of Pathogen Reduction Enforcement Program Sampling Procedures				
Total: Food Safety and Inspection Service			2	\$1,498,783		\$100,000
Forest Service						
080170007HQ	2006/09/26	DCAA Audit of Cowboy Catering Termination for Convenience Settlement Proposal – Forest Service				
086010002HY	2006/06/14	Follow-up on Recommendations Made on Forest Service's Maintenance Backlog				
086010006AT	2006/09/06	Implementation of the Healthy Forests Initiative				
086010045SF	2006/07/03	Follow-up on FS Security over Explosives				
Total: Forest Service			4			

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES

FROM APRIL 1 THROUGH SEPTEMBER 30, 2006

AUDIT NUMBER	RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
Multi-Agency						
500170001HQ	2006/05/31	DCAA Audit of IBM's Federal Cost Accounting Standard 404 – Capitalization of Tangible Assets				
500990045AT	2006/04/01	Monitoring FSA and RMA Implementation of Emergency Relief Programs and Procedures for 2004				
505010007FM	2006/09/29	Fiscal Year 2006 Federal Information Security Management Act Report				
506010009CH	2006/09/28	Effectiveness of Controls over the Bovine Tuberculosis Eradication Program				
506010013TE	2006/07/27	Application Controls over the Processed Commodity Inventory Management System				
Total: Multi-Agency			5			
Natural Resources Conservation Service						
100990005SF	2006/09/05	Farm and Ranch Lands Protection Program in Alabama				\$1,201,438
105010005FM	2006/07/24	NRCS Application Controls – Program Contracts System				
106010003CH	2006/06/12	Improper Payments – Monitoring the Progress of Corrective Actions for High Risk Programs in NRCS				
106010007TE	2006/06/07	NRCS Controls Over Vehicle Maintenance Costs		\$1,285,802		
Total: Natural Resources Conservation Service			4	\$1,285,802		\$1,021,438
Office of the Chief Financial Officer						
114010024FM	2006/09/28	Fiscal Year 2006 – National Finance Center General Controls				

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES

FROM APRIL 1 THROUGH SEPTEMBER 30, 2006

AUDIT NUMBER	RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
114010025FM	2006/09/22	Agreed-Upon Procedures: Retirement, Health Benefits, and Life Insurance Withholdings/Contributions and Supplemental Semiannual Headcount Report Submitted to the Office of Personnel Management FY 2006				
Total: Office of the Chief Financial Officer			2			
Risk Management Agency						
058010003KC	2006/04/25	RMA Financial Management Controls Over Reinsurance Companies				
Total: Risk Management Agency			1			
Rural Business-Cooperative Service						
346010004KC	2006/07/08	RBS Value-Added Agricultural Product Market Development Grants				
Total: Rural Business-Cooperative Service			1			
Rural Development						
850010001HY	2006/04/05	Rural Economic Development Loan and Grant Program – Review of Shenandoah Valley Electric Cooperative's Grant		\$8,000,000		
Total: Rural Development			1	\$8,000,000		
Rural Housing Service						
040990341AT	2006/08/14	Single-Family Housing, Borrower Income Verification Procedures				
046010003AT	2006/09/29	Guaranteed Rural Housing Loan Program Followup				
046010004AT	2006/06/22	Community Facilities Program				
046010012CH	2006/04/14	RRH Loan Prepayment and Restrictive Use Agreements				
046010013CH	2006/09/28	Controls Over Multi-Family Housing Funds Provided for Hurricane Relief Efforts		\$20,282	\$20,282	\$140,275
Total: Rural Housing Service			5	\$20,282	\$20,282	\$140,275

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
FROM APRIL 1 THROUGH SEPTEMBER 30, 2006

AUDIT NUMBER	RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS BE PUT TO BETTER USE
Grand Total:			41	\$34,248,821	\$240,282	\$1,261,713

AUDITS WITHOUT MANAGEMENT DECISION

The Inspector General Act has a number of reporting requirements, among them tracking audits without management decision. The following audits did not have management decisions made within the 6-month limit imposed by Congress. Narratives for new entries follow this table. An asterisk (*) indicates that an audit is pending judicial, legal, or investigative proceedings that must be completed before the agency can act to complete management decisions.

