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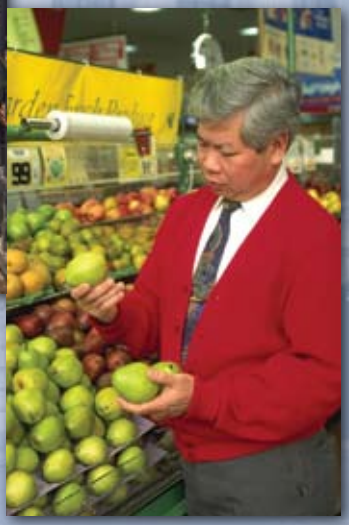


Office of Inspector General

Semiannual Report to Congress

Second Half 2009

April 1, 2009 – September 30, 2009

KEY OIG ACCOMPLISHMENTS IN THIS REPORTING PERIOD

RESULTS IN KEY CATEGORIES

SUMMARY OF AUDIT ACTIVITIES

Reports Issued	
Number of Reports	25
Number of Recommendations	139
Management Decisions Made	
Number of Reports	19
Number of Recommendations	111
Total Dollar Impact (Millions) of Management-Decided Reports	$2.9
Questioned/Unsupported Costs	*$0.2*
Funds To Be Put to Better Use	*$2.7*

SUMMARY OF INVESTIGATIVE ACTIVITIES

Reports Issued	147
Impact of Investigations	
Indictments	289
Convictions	454
Arrests	568
Total Dollar Impact (Millions)	$36.5
Administrative Sanctions	252

OIG MAJOR USDA MANAGEMENT CHALLENGES (August 2009)

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

Related material can be found on pages 1, 4, 7, and 21.

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

Related material can be found on pages 7, 9, 22, 25-26.

3) Continuing Improvements Needed in Information Technology (IT) Security

No work was reported during this period.

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

Related material can be found on page 5.

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

No work was reported during this period.

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

Related material can be found on pages 1-2, 16.

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

Related material can be found on page 20-21.

8) Improved Controls Needed for Food Safety Inspection Systems

Related material can be found on page 1-2.

9) Implementation of Renewable Energy Programs at USDA

No work was reported during this period.

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

Related material can be found on pages 12-15 and 26.

Message From the Inspector General

I am pleased to provide the Semiannual Report to Congress for the Office of Inspector General (OIG), U.S. Department of Agriculture, (USDA), for the 6-month period ending September 30, 2009. OIG has been proactive in providing oversight to USDA programs, particularly the new economic recovery programs funded under the American Recovery and Reinvestment Act of 2009 (Recovery Act). During fiscal year (FY) 2009, OIG initiated 31 Recovery Act audits, completed 2, and issued 16 *fast reports*—quick turnaround reports intended to alert management to immediate issues. We have 29 Recovery Act projects planned for FY 2010. OIG's investigation program has focused on enhancing fraud awareness among USDA employees and clients.

This report summarizes the most significant OIG activities during the period, organized according to our strategic goals:

- **Safety, Security, and Public Health**—Our audits found that (1) the Food Safety and Inspection Service (FSIS) could strengthen its oversight by analyzing the reasons why foreign countries have rejected shipments of U.S. beef products when these products are presented for re-entry into the United States, and (2) the Natural Resources Conservation Service (NRCS) needs to place more emphasis on the rehabilitation of high-hazard dams. Our investigative work resulted in sentencings for food tampering, smuggling, animal fighting, and forgery.
- **Integrity of Benefits**—An audit disclosed that payments were made improperly in the Environmental Quality Incentives Program. In addition, we found a number of weaknesses in the Rural Development and Farm Service Agency Recovery Act programs. A number of sentencings were obtained after our investigations in the farm, crop insurance, and feeding programs.
- **Management Improvement Initiatives**—Our audit work found that the Forest Service (FS) needs to strengthen its case for new firefighting aircraft. Our investigations obtained sentencings for theft of Government funds, embezzlement, and illegally buying and selling prescription drugs.
- **Stewardship Over Natural Resources**—An audit concluded that management control weaknesses jeopardized the NRCS' goal of using the Conservation Security Program (CSP) to reward those meeting the highest standards of conservation and environmental management in their operations. We also found risks in the NRCS and FS Recovery Act programs.

During the reporting period, we conducted successful investigations and audits that led to 568 arrests, 454 convictions, $36.4 million in recoveries and restitutions, 115 program improvement recommendations, and $2.9 million in financial recommendations.

These monetary and program improvement results would not have been possible without the strong commitment of Secretary Tom Vilsack, Deputy Secretary Kathleen Merrigan, and the Congress to ensure that USDA programs are delivered effectively and with integrity. Their continuing interest, support, and trust are vital to our success.

Phyllis K. Fong

Inspector General

Contents

Safety, Security, and Public Health

OIG Strategic Goal 1:

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

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

In the second half of FY 2009, we devoted 19 percent of our total direct resources to Goal 1, with 99.5 percent of these resources assigned to critical/high-impact work. A total of 96.7 percent of our audit recommendations under Goal 1 resulted in management decision within 1 year, and 47.4 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued 4 audit reports under Goal 1 during this reporting period and a total of 7 during the full fiscal year. OIG's investigations under Goal 1 yielded 103 indictments, 305 convictions, and about $1.1 million in monetary results during this reporting period and a total of 204 indictments, 361 convictions, and about $2.8 million in monetary results during the full fiscal year.

Management Challenges Addressed UNDER GOAL 1

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 2, 3, and 4)
- Continuing Improvements Needed in Information Technology (IT) Security (also under Goal 3)
- Departmental Efforts and Initiatives in Homeland Security Need To Be Maintained
- USDA Needs To Develop a Proactive, Integrated Strategy To Assist American Producers To Meet the Global Trade Challenge (also under Goal 3)
- Better Forest Service Management and Community Action Needed To Improve the Health of the National Forests and Reduce the Cost of Fighting Fires (also under Goals 3 and 4)
- Improved Controls Needed for Food Safety Inspection Systems

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 1

Food Safety and Inspection Service (FSIS) Oversight of the Export Process Needs Improvement

The Chairman of the Senate Budget Committee asked OIG to assess FSIS' export certification process because of concerns over the trade impact of exported U.S. beef product rejected by foreign countries. We determined that FSIS had identified and addressed concerns with the requirements imposed by the foreign countries. We also evaluated the Agricultural Marketing Service's (AMS) and FSIS' implementation of OIG audit recommendations made in 2006. We concluded that AMS and FSIS had adequately implemented five of the six prior recommendations to improve the oversight of export activities. For the sixth recommendation, FSIS updated guidance provided to supervisors as its corrective action; however, the agency must ensure that supervisors implement this guidance by thoroughly assessing the export duties of inspection personnel. In addition, FSIS could further strengthen its oversight by analyzing the reasons why foreign countries have rejected U.S. beef products when these products are presented for re-entry into the United States. FSIS agreed with our findings and recommendations. (Audit Report No. 50601-06-Hy, Assessment of USDA's Controls To Ensure Compliance With Beef Export Requirements)

FSIS Has Strengthened Its Process For Evaluating the Success of Product Recalls, But Improvements Are Still Needed

In response to prior OIG audits, FSIS made improvements to the process by which agency officials assess the effectiveness of

product recalls. However, our audit of FSIS' efforts to evaluate a large ground beef recall in 2008, totaling over 143 million pounds, showed that FSIS still needed to take additional actions. FSIS evaluates a recall's success by following up with customers of the company affected by the recall and subsequent customers throughout the distribution chain; but FSIS had no national guidance to replace sampled customers who were found not to have actually purchased any of the recalled product. In the case of this recall, 41 percent of the companies FSIS contacted had not received the recalled product and were not usable in evaluating the recall. Accurate customer sampling is necessary since FSIS depends on statistical projections to support its conclusions in these reviews. FSIS also needed to create a written process, to be followed by all of its district offices nationwide, to ensure that they all follow a standardized and statistically-valid process for evaluating recalls.

FSIS agreed with our recommendations to develop a written nationwide process to be followed by all FSIS field units that will eliminate duplicate companies from its selection list, replace sampled companies who did not receive recalled product, and describe the circumstances under which a statistician needs to be consulted during the recall effectiveness checks process. (Audit Report No. 24601-10-Hy, Oversight of the Recall by Hallmark/Westland Meat Packing Company)

Georgia Man Sentenced to 100 Years for Aggravated Assault and Child Cruelty for Poisoning His Children

In an investigation previously reported, a Stockbridge, Georgia, man was sentenced to 60 months of imprisonment and 36 months of probation in April 2007 after he pled guilty in Federal court to food tampering. On three occasions, the man claimed that his two young children had been harmed by eating contaminated soup. The younger child, who was 18 months old, had to be airlifted to an Atlanta hospital for critical care. A sample of the soup submitted to a Food and Drug Administration (FDA) laboratory for analysis tested positive for Prozac and other antidepressants. The investigation revealed that the father was responsible for contaminating the soup. In May 2009, the man was tried on aggravated assault and child cruelty charges by the Clayton County District Attorney's Office. He was sentenced in Clayton County Superior Court to 100 years in prison. This investigation was conducted jointly with FSIS; the Clayton County, Georgia, Police Department; and the FDA.

Washington Man Sentenced for False Communication Regarding Tampering With a Consumer Product and False Statements to a Federal Law Enforcement Officer

In June 2009, a Federal judge sentenced a Federal Way, Washington, man to 1 year of probation after he was found guilty in January 2009, following a 4-day jury trial, of making a false communication regarding tampering with a consumer product and providing a false statement to a Federal law enforcement officer. The man made a telephone threat to a grocery store claiming that he had tampered with food product by injecting rat poison into ham products intended for sale to the public. The man was upset at the grocery store for having wrongly accused him of shoplifting meat product from the store. FSIS officials detained 824 packages of various meat products, weighing approximately 795 pounds, which were present on the store shelves at the time of the alleged tampering. The detained meat products were disposed of, and no known consumer illnesses were reported from this event.

California Man Sentenced for Smuggling Duck Products

In August 2009, the owner of a California seafood trading company was sentenced to 3 years of probation, forfeited $34,712, and was ordered to pay a $3,000 fine by a Federal court in the Central District of California. In August 2002, USDA inspectors went to an import company and observed a sea cargo container being delivered. Even though the owner of the company said the container held only seafood, a subsequent inspection of the container revealed 45 cases of undeclared, prohibited duck feet from Vietnam. In January 2009, the owner was charged with smuggling, false statements, and prohibited acts pertaining to adulterated product. The owner pled guilty to the three counts in May 2009.

Major Animal Fighting Criminal Enterprise Disrupted in Virginia

An extensive investigation of illegal cockfighting in Virginia resulted in the successful Federal prosecution of numerous individuals. The investigation first focused on four individuals who owned, operated, or supported a sportsman's club that hosted illegal cockfights almost weekly in a building outfitted for cockfighting. Participants throughout the East Coast brought their fighting birds, paid entry fees, and illegally

gambled on the outcomes of the fights. The then-sheriff of Page County accepted campaign contributions to protect the club from raids by law enforcement.

A caged ring where cockfights were held. OIG photo.

The Federal Bureau of Investigation (FBI) and the Internal Revenue Service-Criminal Investigation (IRS-CI) developed evidence of money laundering, failure to pay taxes, and corrupt practices by the then-sheriff. A game bird association that lobbied to make cockfighting a legal sport and its president were prosecuted for violating Federal campaign contribution laws by hiding the true source of contributions.

In August 2009, the owner of the sportsman's club was sentenced to 16 months in prison and forfeiture of $100,000; its manager was sentenced to 18 months in prison and a $1,000 fine; and two other individuals who supported the club were sentenced to 6 months in prison and home confinement and probation, along with $5,750 in fines. The game bird association forfeited approximately $13,000, and its president was fined $7,500. In October 2008, the sheriff was suspended from his duties after his indictment and arrest and then resigned in February 2009. In August 2009, the former sheriff pled guilty to a racketeering charge, misusing inmate labor for personal gain, and obstruction of justice by intimidating witnesses. His sentence is pending.

Florida Company Sentenced and Ordered to Pay $475,000 for Conspiracy to Ship Contaminated Food

A joint investigation by OIG, USDA's Animal and Plant Health Inspection Service-Investigative and Enforcement Services (APHIS-IES), and the Department of Homeland Security's (DHS) Immigration and Customs Enforcement (ICE) determined that a company in Florida conspired with three growers in Guatemala to ship into the United States snow peas and sugar snap peas that were contaminated with hazardous levels of pesticides. In May 2008, the corporation and seven individuals were charged in the Southern District of Florida with conspiracy, false statements, smuggling, and obstruction of justice. In December 2008, the corporation and the corporate president pled guilty to conspiracy charges. In April 2009, the corporation was sentenced to 5 years of probation, fined $100,000, and ordered to pay $375,000 in criminal forfeiture. The corporate president was sentenced to 3 years of probation, including 9 months of home confinement; a $10,000 criminal fine; and $375,000 in criminal forfeiture. Three employees also pled guilty and were sentenced to probation during this reporting period.

California Man Convicted of Forgery

In March 2009, a San Clemente, California, man pled guilty to one count of forgery and was sentenced to 18 months of probation and 60 hours of community service, fined $593, and ordered to attend 4 hours of business ethics courses by the Superior Court of California, County of San Diego. The man, who was the chief operating officer for an export company, submitted a fraudulent certificate of conformance in order to obtain a European Union (EU) health certificate, which enabled the company to bypass the EU certification process and export whey protein product to a firm located in Larnaca, Cyprus.

Controls Needed To Ensure APHIS Pilots Do Not Pose Security Risks

We found that APHIS had sufficient controls to ensure that its pilots were qualified and trained to fly agency missions but had not implemented policies and procedures necessary for providing assurance that its pilots do not pose security risks. APHIS improperly classified its employee and contract pilots, assigning them to a lower risk designation than pilots in other USDA aviation programs. In addition, not all of APHIS' employee and contracted pilots received the background investigations commensurate with this classification. APHIS officials were not aware of specific departmental guidance recommending that the agency upgrade the risk sensitivity designations given to its pilots, and APHIS did not monitor and ensure that it initiated the background investigations for

all its employee pilots. In addition, APHIS did not require its contracted pilots flying missions in the United States to undergo background investigations. In response to our audit, APHIS has taken prompt corrective action to complete background investigations for all of its employee pilots. In addition, APHIS began requiring background investigations for its contracted pilots after our review started, and it is requesting contract language to require the contract pilots to pass a low-risk-level background investigation. APHIS agreed with our findings and recommendations. (Audit Report No. 33099-8-KC, APHIS Controls Over Pilot Qualification and Suitability)

Emphasis Needed on the Rehabilitation of High-Hazard Dams

Our audit disclosed that NRCS needs to place more emphasis on the rehabilitation of high-hazard dams. Since the 1940s, NRCS has assisted in the construction of more than 11,000 dams, many of which may be in need of rehabilitation. From FY 2002 to FY 2007, Congress appropriated $159.6 million to assist dam owners in rehabilitating "structures determined to be of high-priority need in order to protect property and ensure public safety." We found that NRCS lacks regulatory authority and cannot compel owners to take any particular action, even in the case of a dangerous high-hazard dam. State dam agencies do have such regulatory authority, and Congress specifically required NRCS to work with them, but NRCS did not always do so and instead selected dams for assessment as they were volunteered by their owners, regardless of a dam's hazard class or its proximity to the end of its planned design life.

