

2011
Explanatory Notes

OFFICE OF INSPECTOR GENERAL

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OFFICE OF INSPECTOR GENERAL

Purpose Statement

The Office of Inspector General (OIG) was established pursuant to the Inspector General Act of 1978 (5 U.S.C. app. 3). Its activities consist of two broad areas: audits and investigations.

The OIG appropriation funds activities which are authorized by the Inspector General Act of 1978 as amended. This Act expanded and provided specific authorities for the activities of the Office of Inspector General, which had previously been carried out under the general authorities of the Secretary of Agriculture. The Office of Inspector General:

- a. Provides policy direction and conducts, supervises, and coordinates all audits and investigations relating to programs and operations of the Department.
- b. Reviews existing and proposed legislation and regulations and makes recommendations to the Secretary and the Congress regarding the impact such initiatives will have on the economy and efficiency of the Department's programs and operations and the prevention and detection of fraud, waste, and mismanagement in such programs.
- c. Recommends policies for and conducts, supervises, or coordinates other activities in the Department whose purposes are to promote economy and efficiency or prevent and detect fraud, waste, and mismanagement.
- d. Recommends policies for and conducts, supervises, or coordinates relationships between the Department and other Federal, State, and local government agencies in: (1) promoting economy; (2) preventing and detecting fraud, waste, and mismanagement; and (3) identifying and prosecuting individuals and groups involved in fraud, waste, and mismanagement.
- e. Keeps the Secretary and the Congress fully and currently informed about fraud, waste, mismanagement, deficiencies, and other serious problems in Department programs and operations; recommends corrective action; and reports on the progress made in correcting problems.

OIG is headquartered in Washington, D.C., with regional offices in the following cities: Beltsville, Maryland; Atlanta, Georgia; Chicago, Illinois; Temple, Texas; Kansas City, Missouri; and San Francisco, California. As of September 30, 2009, OIG had 563 permanent full-time employees, including 156 employees located in the Washington, D.C., metropolitan area and 407 located in the field.

OIG Reports:

30016-2HY 06/09 GIPSA PSA followup
10601-1-AT 07/09 Flood Control Dams
24601-10-HY 09/09 Recall by Hallmark/Westland Meat Packing Company
10601-4-KC 06/09 Conservation Security Program
09601-8-TE 03/09 Broadband
08601-53-SF 07/09 Replacement Plan for Firefighting Aerial Resources

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Available Funds and Staff Years
2009 Actual and Estimated 2010 and 2011

	Actual 2009		Estimated 2010		Estimated 2011	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Salaries and Expenses	\$85,640,060	550	\$88,725,000	600	\$90,300,000	600
Disaster Supplemental.....	1,392,984		2,236,000		1,371,000	
Recovery Act, Conservation.....	5,018,569		10,000,000		7,481,000	
Total, Salary and Expenses	\$92,051,613	550	\$100,961,000	600	\$99,152,000	600
<u>Obligations under other</u>						
<u>USDA appropriations:</u>						
Risk Management Agency						
Audit of Financial						
Statements	386,000	--	386,000	--	386,000	--
Rural Utilities Services						
Audit of Financial						
Statements	--	--	--	--	--	--
Food and Nutrition Services						
Audit of Financial						
Statements	1,020,000	--	1,020,000	--	1,020,000	--
Rural Development						
Audit of Financial						
Statements	1,000,000	--	1,000,000	--	1,000,000	--
OCFO/WCF Audits	800,000	--	800,000	--	800,000	--
OCR	100,013		--	--	--	--
Environmental Protection Agency.....	27,254		--	--	--	--
Total, Other USDA						
Appropriations	3,333,267	--	3,206,000	--	3,206,000	--
Total, Office of the Inspector						
General	95,384,880	550	104,167,000	600	102,358,000	600

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Permanent Positions by Grade and Staff Year Summary
2009 Actual and Estimated 2010 and 2011