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
NEW SINCE LAST REPORTING PERIOD				
APHIS	01/17/06	1. Implementation of the Listed Agent or Toxin Regulations (Phase II) (33601-3-At)	0	0
CCC	11/09/05	2. Monitoring the Audit of CCC's FY 2005 Financial Statements (06401-20-FM)	0	0
FAS	03/15/06	3. Private Voluntary Organization (PVO) Grant Fund Accountability (07016-1-At)	2,175,876	2,175,876
FNS	10/28/05	4. Monitoring of CACFP Providers in Minnesota (27010-18-Ch)	265,347	265,347
	12/09/05	5. National School Lunch Program Cost-Reimbursable Contracts with a Food Service Management Company (FSMC) (27601-15-KC)	6,126,830	6,126,830
Multiagency	12/08/05	6. Controls Over APHIS Issuance of GEO Release Permits (50601-8-Te)	0	0
	02/08/06	7. Disaster Assistance Payments for CYs 2001 and 2002 (50601-9-Te)	376,699	220,003
RMA	11/09/05	8. RMA Prevented Planting Claims (05099-11-SF)	96,489	96,489
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 Semiannual Reports to Congress. 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.				
APHIS	02/20/03	9. Safeguards To Prevent Entry of Prohibited Pests and Diseases Into the United States (33601-3-Ch)	0	0
	09/30/04	10. Wildlife Services – Aerial Acquisition Procedures (33099-1-KC)	25,208	25,208
	03/31/05	11. Transition and Coordination of Border Inspection Activities Between USDA and DHS (33601-5-Ch)	0	0
	06/23/05	12. Implementation of the Listed Agent or Toxin Regulations (33601-2-At)	0	0
	09/30/05	13. APHIS Animal Care Program Inspection and Enforcement Activities (33002-3-SF)	689,354	291,000
FNS	09/06/01	14. NSLP FSMCs Midwest Region (27601-24-Ch)	3,537,912	236,749
	11/21/01	15. CACFP-Wildwood, Inc. Phase II (27010-6-KC)	36,895,611	36,895,611
FSA	09/30/05	16. Review of Application Controls Automated Price Support Loan Application (03099-195-KC)	0	0
	09/30/05	17. FSA Compliance Activities (03601-12-Ch)	3,741,157	3,741,157
FSIS	06/21/00	18. Implementation of the Hazard Analysis and Critical Control Point System (HACCP) (24001-3-At)	0	0
	09/30/03	19. Oversight of Production Process and Recall at ConAgra Plant (Establishment 969) (24601-2-KC)	0	0
	06/24/05	20. HACCP – Compliance by Very Small Plants (24601-5-At)	0	0

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
Multiagency	09/30/03	21. Implementation of Agricultural Risk Protection Act (50099-12-KC)	0	0
	02/23/04	22. Homeland Security Issues for USDA Grain and Commodities Inventory (50099-13-KC)	0	0
RBS	01/28/02	23. Lender Servicing of Business and Industry (B&I) Guaranteed Loans, Florida (34601-3-At)	1,536,060	1,536,060
	01/10/03	24. Lender Servicing of B&I Guaranteed Loan in Georgia (34601-4-At)	3,766,908	3,706,908
	08/27/03	25. RD – Lender Servicing of B&I Guaranteed Loan in Georgia (34601-5-At)	9,145,549	224,951
	09/29/05	26. Request Audit of B&I Guaranteed Loan in Arkansas (34099-7-Te)	2,502,954	0
RHS	09/28/01	27. RRH Program Insurance Expenses, Phase II (04601-4-KC)	596,665	79,442
	06/26/03	28. RD, RRH Program, Tenant Income Verification – Gainesville, FL (04004-3-At)	7,781,635	3,183,305
	09/30/04	29. RRH Project Costs, Cairo, IL (04099-143-Ch)*	164,000	164,000
	03/23/05	30. Subsidy Payment Accuracy In Multi-Family Housing Programs (04099-339-At)	0	0
RMA	03/15/02	31. Monitoring of RMA's Implementation of Manual 14 Reviews/Quality Control Review System (05099-14-KC)	0	0
RUS	09/30/05	32. Broadband Grant and Loan Programs (09601-4-Te)	340,376,319	30,377,069