In the 6 years of the program, NRCS has not assessed 1,345 of 1,711 high-hazard dams (79 percent) but has spent $10.1 million to assess and rehabilitate low- or significant-hazard dams, where failures would not likely result in loss of human life. OIG maintains that this allocation of resources does not conform to Congress' mandate, nor is it in the public's best interest.

NRCS agreed to develop cooperative relationships with the State agencies responsible for regulating dams so that the Federal-State partnership can work together to ensure the rehabilitation of dams that threaten public safety. NCRS will notify Congress if any high-hazard dams in need of rehabilitation are not rehabilitated due to limitations in the program. (Audit Report No. 10601-1-At, Rehabilitation of Flood Control Dams)

GOVERNMENTWIDE ACTIVITIES—GOAL 1

Participation on Committees, Working Groups, and Task Forces

- An OIG Special Agent is assigned full-time to the FBI's National Joint Terrorism Task Force (NJTTF). The agent attends NJTTF threat briefings and provides a variety of products related to terrorist intelligence to OIG and other agencies and offices within the Department. OIG Special Agents nationwide maintain liaison with the FBI's local Joint Terrorism Task Forces. OIG's participation on the NJTTF has provided an excellent conduit for sharing critical law enforcement intelligence. It has also broadened the FBI's knowledge and that of other law enforcement agencies with regard to conducting criminal investigations connected to the food and agriculture sector.
- OIG's Emergency Response Team (ERT) continues to participate on the FBI's Joint Interagency Agroterrorism Working Group. The overall goal of the working group is to develop protocols and processes among the FBI, APHIS, and OIG that are needed to facilitate a coordinated interagency response to an agroterrorism event. In addition, to enhance its operational experience, the ERT participates in numerous multiagency scenario-based exercises throughout the country.

ONGOING AND PLANNED REVIEWS FOR GOAL 1

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

- oversight of the National Organic Program (Agricultural Marketing Service (AMS)),
- followup of the National Organic Program as mandated in FY 2010 appropriations (AMS),
- implementation of country of origin labeling (AMS),
- National Residue Program for cattle (FSIS),
- evaluation of food emergency response network capabilities (FSIS),
- followup on 2007 and 2008 audit initiatives (FSIS),
- evaluation of the changes to the Salmonella Verification Testing Program (FSIS),
- in-commerce surveillance activities (FSIS),
- State inspection programs (FSIS),
- controls over the voluntary inspection of slaughtered bison (FSIS),
- temporary approval of food labeling for meat, poultry and egg products (FSIS),
- assessment of inspection personnel shortages in processing establishments (FSIS),
- implementation of inspection procedures for catfish (FSIS),
- methicillin resistant *staphylococcus aureus* in meat (FSIS),
- risk based sampling and testing for *E. Coli* (FSIS),
- food defense verification procedures (FSIS),
- effectiveness of the safeguarding intervention and trade compliance units controls to identify and prevent unauthorized entry of prohibited products (APHIS),
- followup on APHIS evaluation of the implementation of select agent or toxic regulations (APHIS),
- oversight of designated qualified persons enforcing the Horse Protection Act (APHIS),
- licensing of animal exhibitors (APHIS),
- controls over animal import centers (APHIS),
- animal care inspections of breeders (APHIS) ,
- evaluation of the national animal health laboratory network (APHIS),
- USDA emergency response plan for foot and mouth disease (APHIS),
- USDA national plant diagnostic network (APHIS),
- USDA Homeland Security Initiative in the 2008 Farm Bill (Office of Homeland Security and Emergency Coordination (OHSEC)),
- review of Forest Service (FS) firefighting succession plans, and
- followup on prior firefighter safety audits (FS).

ONGOING AND PLANNED REVIEWS FOR GOAL 1 UNDER ARRA "RECOVERY ACT" FUNDS

- implementation of flood control dams rehabilitation, phase II (Natural Resources Conservation Service (NRCS)).

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

OIG Strategic Goal 2:

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

OIG conducts audits and investigations to ensure or restore integrity in the various benefit and entitlement programs of USDA, including a variety of programs that provide payments directly and indirectly to individuals or entities. The size of these programs is daunting: the Supplemental Nutrition Assistance Program (SNAP) alone accounts for approximately $40 billion in benefits annually, while well over $20 billion annually is spent on USDA farm programs. Intended beneficiaries of these programs include the working poor, hurricane and other disaster victims, and schoolchildren, as well as farmers and producers. These programs support nutrition, farm production, and rural development.

Under the American Recovery and Reinvestment Act of 2009 (Recovery Act), enacted in February 2009, USDA has received $28 billion in funding in a number of areas, including farm loans, watershed programs, supplemental nutrition assistance, wildland fire management, and several rural development programs (such as rural housing, rural business, water and waste disposal, and broadband). The Recovery Act also provided OIG with $22.5 million (to remain available until September 30, 2013) for "oversight and audit of programs, grants, and activities funded by this Act and administered by the Department of Agriculture." OIG began working immediately with USDA and the IG community, as well as the Government Accountability Office (GAO) and the Recovery Accountability and Transparency Board, to carry out oversight responsibilities. Our Recovery Act oversight plan includes proactive, short-term, and long-term audit and investigative work, and can be found on our Web site at http://www.usda.gov/oig/recovery/OIGSTIMULUSPLAN.pdf. For our FY 09 audit oversight, we initiated 31 projects, completed 2, and issued 16 *fast reports* (quick turnaround reports intended to alert management to immediate Recovery Act issues). We have 29 Recovery Act projects planned for FY 2010. The completed reports and *fast reports* reviewed development of USDA agency program guidance and requirements, internal controls, eligibility criteria, and USDA compliance activities related to Recovery Act requirements. We plan to continue that effort in FY 2010. For our investigative efforts, we have been enhancing fraud awareness among USDA employees and clients through increasing the number of fraud awareness briefings that we conduct and by publishing literature and distributing hotline posters on our investigative mission and avenues for reporting fraud related to Recovery Act funding.

In the second half of FY 2009, we devoted 47 percent of our total direct resources to Goal 2, with 92 percent of these resources assigned to critical/high-impact work. A total of 95.2 percent of our audit recommendations under Goal 2 resulted in management decision within 1 year, and 77.8 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued 7 audit reports under Goal 2 during this reporting period and a total of 14 during the full fiscal year. OIG's investigations under Goal 2 yielded 179 indictments, 146 convictions, and about $35.2 million in monetary results during this reporting period and a total of 297 indictments, 298 convictions, and about $80.1 million in monetary results during the full fiscal year.

Management Challenges Addressed UNDER GOAL 2

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

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 2

Misapplication of Adjusted Gross Income (AGI) Provisions Caused Improper Payments

Our audit found that misapplication of AGI provisions and an automated system design flaw caused improper payments in a conservation program. The AGI provisions of the 2002 Farm Bill limited the eligibility of participants for USDA commodity

and conservation program benefits. NRCS applies Farm Service Agency (FSA) AGI eligibility decisions to exclude ineligible program participants. We found that NRCS, in implementing the AGI provisions in the Environmental Quality Incentives Program (EQIP) in FY 2005, made improper payments to entities or joint operations with ineligible members, because the agency did not exclude ineligible program participants. Specifically, NRCS was not reducing benefits by an amount commensurate with the ownership interest of the members who exceeded the AGI limit. Instead, believing that it was following FSA's lead, NRCS reduced the payment cap, which sometimes had no effect on the actual payment. However, FSA was reducing program *payments*, not payment caps. Our work identified more than $1 million in improper payments to participants in FY 2005 due to this misapplication.

During our audit fieldwork, NRCS issued policy and guidance on AGI and commensurate payment reduction; implemented automated internal controls within its program contracting software to validate future participants' AGI eligibility and reduce payments commensurately; and agreed to seek cost recovery for participants unable or unwilling to substantiate AGI eligibility. Because many of the improper payments resulted from an administrative error, collection by NRCS is doubtful. With the agency on schedule to implement all these changes by October 2009, we made no recommendations. (Audit Report No. 50099-52-Te, Review of AGI Limitation)

Rural Housing Service (RHS) Needs To Strengthen Controls Over Lender Activities in the Single-Family Housing (SFH) Guaranteed Loan Program

Our audit found that mortgage lenders participating in RHS' SFH Guaranteed Loan Program could submit false borrower eligibility documents with little risk of detection by agency staff. This could occur because the agency does not verify information with an independent source—for example, verifying income with employers—but instead relies on the lenders' internal quality control (QC) reviews. However, lenders' QC reviews were deficient because their plans were generally either inadequate or not fully adhered to by lenders, which could lead to loans made to ineligible borrowers. For example, an OIG investigation that RHS requested in one State uncovered that the agency's portfolio included 46 guaranteed loans made to ineligible borrowers, 33 which have already defaulted, resulting in avoidable loss claim payouts of more than $1.75 million. Our audit also found that 4 of 6 lenders in our sample had set interest rates too high for 11 of the 123 loans we reviewed, primarily due to the agency's lack of oversight. Consequently, some of the 246,000 low- to moderate-income borrowers with loans guaranteed by the agency may be paying unnecessary interest to lenders. The 11 borrowers in our sample could be paying more than $77,000 in excessive interest over the course of their 30-year loans.

RHS agreed to develop specific minimum requirements for lenders' QC processes, monitor lenders' compliance with the QC requirements, and establish procedures for field staff to verify that lenders set interest rates in accordance with agency guidelines before issuing loan guarantees. (Audit Report No. 04601-17-Ch, Controls Over Lender Activities in the SFH Guaranteed Loan Program)

Management Company Failed To Comply With Program Requirements

In response to a request by the Texas State Rural Development (RD) Office, our audit found that the management company operating in Oklahoma and Texas had overcharged its housing projects—apartment complexes that are subsidized under the Rural Rental Housing (RRH) program—a total of $44,158, including $4,692 in late fees, $4,200 for an unauthorized truck lease, and $35,266 in excess costs for appliances that were purchased at prices from 13 to 57 percent above wholesale from a company owned by one of its employees. The management company also was not complying with Federal regulations regarding the number of tenants who may live in apartments of various sizes. In addition, the management company was not adequately maintaining the projects, which resulted in numerous health and safety violations at certain projects.

The Oklahoma and Texas State RD offices agreed to take appropriate corrective action to remedy identified problems, such as withdrawing RD's approval for the management company to manage the projects. They also agreed to reimburse the excess charges, make reserve accounts current, and take other actions to more closely monitor vacancy and occupancy rates and ensure projects are adequately maintained to meet health and safety requirements. (Audit Report No. 04099-211-Te, Request Audit of Oklahoma RRH Management Company)

Borrower Failed To Comply With Federal Regulations by Not Disclosing an Identity-of-Interest Subcontractor

In response to another request by the Texas State RD Office, our audit found that a single borrower with three multi-family housing projects in west Texas had failed to properly disclose an identity-of-interest relationship with one of the subcontractors. The borrower believed that, because an identity of interest in the subcontractor's parent company had been disclosed, everything would be fully disclosed at the time of the cost certification. As a result, at least $83,000 was paid to the subcontractor with the undisclosed identity of interest. RD agreed to obtain a certification of the actual cost of construction from an independent certified public accountant that has not acted as the borrower's accountant and then make a determination whether further action is warranted on the borrower, such as suspension and debarment. (Audit Report No. 04099-212-Te, Multi-Family Housing Loans in Texas)

Controls Over Tobacco Transition Payment Program (TTPP) Payments to Producers Are Adequate To Ensure Compliance With Program Regulations

TTPP provides annual transitional payments totaling approximately $3.3 billion over 10 years to eligible tobacco producers. We reviewed a sample of 200 approved producer contracts to determine if FSA's controls over TTPP payments to producers were adequate. We obtained and analyzed contract supporting documentation relating to producer eligibility, farm eligibility, TTPP quota and payment calculations, FSA county office second-party reviews, and FSA district director spot-check reviews. We concluded that the internal controls implemented by FSA are adequate to ensure that payments are issued only to eligible tobacco producers and that producer payments are calculated in accordance with the regulations. As such, we made no recommendations for corrective action in this report. (Audit Report No. 03601-16-At, FSA Controls Over TTPP Payments to Producers)

Florida Farm Corporation and Producer Sentenced in Crop Insurance Scheme

A joint investigation by OIG, USDA's Risk Management Agency-Special Investigations Branch (RMA-SIB), and IRS-CI disclosed that a Florida corporation received more than $1 million in fraudulent crop insurance payments from July 2001 to June 2004. The corporation falsely claimed crop losses when its pepper crops had actually been harvested and sold for cash. In October 2008, in Federal court for the Middle District of Florida, the corporation was charged with wire fraud and the producer was charged with filing a false tax return for the 2004 tax year. In March 2009, the corporation was sentenced in Federal court to 60 months of probation and was ordered to pay restitution of $1.1 million. The producer was sentenced to 3 months in prison and 3 months of home confinement, followed by 1 year of probation. She also paid $1.564 million in taxes, fines, and penalties.

Florida Farm Corporation Sentenced and Ordered to Pay $402,000 in Restitution and Forfeit $402,000 in Crop Insurance Scheme

Another joint OIG investigation determined that a different Florida farm corporation had received more than $402,000 in fraudulent crop insurance payments from July 2001 through June 2003. The corporation falsely claimed crop losses when it in fact had harvested and sold its strawberry and pepper crops for cash. After pleading guilty to wire fraud, in April 2009 the corporation was sentenced by a Federal court in the Middle District of Florida to 5 years of probation and was ordered to pay $402,000 in restitution and forfeit $402,000. Two producers were also convicted and sentenced to 3 years of probation for filing a false tax return. The investigation was conducted jointly with IRS-CI and RMA-SIB.