Grade	2009			2010			2011		
	Wash DC	Field	Total	Wash DC	Field	Total	Wash DC	Field	Total
Executive Level IV	1	--	1	1	--	1	1	--	1
Senior Executive Service	9	--	9	9	--	9	9	--	9
GS-15	15	10	25	15	13	28	15	13	28
GS-14	38	57	95	32	55	87	32	51	83
GS-13	34	179	213	29	160	189	29	161	190
GS-12	26	86	112	16	98	114	19	93	112
GS-11	7	43	50	13	44	57	16	43	59
GS-9	4	16	20	9	33	42	9	35	44
GS-8	4	9	13	10	8	18	10	9	19
GS-7	13	16	29	9	24	33	9	24	33
GS-6	3	4	7	0	4	4	1	5	6
GS-5	3	9	12	2	13	15	3	10	13
GS-4	0	0	0	0	3	3	1	2	3
Total Permanent Positions.....	157	429	586	145	455	600	154	446	600
Unfilled Positions end-of-year.....	-1	-22	-23	--	--	--	--	--	--
Total, Permanent Full-Time Employment, end-of-year.....	156	407	563	145	455	600	154	446	600
Staff Year Estimate.....	156	394	550	145	455	600	154	446	600

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Size, Composition, and Cost of Motor Vehicle Fleet

The fiscal year (FY) 2011 budget estimate proposes no change in the number of motor vehicles.

The motor vehicles of the Office of Inspector General (OIG) are used for law enforcement purposes. These vehicles, which are issued to criminal investigators, are utilized in the pursuit and prevention of criminal activities, such as fraud in subsidy, price support, benefits, and insurance programs; significant thefts of Government property or funds; bribery; extortion; smuggling; and assaults on employees. In addition, the vehicles are used for investigations involving criminal activity that affects the health and safety of the public, such as meat packers knowingly selling hazardous food products and individuals who tamper with food regulated by USDA. In addition, OIG criminal investigators are poised to provide emergency law enforcement response to USDA declared emergencies and suspected incidents of terrorism affecting USDA regulated industries, as well as USDA programs, operations, personnel, and installations, in coordination with Federal, State, and local law enforcement agencies, as appropriate.

Replacement of passenger motor vehicles. Any replacements will be funded from within the annual operating costs of the motor vehicle fleet.

Impediments to managing the motor vehicle fleet. There are no identified impediments to managing the motor vehicle fleet in the most cost-effective manner.

Size, Composition, and Annual Cost
(Dollars in thousands)

Fiscal Year	Number of Vehicles by Type*								Total Vehicles	Annual Operating Cost
	Sedans & Station Wagons	Light 4x2	Trucks 4x4	Medium Trucks	Heavy Trucks	Ambulances	Buses			
FY 2008	83	39	54	--	--	--	--	176	\$947	
Change from 2008	4	-2	-6	1	--	--	--	-3	6	
FY 2009	87	37	48	1	--	--	--	173	\$953	
Change from 2009	7	-3	8	--	--	--	--	12	12	
FY 2010	94	34	56	1	--	--	--	185	\$965	
Change from 2010	--	--	--	--	--	--	--	--	6	
FY 2011	94	34	56	1	--	--	--	185	\$971	

*These numbers include vehicles that are owned by the agency and those leased from GSA.

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Appropriation Language and
Explanation of Changes in Language

The estimate includes proposed changes in the language of this item as follows (new language underscored; deleted matter enclosed in brackets):

Office of Inspector General

For necessary expenses of the Office of Inspector General, including employment pursuant to the Inspector General Act of 1978, [\$88,725,000], \$90,300,000, including such sums as may be necessary for contracting and other arrangements with public agencies and private persons pursuant to section 6(a)(9) of the Inspector General Act of 1978, and including not to exceed \$125,000 for certain confidential operational expenses, including the payments of informants, to be expended under the direction of the Inspector General pursuant to Public Law 95-452 and section 1337 of Public Law 97-98.