AUDITS WITHOUT MANAGEMENT DECISION – NARRATIVE FOR NEW ENTRIES

1. APHIS – Implementation of the Listed Agent or Toxin Regulations (Phase II), (33601-3-At), Issued January 17, 2006

APHIS had not ensured that entities were fully complying with regulations regarding security plans; restricting access to select agents; training individuals authorized to possess, use, or transfer the agents; and maintaining current and accurate inventories. APHIS had not promptly or adequately reviewed required security measures at registered entities, leaving select agents vulnerable to potential theft or misuse. APHIS agreed with the 13 recommendations to strengthen controls over its Select Agent Program, and management decision has been reached for 3 of them. We are awaiting a response from APHIS to address the remaining recommendations.

2. Monitoring the Audit of CCC's FY 2005 Financial Statements (06401-20-FM), Issued November 9, 2005

We continue to work with agency representatives to reach management decision for four remaining open recommendations relating to system user access, updated risk assessment documentation, password compliance, and an integrated financial system.

3. PVO Grant Fund Accountability (07016-1-At), Issued March 15, 2006

Four of the thirteen recommendations remain unresolved. The audit identified \$2.1 million of questioned costs incurred by a PVO and recommended that FAS review the expenditures and recover any misused or unaccounted funds. The FAS Compliance Review Staff prepared an initial report on the projects, which is undergoing review within FAS. A final Compliance Review Staff report and a written FAS determination concerning the recovery of lost or misused funds to address the issues raised in the audit report will be needed to consider management decision. Also, FAS will need to amend its Federal Regulations to

require PVOs to open a local bank account in the host country to deposit program funds and make program disbursements in local currency.

4. CACFP Providers in Minnesota (27010-18-Ch), Issued October 28, 2005

Two of the fourteen recommendations remain unresolved. FNS is working with OGC to resolve an issue related to the composition of CACFP board members because there is a potential conflict between FNS guidance and Minnesota State statutes. In addition, FNS needs to take action to collect \$265,347 in questioned costs.

5. NSLP – Cost-Reimbursable Contracts With an FSMC (27601-15-KC), Issued December 9, 2005

One recommendation remains open. Our audit found that SFAs did not enforce contract provisions that required the FSMC to deduct incentives it received when purchasing food for the schools. We recommended that FNS take action to enforce the contract terms and recover up to \$6 million in purchase incentives due to the SFAs' food service accounts. FNS has agreed to take corrective action and is reviewing the contracts to determine the amount to be reimbursed.

6. Controls Over APHIS Issuance of GEO Release Permits (50601-8-Te), Issued December 8, 2005

Currently, 8 of our reported 28 recommendations remain without management decision. We recommended that APHIS (1) obtain more information on field tests to identify where regulated genetically engineered (GE) crops are planted, as well as the final disposition of high-risk pharmaceutical and industrial harvests; (2) obtain applicants' scientific protocols for conducting field tests and seek legislative authority to require permit applicants to provide proof of financial responsibility in case of an unauthorized release of GE crops; (3) formalize its inspection process and update its regulations; (4) develop a comprehensive tracking system for GE release permits and

notifications; and (5) develop guidance on devitalization deadlines and edible crops. We continue to work with the agency to reach management decision.

7. Disaster Assistance Payments for CYs 2001 and 2002 (50601-9-Te), Issued February 8, 2006

Our review of about \$1.8 million of CY 2001/2002 Crop Disaster Program (CDP) payments in three Texas counties identified improper CDP payments totaling \$261,767 (including \$2,006 in underpayments) and related improper Noninsured Crop Disaster Assistance Program payments totaling \$116,938. The improper payments were generally issued to producers whose applications required special handling, e.g., producers with crop insurance that was based on group risk rather than on verified losses per individual producer, and producers who had production contracts with vendors (under which the producers may not have had title to the crops). Management decision is pending receipt of documentation to support the disposition of improper payments, e.g., whether FSA agrees with and intends to recover the amounts.