Joint Investigation Results in Illinois Farmer Sentenced for False Statements and Bankruptcy Fraud

A joint investigation involving OIG, the FBI, and the U.S. Postal Inspection Service found that a Carlyle, Illinois, farmer made false statements to obtain 2007 farm program payments on land he no longer owned and conspired with his wife to commit bankruptcy fraud of at least $2.5 million. In November 2008, the farmer and his wife each pled guilty to committing perjury, making false statements, and committing bankruptcy fraud. He was sentenced in April 2009 by a Federal court in Illinois to serve 10 years in Federal prison followed by 36 months of supervised release. His wife was sentenced to serve 24 months of probation.

Former Montana State Committee Chairman Agrees to a $275,000 Settlement for Defrauding FSA

A former Montana FSA State Committee Chairman agreed to pay $275,000 and to step down as State Committee Chairman in order to avoid the filing of a lawsuit under the False Claims Act as a result of illegal payments he received for crop subsidies. From 1986 to 2006, the State Committee Chairman conspired with an FSA employee to create a fictitious farming partnership and submitted false documents to FSA in order to avoid payment limitation provisions. As a result, he received more than $773,000 in farm program funds to which he otherwise would not have been entitled.

Iowa Man Sentenced Following Guilty Plea for Conversion of Mortgaged Property

As reported in the SARC for the first half of FY 2009, an Elkader, Iowa, producer admitted that he sold approximately 19,315 bushels of Commodity Credit Corporation (CCC)-mortgaged corn and failed to notify FSA or to provide any of the sales proceeds to FSA. The producer split the sales proceeds with his son. In November 2008, the producer was indicted in Federal District Court for the Northern District of Iowa for conversion of the mortgaged grain and subsequently pled guilty. In June 2009, he was sentenced to serve 5 months in Federal prison, followed by 3 years of probation, and was ordered to pay $38,517 in restitution to FSA.

Farm and Ranch Lands Protection Program (FRPP) Review of Non-Governmental Organizations (NGOs)

After our June 2005 audit determined that an Alabama NGO was abusing NRCS' FRPP, we assessed whether the problem was more widespread and found that NRCS has not implemented an effective management control system to monitor NGOs' compliance with program rules and ensure that landowners are treated equitably. In general, NRCS assumed that participating NGOs would follow the rules, instead of taking steps to ensure that they did. We found two problems. First, an NGO used landowner funds to pay its share of the purchase price for its four FRPP easements, in violation of program regulations. Second, NGOs varied widely in both the types and amounts of costs landowners were asked to pay. While NGOs may solicit donations from landowners for costs associated with procuring and maintaining easements (such as stewardship or appraisal costs), some landowners paid nothing, yet one paid over $150,000. We concluded that NRCS should establish standards for the types and amounts of costs NGOs can pass on to landowners.

OIG has referred for prosecution the one NGO that used landowner funds to pay its share of the purchase price for its four easements. NRCS generally agreed with our findings and is taking steps to improve its controls over NGOs and FRPP easements. (Audit Report No. 10099-6-SF, NRCS' FRPP–Review of NGOs)

Operation Talon Update

OIG began Operation Talon in 1997 to locate and apprehend fugitives, many of them violent offenders, who are current or former food stamp (now SNAP) recipients. As of September 30, 2009, Operation Talon had resulted in 14,645 arrests of fugitive felons during joint OIG-State and local law enforcement operations. During this reporting period, OIG agents conducted Talon operations in 5 States, making a total of 264 arrests. OIG combined forces with Federal, State, and local law enforcement agencies to arrest 77 fugitives in Missouri, 50 in Tennessee, 110 in Massachusetts, 23 in Oregon, and 4 in Indiana for offenses including arson, assault, burglary, motor vehicle theft, assorted drug charges, robbery, fraud, forgery, driving under the influence, extortion and blackmail, sex offenses, offenses against family and children, larceny, stolen property, weapons violations, and other offenses.

SNAP Offenses and SNAP-Related Offenses Result in Significant Prison Sentences and Monetary Results

- An OIG investigation conducted with IRS-CI revealed that an unauthorized person who posed as the owner of a small grocery store in Chicago was involved in a SNAP benefit trafficking scheme from August 1, 2000, through November 1, 2000. The fraud of approximately $1.1 million involved the illegal exchange of SNAP benefits for discounted amounts of cash. The unauthorized person pled guilty to wire fraud in connection with the SNAP benefit trafficking scheme in December 2007. During the investigation, the unauthorized person admitted that he used the profits he made from SNAP benefit trafficking to fund an international pseudoephedrine trafficking and distribution scheme, for which he was indicted in April 2003 and pled guilty in August 2007. In April 2009, the unauthorized person was sentenced to 31 months of incarceration followed by 3 years of probation and was ordered to pay over $1.1 million in

restitution. He was further ordered to cooperate with ICE in his deportation at the end of his sentence, to not re-enter the United States without the consent of the Secretary of Homeland Security, and to participate in mental health treatment for his gambling addiction.

- In another Chicago investigation, our work determined that two Chicago-area grocers conspired to open convenience stores with the implicit purpose of illegally purchasing SNAP benefits. For 10 months, the individuals purchased in excess of $2.1 million in benefits from recipients while reporting only $834,000 in food sales. One of the co-conspirators pled guilty to felony charges and was sentenced in United States District Court, Northern District of Illinois, to 21 months of incarceration, 2 years of supervised release, and $2.1 million in restitution. The other store owner pled guilty to felony charges and sentencing is pending.
- An OIG investigation conducted with IRS-CI disclosed that a married couple who owned a store in Detroit committed nearly $1.3 million in SNAP fraud over a 2-year period by illegally exchanging SNAP benefits for cash, alcohol, and other ineligible items. In May 2009, the husband and wife were sentenced to 36 months of imprisonment and 30 months of imprisonment, respectively; $1.2 million in restitution; and criminal forfeiture of $90,000.
- A joint investigation with the U.S. Secret Service, Florida Department of Law Enforcement, and the Pinellas County Sheriff's Office resulted in the conviction of a store manager for electronic benefits transfer (EBT) fraud and wire fraud. Charges were filed in October 2008 in the Middle District of Florida. In March 2009, the store manager pled guilty to EBT fraud and wire fraud. In July 2009, he was sentenced in Federal court to 21 months in prison and 3 years of probation. Restitution was ordered at $390,000. A forfeiture money judgment was ordered for that same amount. In addition, the State Attorney's Office agreed to prosecute EBT clients who had trafficked at the store in amounts over $500. Approximately 74 EBT clients have been charged with fraud so far.
- Beginning in 2005, approximately 340 stores were victimized in a scheme that used New York-issued SNAP EBT cards to process fraudulent SNAP credits and debits, including 29 stores outside the State of New York. Approximately 97 EBT card numbers were used to process the fraudulent credits and debits. Approximately 103 stores in the New York City area were involved in removing fraudulently obtained credits from the EBT cards. In August 2008, the individual responsible was charged in the Southern District of New York and charged with wire fraud, SNAP fraud, identity theft, access device fraud and conversion of Government funds. In September 2009, she was sentenced to 37 months of imprisonment to be followed by 3 years supervised release, and $186,823 in restitution. This investigation was conducted jointly with the U.S. Secret Service and the New York City Human Resource Administration's Bureau of Fraud and Investigation.
- A former New Mexico Human Services Department (NMHSD) financial assistance analyst and her roommate were sentenced in July 2009 in the District of New Mexico for their roles in a scheme to fraudulently obtain over $35,000 in SNAP and Temporary Assistance for Needy Families benefits. From September 2006 to October 2007, the employee used her position to create four fictitious income support accounts by using the names, dates of birth, Social Security numbers, and other personal identifying information of her grandmother, mother, aunt, and roommate. The former NMHSD employee was sentenced to serve 24 months of imprisonment and 12 months of supervised release and was ordered to pay $34,698 in restitution, of which $24,679 was to be paid jointly and severally with her roommate. Her roommate was sentenced to serve 60 months of probation and was ordered to pay $24,679 in restitution jointly and severally with the analyst. This investigation was conducted jointly with the NMHSD OIG and the Social Security Administration OIG.
- A caseworker with the Missouri Department of Social Services pled guilty and was sentenced for accepting bribes in exchange for authorizing ineligible persons to receive SNAP and other welfare benefits. The caseworker promised applicants who otherwise would not be eligible to receive benefits that their applications would be approved, but only after the applicants would pay him a certain amount of money, usually $150. The caseworker was sentenced in June 2009 to serve 12 months and 1 day in Federal prison, followed by 24 months of supervised release, and was ordered to pay restitution of $2,058.
- While employed by the State of Oregon, Multnomah County Aging and Disability Services, a woman stole SNAP benefits intended for aging and disabled clients to support her drug habit. In July 2009, in Federal court in the District of Oregon, a judge sentenced the woman to 5 years of probation after she pled guilty to a felony charge of SNAP benefit fraud. She was ordered to pay restitution in the amount of $7,039 to USDA's Food and Nutrition Service.

Detroit Welfare Defrauder and Boyfriend Sentenced for the Murder of Infant Son

An OIG investigation conducted jointly with the Detroit Police Department and the Michigan Department of Human Services determined that a Detroit couple had murdered their infant son, attempted to cremate his remains on a charcoal grill, and falsified various welfare applications to receive SNAP benefits on behalf of their deceased child. After the attempted cremation, the couple hid the charred remains in the ceiling of a relative's home and continued to receive SNAP and other public benefits on behalf of the infant for 18 months after his death. In April 2009, the infant's mother was sentenced in local court to 10-15 years of imprisonment after pleading guilty to charges of manslaughter and welfare fraud. The father was sentenced to 25-50 years of imprisonment after pleading guilty to charges of homicide and child abuse.

New Hampshire Woman Convicted for Using False Identities In Order To Receive Multiple Social Service Benefits

OIG participated in an investigation of identity fraud as part of an ongoing joint effort with the New Hampshire Identity Fraud Task Force. To date, multiple individuals have been identified and convicted of using false identities in order to receive various Federal and State social service benefits to which they were not entitled, including Social Security benefits, welfare benefits, housing benefits, and SNAP benefits. On June 29, 2009, the latest defendant pled guilty to multiple counts of making false statements and was sentenced to 180 days of electronically monitored home confinement, $64,084 in restitution, a $200 fine, and 5 years of probation. This investigation was conducted jointly with the SSA OIG, the Housing and Urban Development OIG, the United States Attorney's Office, and the New Hampshire Department of Health and Human Services.

Four Sentenced for Felonies Involving Theft of Infant Formula

An OIG investigation conducted with the Indianapolis Metropolitan Police Department revealed that four subjects conspired to steal more than $100,000 worth of infant formula. As part of the investigation, several controlled deliveries of infant formula were undertaken in December 2008 and January 2009 with the subjects. On January 24, 2009, search and arrest warrants were executed as a result of the investigation. On August 5, 2009, all four subjects pled guilty to charges including felony theft and felony corrupt business influence. Sentences ranged from 180 days to 48 months of imprisonment (suspended), 176 to 730 days of probation, and restitution of $45,400.

Two Convicted for Defrauding School Lunch Feeding Program

From approximately May 1997 to January 2001, the administrators of a private school in Brooklyn, New York, defrauded the USDA's National School Breakfast and Lunch Program of approximately $381,914 by submitting fraudulent claims for reimbursement of meals that were never served. The administrators, who are rabbis and also brothers, claimed to operate four feeding sites, two of which were found to be non-operational during the time period when claims for meal reimbursement were submitted. In addition, our investigation determined that the claims for reimbursement contained the names of nonexistent children, as well as forged signatures of parents on the program applications. An additional element of the scheme was that when meals were served at the school, food donated by a local restaurant was served rather than the bulk food provided by USDA, which was diverted elsewhere. In October 2005, the rabbis were charged in the Eastern District of New York with conspiracy to defraud the School Breakfast and Lunch Program, program fraud, and making false claims. They subsequently pled guilty and, in June 2009, both were sentenced to 2 months in prison, to be followed by 3 years of supervised release, and were ordered to pay $75,000 in restitution.

Guilty Plea for Defrauding Feeding Program of $520,000

From December 2004 through July 2006, a community center in Brooklyn, New York, received approximately $520,000 in Child and Adult Care Food Program (CACFP) funds for meals and snacks reportedly served in its after-school programs and day care center. OIG's joint investigation with the FBI and the New York Department of Health revealed that none of the community center's programs had access to kitchen facilities, and no meals were served to children in the community center's care. On December 8, 2008, the community center's former director was charged in the Eastern District of New York with CACFP fraud and submitting false claims. He subsequently pled guilty in July 2009, and is in prison awaiting sentencing as a result of violations he committed during pretrial supervision.

RECOVERY ACT REVIEWS

Existing Risk to RD's Recovery Act Programs

One of our initial Recovery Act projects was to review unresolved audit recommendations that could affect internal controls over Recovery Act activities for each USDA agency. For RD, we identified 17 recommendations from prior audits concerning issues that could pose a significant risk of inefficient or improper use involving approximately $10 billion of Recovery Act funds. We identified recommendations where RD had not implemented the agreed-upon corrective actions within the mandatory 1-year timeframe and where these issues were still unresolved. We then determined which of these issues, if left unresolved or not mitigated, would introduce a significant risk of inefficient or improper use of Recovery Act funding. The RD programs at risk were the Business and Industry (B&I) Guaranteed Loan Program (11 unresolved recommendations), the Broadband Grant and Loan Program (5 unresolved recommendations), and the SFH Direct Loan Program (1 unresolved recommendation). The risks associated with each of these recommendations are aligned with the accountability objectives of the Recovery Act. We are working with RD to have these unresolved recommendations implemented as soon as possible.

Weaknesses in the B&I Guaranteed Loan Program Could Put Recovery Act Funds at Risk

We found two weaknesses in RD's B&I Guaranteed Loan Program that could put $1.7 billion of Recovery Act funds at risk because of questionable eligibility criteria. First, the Rural Business-Cooperative Service (RBS) continues to allow the use of leasehold properties to be used as loan collateral even though such collateral is generally valueless to RBS. We recommended that leasehold properties be prohibited as collateral for Recovery Act loans. Second, the Recovery Act prohibits borrowers from having any gross income derived from gambling activities, whereas current B&I regulations allow income from such activities to be no more than 10 percent. RBS does not have sufficient controls to ensure that borrowers who receive funding through the Recovery Act do not derive any income from gambling activities. We recommended that RBS require every lender and borrower that receives Recovery Act funds to certify that none of the borrower's income is derived directly or indirectly from gambling operations.