IG Reform Act of 2008

As directed by Section 8, submission of Budget Request to Congress, of the Inspector General Reform Act of 2008 (P.L. 110-409), USDA is providing additional information regarding the OIG budget request. In its agency estimate to the Department for FY 2011, OIG requested \$91,679,000. Of this amount, \$559,770 was to support training needs and \$220,000 was to support the Council of Inspector General for Integrity and Efficiency (CIGIE). The President's Budget includes \$90,300,000 for the USDA OIG. Of this amount, \$559,770 will support training requirements and \$394,000 will support the CIGIE.

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Lead-off Tabular Statement

Salaries and Expenses -- Current Law

Appropriations Act, 2010.....	\$88,725,000
Budget Estimate, 2011.....	<u>90,300,000</u>
Increase in Appropriation.....	<u>1,575,000</u>

Summary of Increases and Decreases -- Current Law

(On basis of appropriation)

<u>Item of Change</u>	<u>2010 Estimated</u>	<u>Pay Costs</u>	<u>Program Changes</u>	<u>2011 Estimated</u>
Audit and Investigations.....	\$88,725,000	+\$1,019,000	+\$556,000	+\$90,300,000

Project Statement - Current Law

(On basis of appropriation)

	<u>2009 Actual</u>		<u>2010 Estimated</u>		<u>Increase or Decrease</u>	<u>2011 Estimated</u>	
	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>		<u>Amount</u>	<u>Staff Years</u>
1. Audit.....	\$41,963,629	281	\$43,475,000	306	\$772,000	\$44,247,000	306
2. Investigations.....	43,676,431	269	45,250,000	294	803,000	46,053,000	294
Unobligated Balance.....	+125,940						
Appropriation.....	<u>85,766,000</u>	<u>550</u>	<u>88,725,000</u>	<u>600</u>	<u>1,575,000</u>	<u>90,300,000</u>	<u>600</u>

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Justification of Increases and Decreases

An increase of \$1,575,000 for the Office of Inspector General consisting of:

- (a) A total increase of \$1,019,000 to fund increased pay cost.

This increase will allow OIG to continue to meet its objective of providing direction, supervision, and coordination of audits and investigations relating to USDA programs and operations. This critical increase is needed to support and maintain current staffing levels to meet the demands and statutory requirements of OIG. Approximately 86 percent of OIG's budget supports personnel compensation. The remaining 14 percent is expended for contract services and rental fees (7 percent); travel (4 percent); and supplies, equipment, and telecommunications (3 percent) – which leaves very limited flexibility for absorbing pay costs. OIG can absorb cost increases only by reducing staff, which would result in reduced audit and investigation activities.

- (b) An increase of \$394,000 to support the Council of the Inspectors General on Integrity and Efficiency (CIGIE).

The Inspector General Reform Act (Pub. L. 110-409) was signed by the President on October 14, 2008. Section 6(f) (1) of the Inspector General Act of 1978, 5 U.S.C. App. 3, was amended to require certain specifications concerning OIG budget submissions each fiscal year. This funding will allow OIG to fully fund its share of the Council as a means of improving collaboration between Federal IGs.

- (c) An increase of \$162,000 to support investigator training requirements.

OIG is requesting an increase of \$162,000 to support investigator training, which includes required Federal law enforcement training, training peer counselors for Critical Incident Stress Management, and continuing legal training.