8. RMA Prevented Planting Claims (05099-11-SF), Issued November 9, 2005

In California, two insurance providers made improper payments totaling \$96,489 to four cotton producers who were ineligible to receive prevented planting indemnity payments in CY 2003, because the insurance providers did not verify whether the producers were eligible to claim losses due to failure of the irrigation water supply. We recommended that RMA recover the improper payments and that the two insurance providers place the claims adjusters that processed the questioned claims on notice for failure to comply with the policies and procedures in the loss adjustment handbook. Management decision for the four open recommendations is pending receipt and evaluation of the corrective actions proposed by RMA.

INDICTMENTS AND CONVICTIONS

From April 1 through September 30, 2006, OIG completed 127 investigations. We referred 82 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 217 indictments and 181 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 181 convictions do not necessarily relate to the

217 indictments. Fines, recoveries/collections, restitutions, claims established, cost avoidance, and administrative penalties resulting from our investigations totaled about \$78.5 million.

The following is a breakdown, by agency, of indictments and convictions for the reporting period.

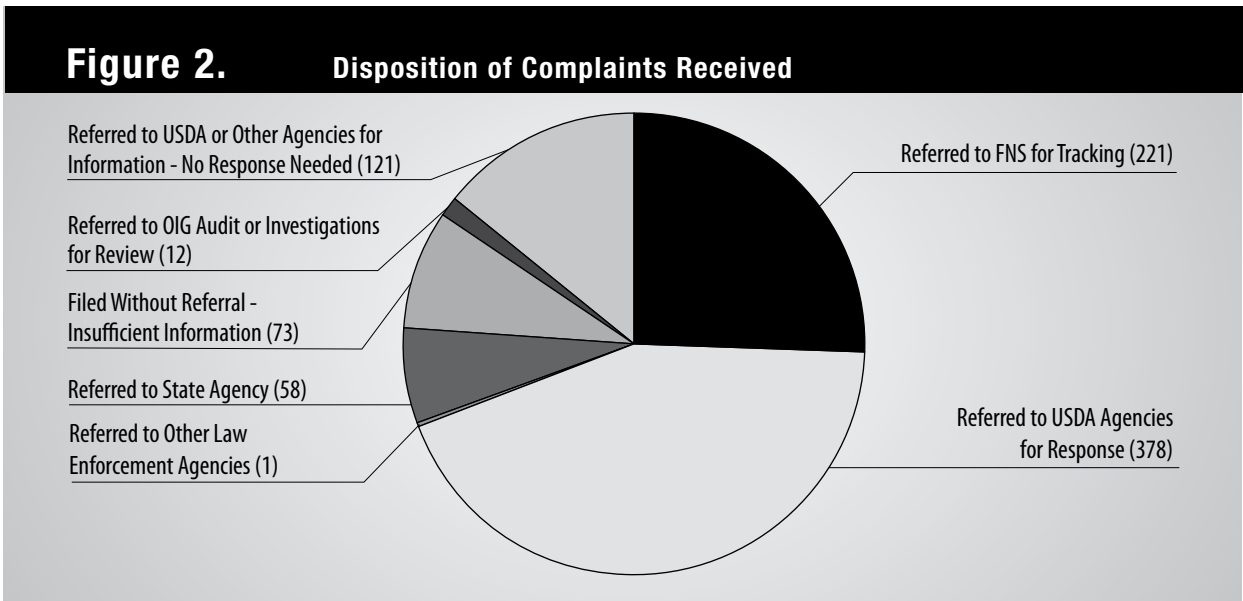
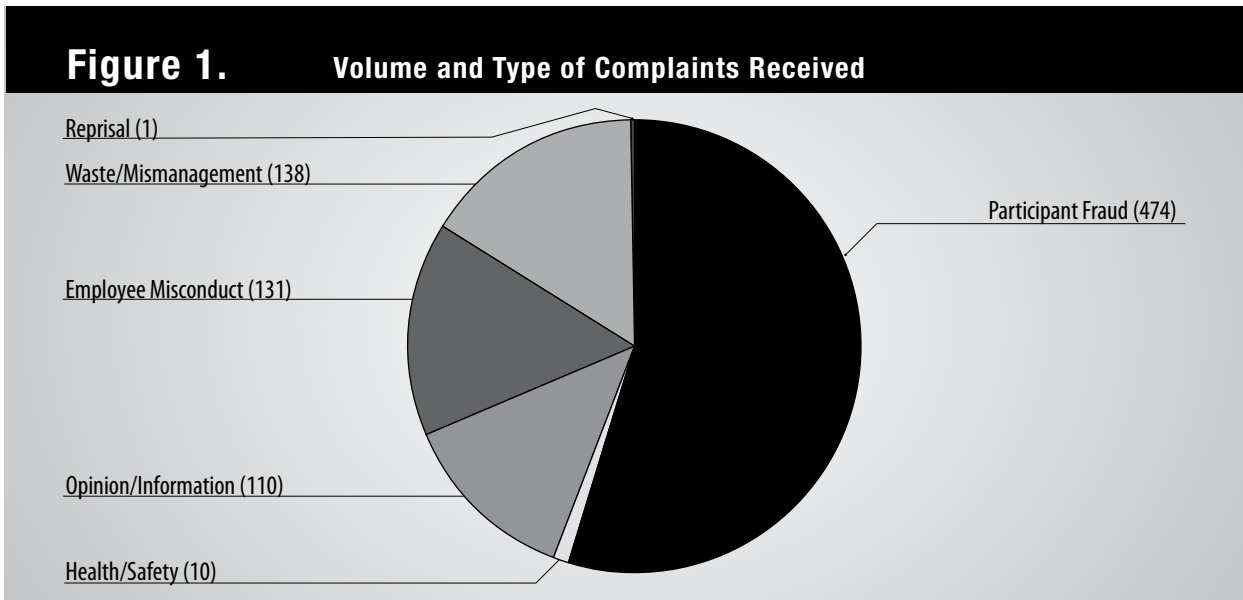
Indictments and Convictions APRIL 1 - SEPTEMBER 30, 2006		
Agency	Indictments	Convictions*
AMS	1	2
APHIS	24	22
ARS	0	1
CSREES	1	1
FNS	131	107
FS	1	2
FSA	34	22
FSIS	6	0
GIPSA	5	1
NASS	0	1
NRCS	0	2
OIG**	0	4
RBS	6	6
RHS	4	5
RMA	2	3
RUS	2	2
Totals	217	181