RBS responded that it is providing sufficient guidance to ensure effective internal controls on leasehold interests taken as collateral and has decided not to implement this recommendation. In addition, the agency has adopted a policy to make all businesses ineligible for Recovery Act funding that derive any income from gambling but does not concur in the certification requirement. Rather, all loan commitments will be conditioned so that Recovery Act funds are disbursed only for purposes authorized by the statute. We have not yet tested these risks and plan to revisit these areas because of the potential that RD could sustain considerable losses and create a negative public perception of the proper use of Recovery Act funds. Recovery Act *Fast Report* (Audit Report No. 34099-12-Te (1), Recovery Act–B&I Guaranteed Loan Program)

RHS Should Strengthen Internal Controls Over Recovery Act Funds for the SFH Guaranteed Loan Program

Our review of Recovery Act funds that guarantee almost $10.5 billion in single-family housing loans in rural areas through RHS' SFH Guaranteed Loan Program identified a number of concerns that we reported to the agency in five *fast reports* as detailed below. We have summarized our concerns in a final audit report. RHS is in agreement with the report and has taken corrective actions to address the concerns we disclosed.

- We found that lenders are able to enter inaccurate borrower information into the Guaranteed Underwriting System (GUS), an automated underwriting system used by RHS, with minimal risk of detection by agency officials. Lenders are not required to submit documentation that supports the eligibility of borrowers for applications accepted by GUS. In response to our report, the agency suspended use of GUS to incorporate additional quality control procedures. These procedures include a pre-closing loan review of 5 percent of all GUS submissions and an increase in lender compliance testing that focuses on GUS loan origination quality.
- We noted that the agency policy regarding waiver of debt ratio requirements was unclear, and was not being administered by field staff as expected by national officials. We identified several instances where agency staff approved lender-requested waivers based solely on the lender's written request. Agency staff did not obtain evidence of the compensating factor—for example, in instances where the compensating factor was a large savings

account, agency staff did not obtain bank statements. Our concern is that lenders could create or exaggerate compensating factors to justify approving a loan guarantee for a substandard borrower. In response to our report, the agency agreed to clarify its requirements that lenders must submit supporting documentation for all waivers on loans submitted to field staff. The agency also agreed to require manually underwritten loans with repayment ability ratios above certain thresholds to be approved by a supervisor.

- We were concerned that lenders may not adequately scrutinize loans originated by brokers, which could result in the approval of substandard loans. The agency relies on lenders to review information on applications during the underwriting process. Our concern is based on two factors: (1) the compensation method for brokers and (2) the fact that originating lenders typically sell loans to other lenders after loan closing. Brokers are compensated for each originated loan. Thus, there is an incentive to submit as many loan applications as possible to increase the brokers' income. Since originating lenders typically sell loans to other lenders after closing, some lenders may not dedicate sufficient resources to scrutinize these loans before submitting them to the agency. In response to our report, the agency agreed to increase lender compliance testing with a focus on loans originated by brokers.
- We found that agency field staff routinely performed all functions of the guarantee loan process without supervisory review. In addition, we observed and field staff explained that they were processing up to three times the number of applications as usual. Under these circumstances, errors made by the lender may not be identified due to the significant loan volume associated with the distribution of Recovery Act funds. We recommended that the agency implement a second-party review of applications and segregation of duties in offices where it was feasible based on staffing levels. In response to our report, the agency agreed to incorporate a second-party review.
- We found that there is an increased risk that the agency is providing guarantees on loans where borrowers owe more than their homes are worth because the appraisals do not accurately reflect the current market value of the property secured by RHS loan guarantees. In response to our report, the agency will immediately adopt the newly released industry guidance, including the "Market Conditions Addendum to the Appraisal Report," which provides a format to report on market conditions. The agency also agreed to have an agency-licensed/certified appraiser review a random sample of appraisals for SFH guaranteed loan obligations on a biweekly basis.

Recovery Act *Fast Reports* (Audit Report No. 04703-1-Ch (1-5), Controls Over Eligibility Determinations for SFH Guaranteed Loan Stimulus Funds (Phase I))

RD Needs To Effectively Perform Compliance Activities in the Rural Business Enterprise Grant (RBEG) Program

The Recovery Act includes $20 million for the Rural Business-Cooperative Service (RBS) to provide RBEG grants for rural projects. Before the issuance of any Recovery Act RBEG grants, we reviewed the internal controls over regularly funded RBEG grants. Our review was based on audit work at three RD State Offices where RD internal reviews had reported previous compliance problems; we reviewed the 2008 RBEG projects within those States to verify whether corrective actions had been taken. During our review, we found a few concerns that we reported to the agency in two *fast reports* as detailed below.

- We found that some recipients of regularly funded RBEG grants were not submitting quarterly performance reports while others submitted inadequate ones, resulting in RD's inability to detect (a) whether grant funds were expended for project activities that were in accordance with the agency-approved Scope of Work and (b) whether grant projects were completed promptly. We recommended that RD provide additional training to the States to reinforce the quarterly reporting requirements and develop a formal process for monitoring and ensuring that each RD State and area office consistently obtains the quarterly performance reports from the RBEG grantees. RD generally agreed to implement our recommended corrective actions.
- We found that RD State offices had not ensured that grant recipients submitted the required documentation to support grant expenditures. We found deficiencies in the supporting documentation for 7 of 22 grants we reviewed at one State office. Reimbursement requests were missing supporting documentation, and reimbursement requests were for purposes not included in the agency-approved Scope of Work and/or for ineligible purposes. RD generally agreed that its national office would determine whether all RD State offices were obtaining adequate documentation from RBEG grant recipients.

Recovery Act *Fast Reports* (Audit Report No. 34703-1-KC (1-2), Controls Over Recovery Act RBEGs)

RD Could Establish Stronger Controls for Section 502 Direct Loans

USDA received approximately $1 billion in Recovery Act funding to directly finance housing loans for low-income and very low-income individuals living in rural areas. As part of our ongoing oversight efforts, we identified some concerns that we reported to the agency in three *fast reports* as detailed below.

- We identified additional performance measures that RD could be tracking and reporting to better define its accomplishments in meeting the goals of the Recovery Act. We noted that RD had established only one measure of performance for Recovery Act-related Section 502 Direct Loan activity, which was to "increase the number of homeowners." National office officials told us this measure has historically been used because it is easily tracked and quantified. From our interviews with RD State officials, we identified several additional performance measures that potentially might better reflect the agency's success in meeting the goals of the Recovery Act—specifically, "to promote economic recovery and to assist those most impacted by the recession." RD agreed to establish at least two additional performance measures to better reflect the agency's success in meeting the purposes and principles of the Recovery Act.
- We found that although the Recovery Act almost doubled the funding for the SFH Direct Loan Program, the RD national office has not specified—nor have the State offices adopted—any additional compliance activities to review the quality of loan underwriting for Recovery Act loans. In addition, the States we visited were not effectively performing loan underwriting reviews of delinquent loans. These reviews could identify whether the basis for loanmaking decisions is adequately supported and documented. RD agreed to: (1) establish a formal process for monitoring and ensuring that each State performs underwriting reviews of delinquent Section 502 direct loans at least quarterly and (2) immediately assess the quality of loan underwriting for Recovery Act loans to ensure the proper and prudent use of these funds. RD will require State offices to submit reports on the results of loan underwriting reviews of delinquent loans to the national office.
- We determined that State offices are not fully using administrative cost funds provided by the Recovery Act to mitigate staff shortages in RD's RHS Direct Loan program. We also found areas where RD could better optimize the use of current field office staff. State office officials we interviewed foresee difficulties in processing the direct loans funded by the Recovery Act because of the shortage of qualified, experienced staff. They are concerned about the potential for backlogs of loans waiting to be processed, the loss of customers due to untimely delivery of services, employee burnout from working too many hours, and the overall quality of RD's loanmaking decisions. All of these problems could easily lead to RD's inadvertent approval of poor, risky, or even ineligible loans, which could soon default, resulting in significant costs to the Government. RD agreed to require State offices to develop and implement an effective plan to use the available administrative funding and consider additional ways to optimize the use of current staff resources. The agency will (1) direct State offices to develop internal spending plans regarding the initial allocation of Recovery Act administrative funds and (2) provide additional guidance or direction to RD offices on strategically deploying existing and temporary employees to maximize effective program delivery, procurement, hiring, and information technology (IT) for Recovery Act-funded activities.

Recovery Act *Fast Reports* (Audit Report No. 04703-1-KC (1-3), SFH Direct Loans Recovery Act Controls)

Rural Utilities Service's (RUS) Allocation Method for Water and Waste Disposal Loans and Grants May Not Target Projects in Communities Most Affected by the Recession

We found that RUS should apply additional criteria in allocating the approximately $3.8 billion in funds included in the Recovery Act for loans and grants for water and waste disposal systems in rural areas. Loan and grant funds are allocated to each RD State office based on a formula that uses the demographics of rural population, rural population below the poverty line, and nonmetropolitan unemployment. Although we agree with the use of these specific demographics, we believe that additional criteria could be used (e.g., a threshold of priority points). RD did not agree with our recommendations, stating that their current allocation method is required by statute and that it is fair.

We have not yet performed an analysis to determine the extent to which RD may be funding water and waste disposal projects that are less in need of its assistance to the detriment of projects that are more in need of its assistance. As a result, we have no conclusions on the overall impact to the program and plan to

revisit it in FY 2010. Our concern is that RD could modify its project selection process to ensure that Recovery Act funds are better targeted to communities most affected by the recession and those projects with the greatest merit. Recovery Act *Fast Report* (Audit Report No. 09601-1-At (1), Controls Over the Water and Waste Disposal System Loan and Grant Program)

Administration of Aquaculture Grant Recovery Funds Needed Improvement (Phase 1)

The Recovery Act authorized $50 million in grants to States to assist eligible aquaculture farmers who suffered losses associated with high feed costs during 2008. We provided FSA two *fast reports* suggesting modifications to the working draft Memorandum of Agreement (MOA) between FSA and participating States regarding program eligibility, payment limitation, record retention, program oversight, and payment-rate calculations, and allowing States the option of dispensing the grant funds to aquaculture producers in the form of vouchers or credits for future feed purchases rather than making direct payments to the farmers. FSA acted immediately to address all our recommendations except one relating to the payment calculation. We were concerned that the payment calculation was not equitable to all aquaculture producers, as those who met the program eligibility threshold—of at least a 25-percent price increase of 2008 feed costs above the previous 5-year average—would receive grant funds covering their entire losses, but producers below that threshold would be entirely ineligible.

FSA stated that its payment calculation was most beneficial to producers, given the limited funding available and payment limitations set for FSA farm programs. We maintain that eligible producers should receive grant funds for only those losses that exceed the eligibility threshold. In the second phase of our audit of the grant program, we plan to review State distribution of grant funds, oversight performed, and completion of reporting requirements. We will include additional coverage of the payment calculation issue at that time.

Recovery Act *Fast Reports* (Audit Reports Numbers 03703-1-Ch (1-2), Controls Over Aquaculture Grant Recovery Act Funds, Phase 1)

Direct Farm Operating Loan Compliance Procedures Could Be Improved to More Timely Detect Improper Use of Recovery Act Funds or Ineligible Borrowers

The Recovery Act provides more than $173 million for direct farm operating loans to farmers and ranchers for a variety of farming expenses. As of May 31, 2009, for FY 2009, FSA had obligated 14,086 direct farm operating loans totaling about $845 million, including the Recovery Act funds (about 20 percent of the total obligations). Since the Recovery Act monies were appropriated for the existing direct farm operating loan program, FSA planned to process, fund, and service the Recovery Act loans in accordance with existing regulations and procedures. We found that FSA's compliance review process could be improved to more timely detect improper use of Recovery Act funds or ineligible borrowers. Also, given the relatively small number of direct farm operating loans in the total population from which compliance review samples are drawn, there is no assurance that FSA will sample a sufficient number of Recovery Act-funded loans to provide adequate assurance as to the accountability and propriety of Recovery Act expenditures.

With respect to direct farm operating loans funded by the Recovery Act, we recommended that FSA consider revising its compliance procedures to (1) perform reviews earlier in the loan cycle to ensure on a timelier basis that borrowers are eligible and funds are properly used and (2) ensure an adequate sample of Recovery Act-funded loans is selected for review. Generally, FSA agreed with our recommendations and agreed to amend its review process to require that a minimum number of Recovery Act files be reviewed. Recovery Act *Fast Report* (Audit Report Number 03703-1-Te (1), Recovery Act–Direct Farm Operating Loans–Phase 1)

GOVERNMENTWIDE ACTIVITIES—GOAL 2

Review of Legislation, Regulations, Directives, and Memoranda

- *Whistleblower Protection Enhancement Act of 2009* (H.R. 1507). OIG reviewed this bill and, in general, supports the bill's objective of expanding protections for individuals engaged in credible whistleblower-type activities. OIG was, however, concerned that the bill would require IGs to pursue complaints that may not warrant an OIG investigation. Examples would be complaints that have already been evaluated by Federal agency personnel or complaints of a contractor's employee who has already invoked another Federal or State judicial or administrative process. Therefore, OIG recommended that the final version of the bill provide IGs some degree of substantive discretion to decline complaints meeting these criteria. OIG was also concerned that the bill mandates an IG complete an investigation within a certain time period, unless the complainant agrees to an extended timeframe. OIG recommended that, in lieu of mandatory time limits, a reporting requirement be substituted so that an OIG would advise a complainant and agency heads at appropriate intervals about OIG investigative determinations related to the whistleblowers. Lastly, OIG recommended that language in the bill requiring disclosure of an IG investigation be modified so that when an IG investigation is still pending and disclosure could reasonably be expected to interfere with the investigation, the disclosure would not be required.
- *Whistleblower Protection Enhancement Act of 2009* (S. 372). OIG reviewed this bill and—as in the case of H.R. 1507—supports the bill's objective of expanding protections for individuals engaged in credible whistleblower-type activities. Many of the provisions in H.R. 1507 that generated OIG comments and recommendations were not present in S. 372. OIG was, however, concerned with a provision that would require all IGs to have in their offices a "Whistleblower Protection Ombudsman" who would educate agency personnel about whistleblower protections, advocate on behalf of whistleblowers, and advise whistleblower complainants. OIG objected to this provision of the bill, as it appears to be contrary to the role of an OIG under the Inspector General Act of 1978 (IG Act). OIGs are charged with operating independently and objectively within their respective establishments and serving the public by reporting potential waste, fraud, and abuse to their respective agencies and Congress. Further, under the IG Act, OIGs may not exercise program operating responsibilities and manage agency programs, which this legislative provision would appear to require.
- *Proposed Rule 7 C.F.R. Section 1580.301, the Trade Adjustment Assistance for Farmers (TAAF) Program.* The TAAF program was reauthorized by the Recovery Act. Under this program, USDA provides producers with technical assistance and cash benefits when the national average price of the commodity that they produce has decreased by more than 15 percent. The proposed rule stipulated how a group of producers can petition for certification of eligibility and how individual producers can apply for benefits. OIG had two comments on the proposed rules. First, OIG felt that provisions concerning adjusted gross income limitations needed to be more explicit in their requirements. Second, OIG felt that the provisions regarding how payments from other USDA programs would be used to calculate the benefits under the TAAF program also needed to be more explicit.