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Geographic Breakdown of Obligations and Staff Years
2009 Actual and Estimated 2010 and 2011

	2009		2010		2011	
	Staff Amount	Years	Staff Amount	Years	Staff Amount	Years
California.....	\$9,278,940	61	\$9,021,000	61	\$9,030,000	60
District of Columbia.....	19,622,678	116	20,555,000	139	21,521,000	143
Georgia.....	11,560,648	76	10,794,000	73	10,987,000	73
Illinois.....	10,039,510	66	10,352,000	70	10,535,000	70
Maryland.....	10,495,851	69	12,126,000	82	12,190,000	81
Missouri.....	15,211,378	100	18,188,000	123	18,361,000	122
Texas.....	9,431,055	62	7,689,000	52	7,676,000	51
Subtotal, Available or Estimate.....	85,640,060	550	88,725,000	600	90,300,000	600
Unobligated Balance....	+125,940					
Total, Available or Estimate	85,766,000	550	88,725,000	600	90,300,000	600

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Classification by Objects
2009 Actual and Estimated 2010 and 2011

Personnel Compensation:		<u>2009</u>	<u>2010</u>	<u>2011</u>
Washington, D.C.		\$7,343,859	\$8,819,000	\$8,887,000
Field		41,581,744	49,976,000	50,983,000
<hr/>				
11	Total personnel compensation	48,925,603	58,795,000	59,870,000
12	Personnel benefits	16,813,727	17,488,000	17,524,000
13	Benefits for former personnel	10,500	21,000	23,000
		<hr/>	<hr/>	<hr/>
		65,749,830	76,304,000	77,417,000
Other Objects:				
21	Travel	4,749,984	4,144,000	4,185,000
22	Transportation of things	142,660	152,000	170,000
23.1	Rental payments to GSA	64,639	65,000	74,000
23.2	Rental payments to others	384,500	481,000	548,000
23.3	Communications, utilities, and miscellaneous charges	1,652,693	1,240,000	1,320,000
24	Printing and reproduction	129,412	158,000	168,000
25.1	Advisory and assistance services ..	1,138,596	665,000	708,000
25.2	Other services	1,652,490	849,000	903,000
25.3	Purchases of goods and services from Government accounts	1,845,204	1,114,000	1,145,000
25.4	Operation and maintenance of facilities	1,961,503	973,000	1,035,000
25.5	Research and development contracts	705,577	350,000	372,000
25.6	Medical care	195,546	97,000	104,000
25.7	Operation and maintenance of equipment	530,028	264,000	281,000
25.8	Subsistence and support of persons	98,781	49,000	52,000
26	Supplies and materials	817,877	737,000	730,000
31	Equipment	3,802,295	1,042,000	1,044,000
42	Insurance & Indemnities	18,220	38,000	41,000
43	Interest & Dividends	225	3,000	3,000
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	Total other objects	19,890,230	12,421,000	12,883,000
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	Total direct obligations	85,640,060	88,725,000	90,300,000
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<u>Position Data:</u>				
	Average Salary, ES positions	\$159,000	\$178,000	\$179,000
	Average Salary, GS positions	\$90,000	\$97,000	\$97,000
	Average Grade, GS positions	11.5	11.6	11.6

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 SUMMARY OF RECOVERY ACT FUNDING
 Salaries and Expenses

<u>Program/Project/Activity</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Oversight of USDA Economic Stimulus Funding.....	\$5,018,569	\$10,000,000	\$ 7,481,000

Program Implementation Activities

The American Recovery and Reinvestment Act of 2009 (Recovery Act) 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.”

The overall objectives of our audit goals are to ensure (1) USDA Recovery Act-related programs are timely and effectively implemented; (2) proper internal control procedures are established; (3) program participants meet eligibility guidelines; (4) participants properly comply with program requirements; and (5) agencies establish effective compliance operations. The overall objective of our investigative goals are to ensure the integrity of USDA Recovery Act-related programs by (1) timely identifying potential fraud within those programs; (2) swiftly and efficiently investigating potential fraud; (3) prosecuting and seeking administrative action where warranted; and (4) implementing an effective and efficient whistleblower allegation investigation program for both complaints related to Recovery Act funds generally and reprisal complaints of non-Federal employees under the new Recovery Act authorities.