*This category includes pretrial diversions.
 **Not OIG or USDA employees, but rather one former employee of a contractor who worked for OIG and three terrorism-related subjects.

OFFICE OF INSPECTOR GENERAL HOTLINE

The OIG Hotline serves as a national receiving 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 OIG Hotline received 864 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 the disposition of those complaints.



FREEDOM OF INFORMATION ACT (FOIA) AND PRIVACY ACT (PA)

REQUESTS FOR THE PERIOD APRIL 1
TO SEPTEMBER 30, 2006

Number of FOIA/PA Requests Received	99
Number of FOIA/PA Requests Processed	118
Number Granted	19
Number Partially Granted	45
Number Not Granted	54
Reasons for Denial	
No Records Available	19
Referred to Other Agencies	3
Requests Denied in Full (Exemption 5)	2
Requests Denied in Full (Exemption 7A)	10
Requests Denied in Full (Exemption 7E)	1
Request Withdrawn	9
Fee-Related	0
Not a Proper FOIA Request	1
Not an Agency Record	1
Duplicate Request	4
Other	4
Requests for OIG Reports From Congress and Other Government Agencies	
Received	13
Processed	16
Appeals Received	6
Appeals Processed	12
Appeals Completely Upheld	6
Appeals Partially Reversed	5
Appeals Completely Reversed	0
Appeals Requests Withdrawn	0
Other	1
Number of OIG Reports/Documents Released in Response to Requests	66