Participation on Committees, Working Groups, and Task Forces

- Comments were provided to an intra-departmental task force that developed regulations for the TAAF program, a $202 million program reauthorized by the Recovery Act. Suggestions offered by OIG were considered and included in the revised Benefit-Cost Analysis required by Executive Order 12866 and in the proposed Federal regulation that was published in the August 25, 2009, *Federal Register*.
- Three OIG investigators are participating part time on U.S. Marshals Service initiatives. Two are with the Southern Ohio Fugitive Apprehension Strike Team in Columbus and Cincinnati, Ohio, and another OIG investigator is with the Great Lakes Regional Fugitive Task Force in Chicago, Illinois. They are helping to locate and arrest fugitives by comparing fugitive identification information against the list of SNAP recipients.

- An OIG investigator is participating on the Ohio Organized Crime Investigations Commission (OOCIC) Task Force in Dayton. OOCIC provides assistance to local law enforcement agencies in the investigation of organized criminal activity. OIG investigators have participated in the OOCIC Dayton Task Force since 1996 and have conducted investigations involving welfare recipients, SNAP benefits trafficking, mortgaged farm equipment stolen from farmers, stolen property trafficking, and dogfighting.
- One OIG investigator is participating part-time with the Indianapolis Metropolitan Police Department and Indianapolis Animal Care and Control in Indianapolis, Indiana. The task force is investigating illegal animal fighting, including dogfighting and cockfighting.
- An OIG special agent has been working with the FBI's Safe Streets Task Force in Indianapolis, Indiana, since 2000. The mission of the task force is to deter street gang and drug-related violence, as well as to seek the most significant fugitives wanted for crimes of violence through long-term, proactive, and coordinated teams of Federal, State, and local law enforcement officers and prosecutors.
- OIG investigators are participating on a Bridge Card Enforcement Team task force to investigate criminal violations of SNAP and the USDA Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). Members include the Michigan State Police and IRS-CI. The FBI, SSA OIG, and ICE have provided assistance during warrant operations. The initiative, which has been operational since 2007, has resulted in 83 arrests and 98 search warrants served throughout the State of Michigan. Criminal prosecutions are being pursued through the United States Attorney's Office for the Eastern and Western Districts of Michigan and the Michigan Attorney General's Office. The cases so far have resulted in 69 guilty pleas and sentences that included incarceration, fines, and restitution. Forfeiture actions of more than $2 million have been initiated by the United States Attorney's Office. The task force is expected to continue through FY 2010.
- An OIG special agent has been assigned to the U.S. Marshals Service Fugitive Task Force in Chicago, Illinois, since 2008. The mission of the task force is to apprehend Federal fugitive felons wanted in the Northern District of Illinois. OIG's participation in this task force is in conjunction with our Operation Talon program.

ONGOING AND PLANNED REVIEWS FOR GOAL 2

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

- CACFP followup (FNS),
- status of improper payment information reporting (FNS),
- SNAP State- and county-based administrative costs (FNS),
- Biomass Crop Assistance Program (FSA),
- Farm Storage Facility Loan Program (FSA),
- Conservation Reserve Program soil rental rates (FSA),
- Farm Bill changes to payment limitations (FSA),
- citrus indemnity payments resulting from 2005 Florida hurricanes (RMA),
- USDA payments for 2005 citrus canker losses (RMA, FSA),
- oversight of approved insurance providers' (AIP) quality control process (RMA),
- controls over the use of new producer designation by AIPs (RMA),
- controls over group risk crop insurance (RMA),
- controls over Pasture, Rangeland, and Forage Loss Pilot Program (RMA),
- controls over policy holder yield database (RMA),
- Biotech Yield Endorsement Pilot Program (RMA),
- Catastrophic Risk Protection Program (RMA),
- oversight of organic crop insurance insureds (RMA) ,
- Rural Rental Housing (RRH) Program construction costs (RHS),
- controls over expenditures in water and waste disposal grants–Alaska (RUS),
- business and industry (B&I) lender loan guarantees (RBS),

- Emergency Conservation Program—2008 emergency disaster assistance (FSA), and
- Hurricane Indemnity Program–integrity of data provided by RMA.

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

ONGOING AND PLANNED REVIEWS FOR GOAL 2 UNDER ARRA "RECOVERY ACT" FUNDS

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

- summary of nationwide EBT operations (FNS),
- WIC contingency funding (FNS),
- Recovery Act impacts on SNAP (FNS),
- controls over the Emergency Food Assistance Program (FNS),
- State fraud detection efforts for SNAP (FNS),
- controls over outsourcing of SNAP EBT customer assistance (FNS),
- FS administration of grants,
- FNS management and oversight of SNAP,
- equipment grants for child nutrition programs (FNS),
- equipment grants for the Food Distribution Program on Indian reservations (FNS),
- SNAP increased benefits from Recovery Act funds (FNS),
- FS capital improvement and maintenance,
- wildland fire management (FS),
- direct farm operating loans (FSA),
- controls over Aquaculture Grants (FSA),
- verification of income eligibility for program payments (FSA),
- rural business enterprise grants (RBS),
- B&I loan guarantees (RBS),
- controls over eligibility determinations for single-family housing guaranteed loan Recovery Act funds (RHS),
- rural communities facilities loans and grants (RHS),
- single-family housing (SFH) direct loans Recovery Act funds (RHS), and
- monitoring implementation of trade adjustment assistance for farmers (Foreign Agricultural Service (FAS)), FSA, Economic Research Service, ARS, and the National Institute for Food and Agriculture (NIFA)—formerly the Cooperative State Research, Education, and Extension Service (CSREES)).

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

Management Improvement Initiatives

OIG Strategic Goal 3:

Support USDA in implementing its management improvement initiatives.

OIG conducts audits and investigations that focus on such areas as improved financial management and accountability, IT security and management, research, real property management, employee corruption, and the Government Performance and Results Act. Our work in this area is vital because the Department is entrusted with $128 billion in public resources annually. The effectiveness and efficiency with which USDA manages its assets are critical. 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 2009, we devoted 30 percent of our total direct resources to Goal 3, with 99.1 percent of these resources assigned to critical/high-impact work. A total of 100 percent of our audit recommendations under Goal 3 resulted in management decision within 1 year, and 81 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued 13 audit reports under Goal 3 during this reporting period and a total of 25 during the full fiscal year. OIG's investigations under Goal 3 yielded 6 indictments, 1 conviction, and $495,127 in monetary results during this reporting period and a total of 14 indictments, 17 convictions, and about $1.3 million in monetary results during the full fiscal year.

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 3

Grain Inspection, Packers and Stockyards Administration (GIPSA) Needs To Further Improve Management and Oversight of the Packers and Stockyards Program (P&SP)

After requests by Congress and the former GIPSA Administrator to follow up on our 2006 audit, we found overall that GIPSA's management and oversight of its P&SP has improved and that P&SP has a good working relationship with the Office of the General Counsel (OGC). However, GIPSA needs to further improve program operations by strengthening management and oversight of investigations and by fully implementing agreed-upon corrective actions. We identified significant delays in investigation resolution at GIPSA headquarters, regional offices, and OGC. For instance, we found that 41 of 123 investigations forwarded to headquarters for enforcement action and subsequently referred to OGC for legal action were without resolution for 500 or more days as of December 31, 2007. P&SP did not formally assign responsibility for monitoring the progress of investigations, and the program's systems in place did not adequately track investigations. Furthermore, P&SP did not ensure that Notice of Violation follow-up investigations were performed within 180 days, as required by the program's policy directives. We also found that P&SP guidance was not always consistent. Finally, P&SP did not completely implement corrective actions for 4 of 10 recommendations made in the 2006 audit. P&SP implemented policies to address our prior recommendations,

Management Challenges Addressed UNDER GOAL 3

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 1, 2, and 4)
- Implementation of Strong, Integrated, Internal Control Systems Still Needed (also under Goal 2)
- Continuing Improvements Needed in IT Security (also under Goal 1)
- Material Weaknesses Continue To Persist in Civil Rights Control Structure and Environment
- USDA Needs To Develop a Proactive, Integrated Strategy To Assist American Producers To Meet the Global Trade Challenge (also under Goal 1)
- Better FS Management and Community Action Needed To Improve the Health of the National Forests and Reduce the Cost of Fighting Fires (also under Goals 1 and 4)

but the program did not have a process in place to ensure these policies were carried out.

GIPSA concurred with OIG's seven recommendations, which focused on strengthening controls over investigation resolution. The recommendations are objectives that GIPSA management had already identified as goals and that GIPSA had been addressing since receiving the 2006 OIG audit findings. GIPSA agreed to take a number of major actions to strengthen operations and to implement the OIG recommendations, including the deployment of an automated management information system that records—and systematically monitors the status of—investigative case files from complaint to final resolution in OGC. Further, GIPSA agreed to post on its internal Web site an employee manual that consolidates all of P&SP's operational guidance and replaces a dated set of separate directives. (Audit Report No. 30016-2-Hy, Followup Audit of the Management and Oversight of P&SP)

Decisions To Foreclose on Socially Disadvantaged Farm Loan Borrowers Were Generally Consistent and in Conformity With Applicable Laws and Regulations

Our audit found that the Department's decisions to implement foreclosure proceedings with respect to socially disadvantaged borrowers were generally consistent and in conformity with applicable laws and regulations. Under the 2008 Farm Bill, Congress had directed OIG to determine whether FSA decisions to implement foreclosure proceedings with respect to direct farm program loans made to socially disadvantaged farmers or ranchers during the preceding 5-year period were consistent and in conformity with applicable laws and regulations. For purposes of FSA's farm loan programs, women, African Americans, American Indians, Alaskan Natives, Hispanics, Asian Americans, and Pacific Islanders are considered to be socially disadvantaged farmers or ranchers.

We did find some instances in which FSA did not technically conform to prescribed timeframes. However, the rate of exception was low, and, for the exceptions noted, there was no statistically significant difference in treatment when foreclosing on socially disadvantaged farmers and ranchers compared to their non-socially disadvantaged peers. The noted exceptions involved timeliness issues, which were eventually corrected. For example, we found a few cases in which letters notifying borrowers that they were delinquent were not sent out on a timely basis, but letters were eventually sent before the next loan servicing action occurred. (Audit Report Number 03601-49-Te, Socially Disadvantaged Borrower Foreclosures–Farm Program Loans)

FS Needs To Strengthen Its Case for New Aircraft and Reinstate Its Working Capital Fund (WCF) for Aircraft Replacement

Our audit found that FS' documentation to support acquiring critically needed new firefighting aircraft did not present the best case to justify buying new aircraft. FS' key airtanker fleet has an average age of 50 years. More than half of the 44 airtankers available under contract in 2004 were grounded for safety concerns, and by 2012 the remaining 19 airtankers will begin to be either too expensive to maintain or no longer airworthy. The availability of suitable aircraft has significantly changed over the years, likely making it necessary for FS to purchase the airtankers—at a cost of up to $2.5 billion—rather than lease them.

One of the remaining 19 airtankers FS has left under contract (down from 44 in 2002) that will be either too expensive to maintain or no longer airworthy by 2012. The aircraft is a P-3 and is over 45 years old. Zion Helitack, Zion National Park photo.

In the documentation used to justify purchasing new aircraft, the agency had not (1) used aviation firefighting performance measures that directly demonstrate cost impact, (2) collected current aviation performance data to determine how new aircraft will improve firefighting performance, or (3) formally established an integrated team to take charge of developing the agency's exhibit 300 (OMB budget document). The agency had also not properly used the Working Capital Fund to help

pay for repairing and replacing the aircraft. When the FS' lead planes had to be taken out of service for safety reasons, there were no funds in the account to purchase replacement aircraft. FS agreed with the recommendations to correct these shortcomings. (Audit Report No. 08601-53-SF, FS' Replacement Plan for Firefighting Aerial Resources)

Risk Management Agency's (RMA) Compliance Activities Need To Be Strengthened To Ensure the Integrity of the Crop Insurance Program

Our audit found that RMA can improve the integrity of the crop insurance program by strengthening its oversight of private companies that sell the insurance and by ensuring that they comply with applicable rules. To accomplish this, RMA should first conduct a risk assessment to identify program vulnerabilities and then develop an integrated and comprehensive, systematic, and well-defined strategy for improving the integrity of the crop insurance program. We also recommended that RMA follow the Agricultural Risk Protection Act by reconciling producer data with the Farm Service Agency, maximizing data mining effectiveness, and evaluating agents' and insurance adjusters' performance. Together, these steps will increase RMA's oversight of the crop insurance program, which, in 2008, had liabilities totaling $90 billion.

RMA concurred with 14 of our 22 recommendations, but has not agreed with us about key issues we identified, such as its need to assess the crop insurance program's risk and to develop and document an integrated overall compliance strategy. RMA states that it has "in place and operational an overall compliance strategy, and a risk assessment process for identifying program vulnerabilities." (Audit Report No. 05601-11-At, RMA Compliance Activities).

Agricultural Research Service (ARS) Properly Administered Cooperative Research Agreements

Overall, we found that ARS properly administered its cooperative research agreements, for which ARS provided $134 million to other organizations, such as colleges and universities, in FYs 2005 and 2006. Although we identified unused funds totaling $2.75 million that should have been deobligated, the agency has since strengthened its controls over the agreement closeout process. We also found one cooperator that ARS reimbursed for $51,000 in unallowable costs for tuition reimbursement and laboratory equipment that had been returned. ARS generally agreed with our findings and has taken appropriate corrective action. (Audit Report No. 02601-1-SF, ARS Management Controls Over Research Agreements)

Former RMA Employee Sentenced for Online Prostitution Ring

In August 2009, a former RMA statistician in Missouri and her co-conspirator boyfriend each pled guilty to conspiracy to use interstate commerce to facilitate prostitution. Using various aliases, the two used Web sites, e-mail accounts, and cell phones to operate, manage, and run prostitution businesses. The former RMA employee used her RMA-issued laptop computer during her business day to operate and manage the prostitution business and to correspond with clients throughout several States. In August 2009, she was sentenced to serve 24 months of probation, based in part on her cooperation with the investigation. The boyfriend was sentenced to serve 15 months in Federal prison, followed by 24 months of supervised release.