Immediately after the enactment of the Recovery Act in February 2009, OIG began conducting audits and investigations to ensure that we were providing timely and effective oversight of the Recovery monies provided for USDA programs. OIG-Audit, as of December 17, 2009, has planned 51 reviews in a number of areas, including farm loans, watershed programs, supplemental nutrition assistance, wild land fire management, capital improvements and maintenance, and several rural development programs. Of these, we have initiated 38 assignments and completed 6 audits. USDA OIG’s Recovery Act 2010 Work Plan can be viewed on <http://www.usda.gov/oig/recovery/index.htm>.

Performance Measures

	Performance Data		
	<u>2009 Actual</u>	<u>2010 Target</u>	<u>2011 Target</u>
Review of internal controls (Phase I) related to individual Recovery Act programs initiated and completed	N/A*	75%	75%
Notify USDA agency managers of significant audit findings related to Recovery Act programs along with recommendations for corrective action within 30 days after identification	N/A*	80%	80%
Respond to Recovery Accountability and Transparency Board sponsored requests and projects within established schedules or agreed-to timeframes.	N/A*	85%	85%
Whistleblower retaliation allegations are investigated and reported within 180 days of receipt	N/A*	75%	75%

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Investigations staff will participate in 10 Outreach/Training Meetings each quarter on Recovery Act work.	N/A*	80%	80%
An investigative determination to accept or decline an allegation of whistleblower retaliation is made within 180 days of receipt	N/A*	100%	100%
Monthly reporting to Office of Management and Budget on Recovery Act funds within required deadline	N/A*	100%	100%

*New performance measures established beginning for FY 2010

Highlights of Current and Planned Investigations Work (FY 2009 Accomplishments/FY 2010 Planned Activities):

Recovery Act Funds. USDA received several billion dollars in Recovery Act funds. As a result, OIG Investigations immediately initiated outreach activities to our Federal, State and local partners to discuss the importance of reporting potential fraud involving Recovery Act monies. OIG Investigations reviewed its Hotline procedures and made adjustments to ensure that any complaints or allegations received are acted upon quickly and the results are provided to the Recovery Accountability and Transparency Board (RATB). Additionally, OIG Investigations identified Criminal Investigators with an expertise in contract fraud and those individuals actually conducted the analysis of the initial referrals received from the RATB and worked with the USDA program agencies to resolve any identified issues with the contracting process. Within the next year, Investigations will continue its work of responding to allegations of misuse of Recovery Act funds and conducting investigations into any attempt to fraudulently obtain or utilize these funds.

Selected Examples of Recent Progress – Audit (FY 2009 Accomplishments):

Controls Over Eligibility Determinations for Single Family Housing Guaranteed Loan Recovery Act Funds (Phase I). The Recovery Act included almost \$10.5 billion in funds for USDA to guarantee single family housing loans in rural areas for FYs 2009 and 2010. Our audit objectives were to ensure that agency officials (1) timely and effectively distribute funds, (2) establish effective internal control procedures, and (3) establish compliance and monitoring operations. We also monitored participatory compliance with eligibility requirements. We found that the agency did not require lenders to submit documentation to support borrower eligibility for loans; improperly approved borrowers applications with high debt ratios increasing the risk of loan default; did not review and verify borrower eligibility information submitted by brokers who may alter critical information on loan applications such as borrower income; did not require the segregation of duties at field offices; and accepted inadequate housing appraisals which could lead to higher dollar losses to the government if the loans were to default. Agency national officials generally agreed with our findings and recommendations. They proposed corrective actions that should reduce the risk of errors or potential lender abuse that would result in significant loss to the program.

Single Family Housing Direct Loans Recovery Act Controls Phase I. The Recovery Act included \$1 billion for the Rural Housing Service (RHS) to provide single-family housing (SFH) direct loans to borrowers for FYs 2009 and 2010. The objectives of Phase I were to review Rural Development's management controls to ensure the Recovery Act funded Section 502 SFH Direct Loan Program was timely and effectively implemented to (1) ensure Rural Development field offices have sufficient and competent staff to timely and properly process the increase of Section 502 direct loans due to the additional funding provided by the Recovery Act; (2) monitor performance goals established by Rural Development to measure the program's effectiveness in meeting the purposes of the Recovery Act; and (3) evaluate compliance activities in relation to overseeing Recovery Act funding requirements.