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

NOTE 2: During this 6-month period, 26 audit reports were posted to the Internet at the OIG Web site:
<http://www.usda.gov/oig>

Abbreviations of Organizations

AICPA	American Institute of Certified Public Accountants
AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
BLM	Bureau of Land Management
CBP	U.S. Customs and Border Protection
CCC	Commodity Credit Corporation
CR	Office of Civil Rights
CSC	Centralized Service Center
CSREES	Cooperative State Research, Education, and Extension Service
DHS	U.S. Department of Homeland Security
DRA	Delta Regional Authority
FAEC	Federal Audit Executive Council
FAS	Foreign Agricultural Service
FBI	Federal Bureau of Investigation
FCIC	Federal Crop Insurance Corporation
FDIC	Federal Deposit Insurance Corporation
FEMA	Federal Emergency Management Agency
FNS	Food and Nutrition Service
FS	Forest Service
FSA	Farm Service Agency
FSIS	Food Safety and Inspection Service
FSU	Former Soviet Union
GAO	Government Accountability Office
GIPSA	Grain Inspection, Packers and Stockyards Administration

Abbreviations of Organizations	
IRS	Internal Revenue Service
MSU	Mississippi State University
NASS	National Agricultural Statistics Service
NFC	National Finance Center
NIST	National Institute of Standards and Technology
NITC	National Information Technology Center
NRCS	Natural Resources Conservation Service
NSDOI	Nebraska State Department of Insurance
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OGC	Office of the General Counsel
OIG	Office of Inspector General
OJO	Office of Judicial Officer
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSTP	Office of Science and Technology Policy
PCIE	President's Council on Integrity and Efficiency
RBS	Rural Business-Cooperative Service
RD	Rural Development
RHS	Rural Housing Service
RMA	Risk Management Agency
RUS	Rural Utilities Service
USDA	U.S. Department of Agriculture
WFIT	Wildland Fire Investigations Team

EXAMPLES OF PROGRAM IMPROVEMENT RECOMMENDATIONS MANAGEMENT AGREED TO DURING THIS REPORTING PERIOD (186 TOTAL)

- APHIS agreed to provide additional guidance on preparing and responding to HPAI or notifiable AI outbreaks in live bird markets or other “off farm” environments; and finalize interagency coordination on the process and procedures for notifying owners of susceptible animals of the current infectivity risks, and the necessary protective actions they should take when an outbreak of AI occurs.
- FS agreed to assign a high-level official at the Washington office to be responsible for the overall safety and security of the FS’ explosives/munitions program and establish a realistic timeframe for implementing all remaining security recommendations.
- FSIS agreed to (1) strengthen its procedures to ensure that all establishments subject to *Salmonella* testing are identified and included in the testing database, (2) develop a risk assessment to determine which establishments need to be tested for *Salmonella*, and (3) obtain scientific advice to evaluate whether its policy of not testing certain raw ground beef products for *E. coli* O157:H7 contamination should be continued.
- FNS agreed to require (1) the regional offices to revise their management evaluations of State EBT operations to include tests of whether the States conducted proper system access reviews and (2) States to implement a formal process for use during EBT POS equipment replacement that would prevent retailers from fraudulently obtaining equipment.
- RHS’ CSC agreed to conduct a cost-benefit analysis and use a random sample to determine the overall error rate in its universe of payment subsidies.
- ARS agreed to ensure that (1) its collaborators conduct site visits to the FSU institutes annually and that the science centers consistently conduct on-site monitoring of the FSU projects, (2) all quarterly technical reports are submitted and reviewed with timely feedback provided, and (3) program funds are used appropriately and costs incurred are allowable.

MISSION OF OIG

OIG assists USDA by promoting effectiveness and integrity in the hundreds of programs of the Department. 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 three strategic goals:

Support USDA in the enhancement of safety and security measures to protect USDA and agricultural resources and in related public health concerns.

Reduce program vulnerabilities and enhance integrity in the delivery of benefits to individuals.

Increase the efficiency and effectiveness with which USDA manages and employs public assets and resources, including physical and information resources.