FS Grants Coordinator in Wisconsin Sentenced for Misappropriating $320,000 in Government Purchase Card Convenience Checks

Our investigation of a FS grants and agreements coordinator in Milwaukee, Wisconsin, determined that she deposited 86 purchase card convenience checks totaling $174,700 into her personal bank account, and 43 checks totaling $103,000 into a joint account with her husband. An additional 31 checks totaling approximately $43,000 were written to vendors who had no association with the agency. In May 2009, the employee pled guilty in United States District Court, Eastern District of Wisconsin, to theft of Government funds, and was sentenced to 12 months of imprisonment, 36 months of supervised release, and $320,000 in restitution. She had been removed from her position in September 2004.

APHIS Clerk in Arkansas Embezzles Over $11,000 from Boll Weevil Eradication Program

In July 2009, in the Eastern District of Arkansas, a former payroll clerk with APHIS' Arkansas Boll Weevil Eradication Program was sentenced to serve 36 months of probation and ordered to pay $11,886 in restitution. From approximately December 2006 to May 2007, the employee embezzled $11,886 from the Arkansas Boll Weevil Program by changing former employees' direct deposit bank account numbers to

her own account number and submitting payroll payments for those former employees.

Employees at USDA Laboratory Facilities Face Administrative Sanctions for Buying and Selling Prescription Drugs Without a Prescription

As reported in the SARC for the first half of FY 2009, a biological science laboratory technician at APHIS' National Veterinary Services Laboratories, Ames, Iowa, and two veterinarians at APHIS' Center for Veterinary Biologics, Ames, Iowa, purchased prescription drugs from veterinary supply companies and resold them to other USDA laboratory employees at cost. The drugs were ordered using the subject veterinarians' accounts at veterinary supply companies. The laboratory technician then facilitated the sale of the drugs to USDA employees, who used many of the prescription drugs to treat themselves or family members for various medical ailments and illnesses. The FDA confirmed that approximately 67 of the approximately 80 drugs sold were for human use and required a prescription from a physician before they could be dispensed.

One USDA employee was terminated in June 2009, one resigned, and two others retired before disciplinary action could be imposed. During May and June 2009, a total of 12 other USDA employees were ultimately suspended for terms of between 21 to 45 days. Many of the suspensions were significantly reduced provided that the employee complete a series of ethics courses and avoid further problems for 2 years.

FSIS Employee Fraudulently Obtains Rental Subsidy Benefits

Our joint investigation with the U.S. Department of Housing and Urban Development OIG revealed that an FSIS employee, while living in public housing owned by the District of Columbia Housing Authority (DCHA), underreported her income from 1999 to 2006 in order to fraudulently receive approximately $57,467 in Federal housing rental subsidy benefits to which she was not entitled. The employee was charged with filing false claims and fraud in obtaining public assistance and subsequently pled guilty in U.S. District Court for the District of Columbia. She was sentenced to 36months of probation, including 300 hours of community service, and was ordered to pay $57,467 in restitution to DCHA. FSIS entered into an agreement for alternative discipline with the employee, to remain in effect for 4 years, which prohibits her from engaging in any additional acts of misconduct.

National Finance Center (NFC) Receives Unqualified Opinion on Its General Controls

Our review disclosed that NFC's description of controls presented fairly, in all material respects, the relevant aspects of NFC controls that had been placed in operation as of June 30, 2009. Also, in our opinion, the controls included in the description were suitably designed and operating with sufficient effectiveness to provide reasonable assurance that associated control objectives would be achieved. (Audit Report No. 11401-30-FM, FY 2009 Statement on Audit Standards No. 70, Report on 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 the Office of Chief Financial Officer (OCFO)/NFC. We found that no differences exceeded the allowable OPM thresholds. (Audit Report No. 11401-31-FM, FY 2009 Agreed-Upon Procedures: Retirement, Health Benefits, and Life Insurance Withholdings/ Contributions and Supplemental Semiannual Headcount Report Submitted to OPM)

OCIO/National Information Technology Center's (NITC) Controls Were Suitably Designed and Operating Effectively

Our review of the OCIO/NITC internal controls as of June 30, 2009, 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 controls taken as a whole and that those controls had been placed in operation. Also, in our opinion, the policies and procedures were suitably designed to provide reasonable assurance that the control objectives would be achieved and operate effectively. (Audit Report No. 88501-13-FM, FY 2009 Statement on Audit Standards No. 70, Report on NITC General Controls)

GOVERNMENTWIDE ACTIVITIES—GOAL 3

Review of Legislation, Regulations, Directives, and Memoranda

- *Government Credit Card Abuse Prevention Act of 2009* (S. 942). OIG reviewed this bill, which proposes new safeguards and internal controls for use of Government travel charge cards and purchase cards. One of the bill's provisions requires that each head of an executive agency with more than $10 million in annual purchase card and travel card spending, and each IG of such executive agencies, on a semiannual basis, submit a report to the Director of OMB on violations regarding purchase cards, convenience checks, and travel cards. OIG suggested that an annual report or a periodic report as instances of misconduct and penalties warrant may be more appropriate. For many smaller agencies, there may be insufficient instances of misconduct to warrant semiannual reporting. Additionally, OIG recommended that these reports be transmitted by OMB to the Congress and GAO, which would provide them with a broader picture of the violations and enable GAO to enhance its risk assessment program.
- *Improper Payments Elimination and Recovery Act of 2009* (IPERA) (S. 1508). Based upon its review of IPERA, OIG supports the bill but had some concerns with a few of its specific provisions. Section 2(g) would require OMB to determine when an agency should be required to obtain an opinion on internal controls over financial reporting. Currently, when OIG conducts its annual financial statement audits, it reports on any internal control issues that are identified during the audit, but it does not provide an opinion on the agency's internal control structure. OIG estimated that requiring it to provide such an opinion would double the amount of time and resources needed to conduct financial statement audits. Also, Section 3(b) of the bill would require an OIG to perform annual compliance reviews to ascertain if an agency is in compliance with the IPERA. USDA has more than 300 programs that make some type of payment. Consequently, requiring OIG to conduct an annual compliance review of these programs would be a major undertaking. Furthermore, OIG was concerned that annual compliance reviews may not provide agencies with sufficient time to make corrections and address any recommendations before the following year's review. As a result, similar findings would be reported from year to year while agencies worked to modify internal control structures. Past experience demonstrates that a longer time period between reviews might be more likely to provide the component reviewed with sufficient time to address control issues that have been identified before the next review begins. OIG recommended that: (1) an IG be able to exercise some judgment as to which relevant agency programs to review and also be able to exercise some discretion as to the scope of that review and (2) the schedule for such reviews be revised to allow more time between reviews (e.g., "once every 3 years" or "periodically" at the IG's discretion).

Participation on Committees, Working Groups, and Task Forces

- *Council of the Inspectors General on Integrity and Efficiency (CIGIE)*. The USDA IG chairs this Council of 69 Federal IGs. The IG Reform Act of 2008 established CIGIE by merging two previous IG Councils: the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency. During this reporting period, CIGIE initiated a study on the proactive and preventative measures undertaken by IGs in the area of Recovery Act oversight and a study on the implementation of OMB requirements regarding agency and OIG Web Sites. CIGIE has worked on establishing a permanent administrative structure and a funding mechanism. CIGIE also took steps toward creating a unified training structure; it kicked off first introductory training course for auditors in September 2009.
- *Recovery Accountability and Transparency Board (RATB)*. The RATB was established by the Recovery Act of 2009 to coordinate and conduct oversight of the funding expended by the Act. The USDA IG is one of the IGs designated as a member of the Board by the Recovery Act. The RATB is tasked with a number of duties, including oversight of certain aspects of contracts and grants using Recovery Act funds, reviewing wasteful spending and poor management practices related to the Act, and maintenance of the Recovery.gov Web site. The RATB has worked with CIGIE to ensure effective coordination of the work of the IGs performing Recovery Act oversight, as

well as other bodies such as GAO and the State and local governments. During this period, the RATB and CIGIE spearheaded reviews of contract and grant staffing and qualifications and of the quality of data reported by agencies under the Recovery Act.

- *Financial Statement Audit Network (FSAN) Workgroup*. USDA OIG auditors are members of the FSAN workgroup. FSAN consists of OIG auditors from numerous Federal agencies, and its main purpose is to share ideas, knowledge, and experience concerning Federal financial statement audits.
- *National Procurement Fraud Task Force*. The USDA IG is a member of this task force, formed by the U.S. Department of Justice in October 2006 as a partnership among Federal agencies charged with the investigation and prosecution of illegal acts in connection with Government contracting and grant activities. The task force has worked to better allocate resources and improve coordination in procurement and grant fraud cases and to otherwise accelerate investigations and prosecutions. At the regional level, OIG Investigations field offices in the Northeast, Great Plains, Midwest, Southeast, Southwest, and Western Regions participate on procurement fraud task forces initiated by the local United States Attorneys' Offices.

ONGOING AND PLANNED REVIEWS FOR GOAL 3

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

- USDA accountability of actions taken on program civil rights complaints (ASCR/OAC),
- followup on FS working capital fund,
- firefighting cost share agreements with non-Federal entities (FS),
- FS acquisition of IT software/hardware,
- utilizing geographic information system (GIS) data (RHS),
- controls over the economic adjustment assistance to users of upland cotton provisions of the 2008 Farm Bill (FSA),
- effectiveness and enforcement of debarment and suspension regulations in USDA,
- effectiveness of FSA's counter-cyclical payments based on historical yield,
- international trade policy and procedures (FAS, APHIS),
- review of USDA oversight of the select marketing programs (AMS and FAS),
- implementation of the 2008 Farm Bill provisions and mandates (FSA, NRCS, RMA, and RD),
- USDA security over wireless devices and smartphones (Office of the Chief Information Officer (OCIO)),
- FY 2010 NFC general controls (OCIO),
- FY 2010 FISMA (OCIO),
- FY 2010 National Information Technology Center general controls (OCIO), and
- annual audits of the Department and standalone agencies' financial statements for FYs 2009 and 2010 (OCFO).

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

ONGOING AND PLANNED REVIEWS FOR GOAL 3 UNDER ARRA "RECOVERY ACT" FUNDS

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

- WIC management information systems (FNS),
- FSA IT infrastructure,
- Healthy Forest Initiatives (FS),
- FS wood to energy projects (FS),
- RUS controls over water and waste disposal loan and grant programs, and
- ARRA reporting oversight (OCFO).

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

Stewardship Over Natural Resources

OIG Strategic Goal 4:

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

OIG's audits and investigations focus on USDA's management and stewardship of natural resources, including soil, water, and recreational settings. Our work in this area is vital because USDA is entrusted with hundreds of billions of dollars in fixed public assets, such as the 192.5 million acres of national forests and wetlands. USDA also provides scientific and technical knowledge for enhancing and protecting the economic productivity and environmental quality of the estimated 1.5 billion acres of forests and associated rangelands in the United States.

In the second half of FY 2009, we devoted 4 percent of our total direct resources to Goal 4, with 100 percent of these resources assigned to critical/high-impact work. We had no audit recommendations under Goal 4, and 66.7 percent of our investigative cases resulted in criminal, civil, or administrative action. OIG issued one audit report under Goal 4 during this reporting period for a total of one for the full fiscal year. OIG's investigations under Goal 4 yielded one indictment, two convictions, and $28,472 in monetary results during this reporting period and a total of two indictments, three convictions, and $58,572 in monetary results during the full fiscal year.

EXAMPLES OF AUDIT AND INVESTIGATIVE WORK FOR GOAL 4

Management Control Weaknesses Jeopardizes NRCS Program Goal

Our audit concluded overall that systemic and pervasive management control weaknesses over participant and land eligibility determinations jeopardized NRCS' goal of using the Conservation Security Program (CSP) to reward those meeting the very highest standards of conservation and environmental management on their operations. Of the contracts we reviewed, NRCS awarded more than half (38 of 75) to participants who did not qualify for the program or some portion of the conservation payments received, or expected to be received. Further, NRCS did not implement a control within its Program Contracts System (ProTracts) to prevent producers from receiving payments from multiple contracts. NRCS did not independently verify applicant-supplied information before approving contracts. We also identified 12 producers with multiple contracts who received improper payments totaling $433,687. In addition, NRCS did not ensure ongoing compliance through monitoring of conservation efforts of participants' land over the course of their contracts.

Management Challenges Addressed UNDER GOAL 4

- Interagency Communications, Coordination, and Program Integration Need Improvement (also under Goals 1, 2, and 3)
- Better FS Management and Community Action Needed To Improve the Health of the National Forests and Reduce the Cost of Fighting Fires (also under Goals 1 and 3)
- Implementation of the Recovery Act (also under Goal 2)

Our site visit to a participant's farm disclosed that a stream was not protected by a required 20-foot buffer.

NRCS has already begun actions to address some key control weaknesses identified during our review. NRCS agreed with our series of recommendations in the report and is pursuing corrective action for all the cases identified and will review each active CSP contract to validate eligibility and payment accuracy and take appropriate corrective action per NRCS policy. In addition, NRCS plans to complete its ongoing coordination with USDA agencies to use their existing data to independently verify applicant-supplied information for similar programs

(e.g., Conservation Stewardship Program) implemented in the future. (Audit No. 10601-4-KC, CSP)

RECOVERY ACT REVIEWS

Existing Risk to Forest Service (FS) Recovery Act Programs

Our review of all past open audit recommendations that could impact internal controls over Recovery Act activities identified 15 recommendations from prior FS audits regarding issues that, if left unresolved or not mitigated, could introduce a significant risk for inefficient or improper use of Recovery Act funding. The Recovery Act authorized $1.15 billion to FS—$650 million for capital improvement and maintenance and $500 million for wildland fire management projects. FS responded that corrective actions on 13 of the 15 recommendations had been fully implemented and were awaiting closure by OCFO. FS was working on completing the final corrective action for the remaining two recommendations.