During this initial phase, we (1) determined that State offices are not fully utilizing funds for administrative costs provided by the Recovery Act to mitigate staff shortages, (2) identified additional performance measures that Rural Development could be tracking and reporting to better define its accomplishments in meeting the goals of the

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Recovery Act, and (3) found that Rural Development does not perform adequate compliance activities to review the quality of loan underwriting for its SFH direct loans to ensure it properly and prudently uses Section 502 SFH Direct Loan Program funds, including Recovery Act funds. Agency national officials generally agreed with our findings and recommendations.

American Recovery and Reinvestment Act of 2009 Reporting Oversight. This audit focused on the internal controls and policies and procedures for implementing recipient reporting requirements specified in OMB M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act (Recovery Act) of 2009*, dated June 22, 2009, that are the responsibility of USDA when dispersing Recovery Act funds. OMB's M-09-21 Recovery Act recipient reporting guidance called for agencies receiving Recovery Act funds to implement a limited data review process to identify material omissions and/or significant errors¹ and notify the recipients of the need to make complete, accurate, and timely adjustments. Our objective was to determine whether USDA had established a process, including USDA agency responsibilities, for performing limited data quality reviews. We found that USDA has provided significant information and assistance to its agencies but has not established an internal control structure with formal policies and procedures. We recommend that USDA establish an internal control structure with formal policies and procedures that provide a clear indication of departmental versus agency responsibility for determining the completeness and validity of recipient reporting in order to identify material omissions and/or significant errors. The Office of the Chief Financial Officer generally agreed with our findings and recommendations.

Highlights of Current and Planned Audit Work (FY 2010 Planned Activities):

Audit work is being performed to:

- Monitor the development of USDA agency program guidance and requirements for distributing Recovery Act funding to program participants, including eligibility requirements.
- Evaluate internal control systems utilized to ensure program objectives are achieved, program participants fully meet eligibility requirements, and payments are accurately computed.
- Determine if funding recipients complied with all eligibility criteria.
- Evaluate USDA compliance activities in relation to Recovery Act funding requirements.

Our audit work is being conducted in multiple phases based on USDA implementation of Recovery Act-related programs.

- Departmental Administration
 - Agriculture Buildings and Facilities and Rental Payments
- Agricultural Research Service
 - Buildings and Facilities

¹ Material omissions are instances where required data are not reported or reported information is not otherwise responsive to the data requests, resulting in significant risk that the public is not fully informed as to the status of a Recovery Act project or activity. Significant errors are instances where required data are not reported accurately and such erroneous reporting results in significant risk that the public will be misled or confused by the recipient report in question.

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- Farm Service Agency
 - Salaries and Expenses – Information Technology
 - Farm Operating Direct Loans
- Natural Resources Conservation Service
 - Watershed and Flood Prevention Operations
 - Watershed Rehabilitation Program
- Rural Business-Cooperative Service
 - Rural Business and Industry Guaranteed Loan Program
 - Rural Business Enterprise Grants
- Rural Housing Service
 - Rural Community Facilities Loan and Grant Programs
 - Section 502 Direct Single Family Housing Loan Program
 - Section 502 Guaranteed Single Family Housing Loan Program
- Rural Utilities Service
 - Rural Water and Waste Disposal Direct Loan and Grant Programs
- Food and Nutrition Service
 - WIC Management Information Systems
 - WIC Contingency Funds
 - Supplemental Nutrition Assistance Program (SNAP) Increased Benefits
 - SNAP State Administrative Expenses
 - Food Distribution on Indian Reservations Administrative Expenses
 - FNS Management and Oversight of SNAP
 - Child Nutrition Equipment Assistance
 - The Emergency Food Assistance Program (TEFAP)
- Forest Service
 - Capital Improvement and Maintenance
 - Wild land Fire Management
- Agriculture Disaster Assistance Transition
 - 2008 Transition Assistance
 - Aquaculture Assistance Grants
- Foreign Agricultural Service
 - Trade Adjustment Assistance for Farmers