FS Needs To Ensure Contractors Comply With the "Buy American Act" Provisions Related to the Recovery Act

During our visit to two of four Recovery Act-funded projects (historical renovation of a ranger district office and a recreational site restroom) in California, we found that FS' contractors had bought red cedar shakes (shingles) made in Canada without obtaining a waiver from FS, or having their need for that type of shingle advertised in the *Federal Register*. FS had allocated more than $193 million of Recovery Act funds to improve and eliminate health and safety risks at agency-owned facilities. The Recovery Act requires that when U.S. construction material (mined, produced, or manufactured) is not available, contractors must obtain a waiver, unless otherwise exempt, from the contracting agency, which then must publish a notice in the *Federal Register* to give companies a chance to provide U.S. materials before foreign materials are purchased. If no U.S. source material is found, then the contractors can buy foreign construction materials. FS agreed to increase training given to partners and contractors to ensure that those receiving Recovery Act funds and their subcontractors are aware of the full scope of the legislation and will follow the "Buy American" clauses. Recovery Act *Fast Report* (Audit Report No. 08703-02-SF (1), Recovery Act - FS Facility Improvement, Maintenance and Renovation)

Recovery Act Funds May Be Spent Ineffectively

Our audit of NRCS' controls for implementing the Emergency Watershed Protection program's floodplain easement (EWPP-FPE) component noted three potential problems: the cost-effectiveness of NRCS easements on very small tracts of land; NRCS' use of tax-assessed value to determine the value of the homes on easements; and NRCS' lack of procedures for purchasing homes as part of flood protection easements. The Recovery Act provided $145 million to NRCS so that the agency, through the EWPP, could purchase easements on floodplain lands that have been recently flooded or have a history of repeated flooding. EWPP-FPE allows NRCS to acquire permanent easements on private land or certain land owned by State and local governments.

Given NRCS' inexperience with easements on small homesites, we maintain that the agency should improve its procedures and oversight for easements of this sort. We recommended that NRCS revisit the policy of purchasing easements on small parcels of land where there are high costs for the acquisition and demolition costs for homes and determine whether it is a prudent use of Recovery Act funds; establish comprehensive EWPP-FPE procedures that address purchasing easements on small parcels of land where acquisition and demolition costs for homes are the primary cost; follow up with NRCS State offices to correct EWPP-FPE applications and move costs associated with homes and other improvements to restoration costs, not easement payment amounts; and identify all EWPP-FPE-approved applications where homes are the primary restoration cost, review each application, and make the appropriate corrections. NRCS concurred with our recommendations and began taking steps to implement the recommendations upon report issuance. (NRCS recently notified us that it was modifying its earlier response and agreed-to corrective actions to our recommendations. We are working with NRCS concerning these issues.) Recovery Act *Fast Report* (Audit Report No. 10703-1-KC (1), Recovery Act–EWP-P-FPE)

ONGOING AND PLANNED REVIEWS FOR GOAL 4

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

- Environmental Quality Incentives Program (NRCS),
- controls and management of drug enforcement issues on National Forest System Land (FS),
- Forest Legacy Program (FS),
- management of oil and gas resources on national forest system land (FS),
- FS processes to obtain and grant rights of way and easements,
- FS administration of special use permits, and
- FS watershed management.

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

ONGOING AND PLANNED REVIEWS FOR GOAL 4 UNDER ARRA "RECOVERY ACT" FUNDS

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

- hazardous fuels reduction/ecosystem restoration on non-Federal lands (FS),
- oversight and control of FS road and trail maintenance and decommissioning; abandoned mine remediation projects; and FS facility improvement, maintenance, and renovation activities at agency-owned buildings and recreation sites,
- oversight and control of watershed and flood prevention operations (NRCS), and
- oversight and control of watershed rehabilitation program (NRCS).

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

Gauging the Impact of OIG

MEASURING PROGRESS AGAINST THE OIG STRATEGIC PLAN

The first way we gauged our impact was by measuring the extent to which our work focused on the key issues under our newly revised goals that became effective in FY 2008:

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

IMPACT OF OIG AUDIT AND INVESTIGATIVE WORK ON DEPARTMENT PROGRAMS

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

For audits we show

- reports issued
- management decisions made (number of reports and recommendations)
- total dollar impact of management-decided reports (questioned costs and funds to be put to better use)
- program improvement recommendations
- 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 2008 Actual	FY 2009 Target	FY 2009 2nd Half Actual	FY 2009 Full Year Actual
OIG direct resources dedicated to critical-risk and high-impact work	95.3%	90%	95.9%	95.3%
Audit recommendations resulting in management decision within 1 year of report issuance	84.3%	85%	98.2%	88.8%
Closed investigations previously referred for action that resulted in an indictment, conviction, civil suit or settlement, judgment, administrative action, or monetary result	72.5%	65%	74.2%	76.8%

RECOGNITION OF OIG EMPLOYEES BY THE PRESIDENT AND IG COMMUNITY

PRESIDENTIAL RANK AWARD

Meritorious Executive

David R. Gray
Counsel to the Inspector General

COUNCIL OF THE INSPECTORS GENERAL ON INTEGRITY AND EFFICIENCY (CIGIE) AWARDS

Glen/Roth Award for Exemplary Service

David R. Gray
Counsel to the Inspector General

Awards for Excellence

Nursery Crop Insurance Audit Team
Audit

Rehabilitation of Flood Control Dams Audit Group
Audit

Operation Tattered Wing/Red Rooster Investigation Team
Multiple Disciplines

School Lunch Fraud Team
Investigations

Hickman Mills Prosecution Team
Investigations

SUMMARY OF AUDIT ACTIVITIES—APRIL 2009–SEPTEMBER 2009	
Reports Issued	**25**
Audits Performed by OIG	23
Evaluations Performed by OIG	0
Audits Performed Under the Single Audit Act	0
Audits Performed by Others	2
Management Decisions Made	
Number of Reports	19
Number of Recommendations	111
Total Dollar Impact (Millions) of Management-Decided Reports	**$2.9**
Questioned/Unsupported Costs	$0.2[ab]
Recommended for Recovery	$0.1
Not Recommended for Recovery	$0.1
Funds To Be Put to Better Use	$2.7

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 2009–SEPTEMBER 2009	
Reports Issued	147
Cases Opened	197
Cases Closed	151
Cases Referred for Prosecution	103
Impact of Investigations	
Indictments	289
Convictions	454[a]
Searches	146
Arrests	568
Total Dollar Impact (Millions)	**$36.5**
Recoveries/Collections	$2.1[b]
Restitutions	$21.6[c]
Fines	$2.8[d]
Claims Established	$1.0[e]
Cost Avoidance	$8.9[f]
Administrative Penalties	$0.1[g]
Administrative Sanctions	**252**
Employees	36
Businesses/Persons	216

a Includes convictions and pretrial diversions. Also, the period of time to obtain court action on an indictment varies widely; therefore, the 454 convictions do not necessarily relate to the 289 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 2009 Results in Key Categories—OCTOBER 2008–SEPTEMBER 2009	
Summary of Audit Activities	
Reports Issued	**47**
Management Decisions Made	
Number of Reports	41
Number of Recommendations	348
Total Dollar Impact (Millions) Of Management-Decided Reports	**$115.8**
Questioned/Unsupported Costs	$3.8
Funds To Be Put to Better Use	$112.0
Summary of Investigative Activities	
Reports Issued	**288**
Impact of Investigations	
Indictments	517
Convictions	679
Arrests	671
Total Dollar Impact (Millions)	**$83.9**
Administrative Sanctions	**326**

INVENTORY OF AUDIT REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE
FROM APRIL 1 THROUGH SEPTEMBER 30, 2009

		NUMBER	DOLLAR VALUE
A.	FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 2009	1	$874,986
B.	WHICH WERE ISSUED DURING THE REPORTING PERIOD	4	$21,407,252
	TOTALS	**5**	**$22,282,238**
C.	FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THE REPORTING PERIOD	1	
	(1) DOLLAR VALUE OF DISALLOWED COSTS		$2,719,532
	(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		$25,744
D.	FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THE REPORTING PERIOD	4	$19,536,962
	REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	1	$874,986

INVENTORY OF AUDIT REPORTS WITH QUESTIONED COSTS AND LOANS FROM APRIL 1 THROUGH SEPTEMBER 30, 2009				
		DOLLAR VALUES		
		NUMBER	QUESTIONED COSTS AND LOANS	UNSUPPORTED[a] COSTS AND LOANS
A.	FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY APRIL 1, 2009	6	$235,729,914	$1,063,024
B.	WHICH WERE ISSUED DURING THIS REPORTING PERIOD	3	$2,292,659	$1,063,024
	TOTALS	**9**	**$238,022,573**	**$1,063,024**
C.	FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS REPORTING PERIOD	2		
	(1) DOLLAR VALUE OF DISALLOWED COSTS			
	RECOMMENDED FOR RECOVERY		$58,095	$0
	NOT RECOMMENDED FOR RECOVERY		$164,000	$0
	(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		$0	$0
D.	FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	7	$237,807,833	$1,063,024
	REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	5	$235,565,914	$23,889

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 115 program improvement recommendations, and management agreed to implement a total of 104 program improvement recommendations that were issued this period or earlier. Examples of the program improvement recommendations issued this period (see the main text of this report for a summary of the audits that prompted these program improvement recommendations) include the following:

- FSIS agreed to further strengthen its oversight by analyzing the reasons why foreign countries have rejected U.S. beef products when these products are presented for re-entry into the United States.
- NRCS agreed to develop cooperative relationships with the State agencies responsible for regulating dams so that the Federal-State partnership has the authority to require the rehabilitation of dams that threaten public safety; and report to Congress on any high-hazard dams in need of rehabilitation that are not rehabilitated due to limitations in the program.
- RHS agreed to develop specific minimum requirements in the SFH Guaranteed Loan Program for lenders' quality control (QC) processes, monitor lenders' compliance with the QC requirements, and establish procedures for field staff to verify that lenders set interest rates in accordance with agency guidelines before issuing the loan guarantees.
- RD agreed to establish at least two additional performance measures to better reflect the agency's success in meeting the purposes and principles of the Recovery Act.
- GIPSA agreed to strengthen controls over investigation resolution; implement a defined process for reviewing, approving, and issuing program guidance to ensure consistency; and implement an effective internal review function as previously recommended.

SUMMARY OF AUDIT REPORTS RELEASED FROM APRIL 1 THROUGH SEPTEMBER 30, 2009

DURING THE 6-MONTH PERIOD FROM APRIL 1 THROUGH SEPTEMBER 30, 2009, THE OFFICE OF INSPECTOR GENERAL ISSUED 25 AUDIT REPORTS, INCLUDING 2 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	3	$50,740		$2,745,276
ANIMAL AND PLANT HEALTH INSPECTION SERVICE	1			
CHIEF FINANCIAL OFFICER	1			
FARM SERVICE AGENCY	2			
FOOD AND NUTRITION SERVICE	1			
FOOD SAFETY AND INSPECTION SERVICE	1			
FOREST SERVICE	2			
GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION	1			
MULTIAGENCY	2			
NATURAL RESOURCES CONSERVATION SERVICE	3	$2,241,919		$18,578,603
OFFICE OF THE CHIEF FINANCIAL OFFICER	2			
RISK MANAGEMENT AGENCY	1			
RURAL DEVELOPMENT	1			
RURAL HOUSING SERVICE	4			$83,373
TOTALS	**25**	**$2,292,659**		**$21,407,252**
TOTAL COMPLETED:				
SINGLE AGENCY AUDIT	23			
MULTIAGENCY AUDIT	2			
SINGLE AGENCY EVALUATION	0			
MULTIAGENCY EVALUATION	0			
TOTAL RELEASED NATIONWIDE	25			
TOTAL COMPLETED UNDER CONTRACT[b]	2			
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

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES
FROM APRIL 1 THROUGH SEPTEMBER 30, 2009

AUDIT NUMBER	RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS TO BE PUT TO BETTER USE
Agricultural Research Service						
020170009HQ	2009/09/10	DCAA Audit of International Science and Technology Center's (ISTC) Internal Controls for FY 2009 Funded by ARS (Project K-486)				
020170010HQ	2009/09/21	DCAA Audit of International Science and Technology Center's (ISTC) Internal Controls for FY 2009 Funded by ARS (Project K-1396P)				
026010001SF	2009/07/15	Management Controls Over Research Agreements		$50,740		$2,745,276
Total: Agricultural Research Service			3	$50,740		$2,745,276
Animal and Plant Health Inspection Service						
330990008KC	2009/09/30	Controls over Pilot Qualification and Suitability				
Total: Animal and Plant Health Inspection Service			1			
Chief Information Officer						
885010013FM	2009/09/04	Statement on Auditing Standards No. 70 Audit National Information Technology Center–General Controls Review–Fiscal Year 2009				
Total: Chief Information Officer			1			
Farm Service Agency						
036010016AT	2009/08/03	Tobacco Transition Payment Program—Quota Producers				
036010049TE	2009/06/08	Socially Disadvantaged Borrowerm Foreclosures—Farmer Program Loans				
Total: Farm Service Agency			2			
Food and Nutrition Service						
276010011TE	2009/06/02	Follow-up on FNS Disaster Supplemental Nutrition Assistance Program for Hurricanes Katrina and Rita				
Total: Food and Nutrition Service			1			
Food Safety and Inspection Service						
246010010HY	2009/09/30	Effectiveness of FSIS' Oversight of the Recall by Hallmark/Westland Meat Packing Company				
Total: Food Safety and Inspection Service			1			

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES FROM APRIL 1 THROUGH SEPTEMBER 30, 2009						
AUDIT NUMBER	RELEASE DATE	TITLE		QUESTIONED COSTS AND LOANS	UNSUPPORTED COSTS AND LOANS	FUNDS TO BE PUT TO BETTER USE
Forest Service						
086010053SF	2009/07/16	FS Replacement Plan for Firefighting Aerial Resources				
087030001HQ	2009/04/03	Existing Risk to Forest Service's Economic Recovery Program				
Total: Forest Service			2			
Grain Inspection, Packers and Stockyards Administration						
300160002HY	2009/06/29	GIPSA's Management and Oversight of the Packers and Stockyards Program Follow-up				
Total: Grain Inspection, Packers and Stockyards Administration			1			
Multi-Agency						
500990052TE	2009/06/17	Review of Adjusted Gross Income Limitation				
506010006HY	2009/07/15	Assessment of USDA's Controls to Ensure Compliance with Beef Export Requirements				
Total: Multi-Agency			2			
Natural Resources Conservation Service						
100990006SF	2009/07/06	Farm and Ranch Land Protection Program (FRPP) Nationwide Selected Non-Governmental Organization		$716,563		
106010001AT	2009/07/15	Rehabilitation of Flood Control Dams				$15,208,001
106010004KC	2009/06/25	Conservation Security Program		$1,525,356		$3,370,602
Total: Natural Resources Conservation Service			3	$2,241,919		$18,578,603
Office of the Chief Financial Officer						
114010030FM	2009/09/25	Statement on Auditing Standards No. 70 Report on National Finance Center General Controls Review–Fiscal Year 2009				
114010031FM	2009/09/14	Agreed-Upon Procedures: Retirement, Health Benefits, and Life Insurance Withholdings/Contribution and Supplemental Semiannual Headcount Report Submitted to the Office of Personnel Management for Fiscal Year 2009				
Total: Office of the Chief Financial Officer			2			

AUDIT REPORTS RELEASED AND ASSOCIATED MONETARY VALUES FROM APRIL 1 THROUGH SEPTEMBER 30, 2009						
AUDIT NUMBER	**RELEASE DATE**	**TITLE**		**QUESTIONED COSTS AND LOANS**	**UNSUPPORTED COSTS AND LOANS**	**FUNDS TO BE PUT TO BETTER USE**
Risk Management Agency						
056010011AT	2009/09/16	RMA Compliance Activities				
Total: Risk Management Agency			1			
Rural Development						
857030001HQ	2009/04/03	Existing Risk to Rural Development's Economic Recovery Program				
Total: Rural Development			1			
Rural Housing Service						
040990211TE	2009/04/28	Request Audit of an Oklahoma Rural Rental Housing Management Company				$83,373
040990212TE	2009/08/25	Multi-Family Housing Loans in Texas				
046010017CH	2009/07/02	Controls over Lender Activities in the Single Family Housing Guaranteed Loan Program				
047030001CH	2009/09/30	Controls over Eligibility Determinations for Single Family Housing Guaranteed Loan Recovery Act Funds (Phase I)				
Total: Rural Housing Service			3			$83,373
Grand Total:			**25**	**$2,292,659**		**$21,407,252**

AUDITS WITHOUT MANAGEMENT DECISION

The IG 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.

NEW SINCE LAST REPORTING PERIOD

Agency	Date Issued	Title of Report	Total Value at Issuance (in dollars)	Amount With No Mgmt. Decision (in dollars)
FSA	02/02/09	1. Hurricane Relief Initiatives: Livestock and Feed Indemnity Programs (03601-23-KC)	1,866,412	1,688,247
RMA	03/04/09	2. 2005 Emergency Hurricane Relief (05099-28-AT)	217,256,417	217,256,417

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.

Agency	Date Issued	Title of Report	Total Value at Issuance	Amount With No Mgmt. Decision
CSREES	08/17/07	3. CSREES–Tribal 1994 Land-Grant Institutions (13011-3-At)	951,345	874,986
FAS	02/22/07	4. Trade Promotion Operations (07601-1-Hy)	0	0
MULTI	09/30/03	5. Implementation of Agricultural Risk Protection Act (50099-12-KC)	0	0
	02/23/04	6. Homeland Security Issues for USDA Grain and Commodities Inventory (50099-13-KC)	0	0
	03/28/07	7. Implementation of Trade Title of 2002 Farm Bill and President's Management Agenda (50601-12-At)	0	0
	03/31/08	8. USDA's Controls Over the Importation and Movement of Live Animals (50601-12-Ch)	0	0
RMA	03/15/02	9. Monitoring of RMA's Implementation of Manual 14 Reviews/ Quality Control Review System (05099-14-KC)	0	0
	03/26/07	10. Evaluation of RMA Indemnity Payments for 2004 Florida Hurricanes (05099-27-At)	415,710	415,710
	09/30/08	11. Crop Loss and Quality Adjustments for Aflatoxin Infected Corn (05601-15-Te)	15,951,016	15,951,016

AUDITS WITHOUT MANAGEMENT DECISION—NARRATIVE FOR NEW ENTRIES

1. Hurricane Relief Initiatives: Livestock and Feed Indemnity Programs (03601-23-KC, issued February 2, 2009)

OIG found that FSA needed to revise procedures for future programs to provide detailed guidance describing the required documentation for applicants and third-party certifiers to clearly substantiate claimed livestock losses, and to provide specific instructions for local FSA office personnel to follow when an applicant does not have verifiable evidence to establish a beginning inventory. FSA generally agreed to (1) coordinate with OIG Investigations on six cases for which FSA requested investigations of claimed losses, (2) determine the adequacy of documentation supporting beginning and ending inventories, (3) make a final determination regarding changes made to 2005 Farm Operating Plans that increased program payments, (4) seek recovery of any unsupported payments associated with the issues presented in the audit report, and (5) review the facts and circumstances regarding the establishment of loss claim periods to ensure they correlate eligible loss periods more closely with local conditions related to the disaster.

2. RMA's 2005 Emergency Hurricane Efforts in Florida (05099-28-At, issued March 4, 2009)

OIG found that the insurance provider, Rural Community Insurance Services (RCIS), did not fulfill its contractual obligations to which it had agreed to under the Standard Reinsurance Agreement for all phases of the insurance process—underwriting policies, adjusting claims for losses, and reporting its indemnities to RMA. RCIS did not effectively underwrite crop years 2005 and 2006 nursery liability; did not comply with RMA's loss adjustment policies and procedures on claims it processed and paid; and reported inaccurate claim information to RMA for reimbursement of the indemnities it paid producers. RMA generally agreed with 15 of the 18 recommendations for corrective actions. We have reached management decision on one recommendation, and we are working with RMA to achieve management decision on the remaining recommendations.

INDICTMENTS AND CONVICTIONS

From April 1 through September 30, 2009, OIG completed 151 investigations. We referred 103 cases to Federal, State, and local prosecutors for their decision.

During the reporting period, our investigations led to 289 indictments and 454 convictions. The period of time to obtain court action on an indictment varies widely; therefore, the 454 convictions do not necessarily relate to the 289 indictments. Fines, recoveries/collections, restitutions, claims established, cost avoidance, and administrative penalties resulting from our investigations totaled about $36.5 million.

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

Indictments and Convictions April 1–September 30, 2009		
Agency	**Indictments**	**Convictions***
AMS	5	7
APHIS	195	360
FNS	251	250
FS	5	3
FSA	33	17
FSIS	6	11
GIPSA	0	2
NRCS	5	3
OCFO	0	2
OIG	1	0
RBS	0	5
RHS	1	3
RMA	10	13
RUS	5	3
Totals	**517**	**679**

*This category includes pretrial diversions.

OFFICE OF INSPECTOR GENERAL HOTLINE

The OIG Hotline serves as a national intake-point for reports from both employees and the general public of suspected incidents of fraud, waste, mismanagement, and abuse in USDA programs and operations. During this reporting period, the OIG Hotline received 1,109 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.

Figure 1. Volume and Type

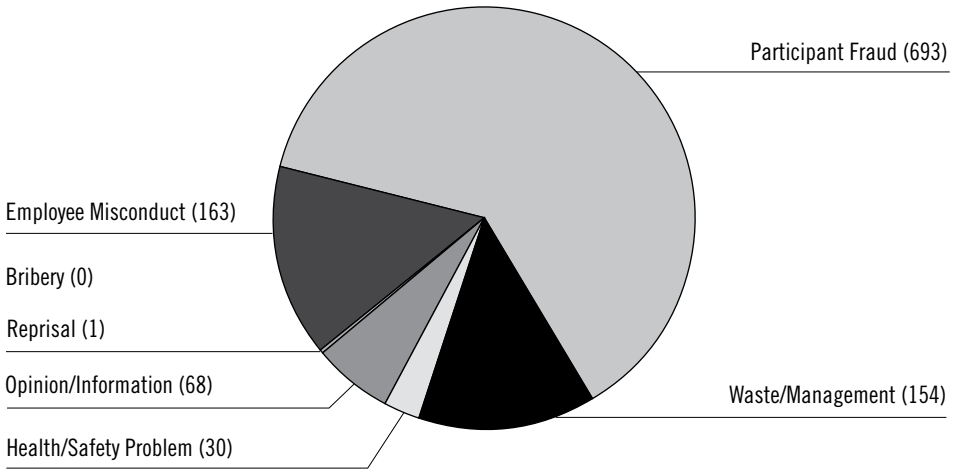
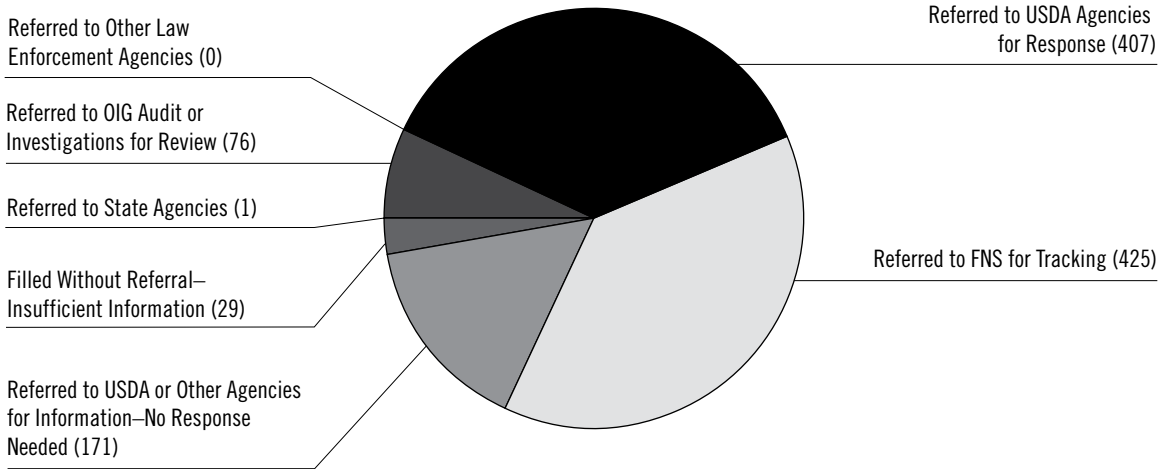


Figure 2. Disposition of Complaints Received



FREEDOM OF INFORMATION ACT (FOIA) AND PRIVACY ACT (PA) REQUESTS FOR THE PERIOD APRIL 1 TO SEPTEMBER 30, 2009	
Number of FOIA/PA Requests Received	**69**
Number of FOIA/PA Requests Processed	**72**
Number Granted	6
Number Partially Granted	26
Number Not Granted	31
Reasons for Denial	
No Records Available	15
Referred to Other Agencies	1
Requests Denied in Full Exemption 5	0
Requests Denied in Full Exemption 7(A)	12
Requests Denied in Full Exemption 7(C)	0
Request Withdrawn	6
Fee-Related	0
Not a Proper FOIA Request	1
Not an Agency Record	1
Duplicate Request	0
Other	5
Requests for OIG Reports From Congress and Other Government Agencies	
Received	9
Processed	11
Appeals Received	**4**
Appeals Processed	**4**
Appeals Completely Upheld	3
Appeals Partially Reversed	1
Appeals Completely Reversed	0
Appeals Requests Withdrawn	0
Other	0
Number of OIG Reports/Documents Released in Response to Requests	**27**
NOTE 1: A request may involve more than one report. NOTE 2: During this 6-month period, 34 audit reports were posted online on the OIG Web site: http://www.usda.gov/oig	

Abbreviations	
AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service
CCC	Commodity Credit Corporation
CI	Criminal Investigation (IRS)
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CSREES	Cooperative State Research, Education, and Extension Service
DCHA	District of Columbia Housing Authority
DHS	U.S. Department of Homeland Security
EU	European Union
FAS	Foreign Agricultural Service
FBI	Federal Bureau of Investigation
FCIC	Federal Crop Insurance Corporation
FDA	Food and Drug Administration
FNS	Food and Nutrition Service
FS	Forest Service
FSA	Farm Service Agency
FSAN	Financial Statement Audit Network
FSIS	Food Safety and Inspection Service
GAO	Government Accountability Office
GIPSA	Grain Inspection, Packers and Stockyards Administration
HARCFL	Heart of America Regional Computer Forensic Lab
ICE	Immigration and Customs Enforcement (DHS)
IRS	Internal Revenue Service

Abbreviations	
NCFD	National Computer Forensic Division
NFC	National Finance Center
NIFA	National Institute for Food and Agriculture
NITC	National Information Technology Center
NJTTF	National Joint Terrorism Task Force
NMHSD	New Mexico Human Services Department
NRCS	Natural Resources Conservation Service
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
OMB	Office of Management and Budget
OOCIC	Ohio Organized Crime Investigations Commission
OPM	Office of Personnel Management
RATB	Recovery Accountability and Transparency Board
RBS	Rural Business-Cooperative Service
RD	Rural Development
RHS	Rural Housing Service
RMA	Risk Management Agency
RUS	Rural Utilities Service
SNAP	Supplemental Nutrition Assistance Program
SSA	Social Security Administration
TAAF	Trade Adjustment Assistance for Farmers
USDA	U.S. Department of Agriculture

EXAMPLES OF PROGRAM IMPROVEMENT RECOMMENDATIONS MANAGEMENT AGREED TO DURING THIS REPORTING PERIOD (115 TOTAL)

- FSIS agreed to further strengthen its oversight by analyzing the reasons why foreign countries have rejected U.S. beef products when these products are presented for re-entry into the United States.
- NRCS agreed to: (1) develop cooperative relationships with the State agencies responsible for regulating dams so that the Federal-State partnership has the authority to require the rehabilitation of dams that threaten public safety; and (2) report to Congress on any high-hazard dams in need of rehabilitation that are not rehabilitated due to limitations in the program.
- RHS agreed to develop specific minimum requirements in the SFH Guaranteed Loan Program for lenders' quality control processes, monitor lenders' compliance with the quality control requirements, and establish procedures for field staff to verify that lenders set interest rates in accordance with agency guidelines before issuing the loan guarantees.
- RD agreed to establish at least two additional performance measures to better reflect the agency's success in meeting the purposes and principles of the Recovery Act.
- GIPSA agreed to strengthen controls over investigation resolution; implement a defined process for reviewing, approving, and issuing program guidance to ensure consistency; and implement an effective internal review function as previously recommended.

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 four goals:

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

To learn more about OIG, visit our website at
www.usda.gov/oig/home.htm

How To Report Suspected Wrongdoing in USDA Programs

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TDD (Call Collect) 202-690-1202

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888-620-4185 (24 hours)

Office of Inspector General