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STATUS OF PROGRAM

The Office of Inspector General (OIG) is operationally independent of other agencies of the Department. OIG has the responsibility to (1) supervise, coordinate, and provide policy direction for audit and investigative activities relating to programs and operations of the Department; (2) recommend policies and conduct, supervise, or coordinate other activities of the Department for the purpose of promoting economy and efficiency and preventing and detecting fraud, waste, and mismanagement in its programs and operations; (3) keep the Secretary and Congress informed of fraud and other serious problems, waste, and deficiencies relating to the administration of programs and operations of the Department; and (4) recommend corrective action and report on progress made in obtaining management's agreement to implement such action.

During fiscal year (FY) 2009, OIG issued 288 investigative reports and 47 audit reports. Audit and Investigative results totaled \$199.7 million. OIG investigations resulted in 517 indictments and 679 convictions. The period of time to get court action on an indictment varies widely; therefore, the 679 convictions are not necessarily related to the 517 indictments. Our return on investments is \$5.60 for every dollar invested in OIG.

Audit Monetary Results:

During FY 2009, management decisions were made on 41 audit reports, which include both current and prior year audit reports. At the time of the management decision, the monetary values agreed to by agencies were:

		<u>(in millions)</u>
Questioned and unsupported costs and loans		\$ 3.8
Recommended for recovery	3.8	
Funds to be put to better use		<u>112.0</u>
Total audit monetary results		115.8

Investigative Monetary Results:

		<u>(in millions)</u>
Claims established		\$3.5
Recoveries and collections		5.0
Cost avoidance (USDA program payments not made due to OIG investigations)		8.9
Fines		9.5
Administrative penalties		0.2
Restitutions		<u>56.8</u>
Total investigative monetary results		83.9

OIG's audit and investigatory work for FY 2009 is summarized below in four main challenge areas we have identified for USDA. These areas – (1) safety and security measures to protect public health and resources; (2) integrity of benefits and entitlements programs; (3) USDA's management improvement initiatives, and

(4) stewardship of natural resources – serve as both a roadmap for OIG’s audit and investigatory work and as the main graphics for this Status of Program Report.

SAFETY, SECURITY, AND PUBLIC HEALTH - Strengthen USDA’s ability to implement safety and security measures to protect the public health as well as agricultural and Departmental resources.

USDA ensures, as a part of its mission, that the Nation’s commercial supply of imported or domestic meat, poultry, and egg products is safe, wholesome, and correctly labeled. Challenges to this include food-borne illnesses and the unintentional or intentional adulteration of meat and other food products. Protection of America’s animal and plant resources requires that they are safeguarded from exotic invasive pests and that trade issues relative to animal and plant health are resolved. However, the greater challenge is to ensure that the programs are working and properly administered so that the safety risk to those who consume the food products is minimized. The challenge is associated with ensuring a safe, secure, and healthy American agricultural system and economy.

Safety and security over computer and building assets are also a major concern within USDA to ensure accidental or intentional breaches are quickly identified and remedied.

Highlights of current and planned OIG audits, inspections, and investigations, as well as select examples of recent progress accomplished through OIG audits and investigations are described below:

Highlights of Current and Planned Audit Work:

National Residue Program (NRP) for Cattle. Our audit will determine how effective the Food Safety and Inspection Service (FSIS) has been in administering the NRP at cattle slaughter plants. We will further assess the effectiveness of the coordination among FSIS, the Food and Drug Administration, and the Environmental Protection Agency in regard to the administration of the NRP. Additionally, we will review the implementation status of FSIS corrective actions to our recommendations made in our audit issued in November 2008, which were applicable to our review.

Food Emergency Response Network (FERN). This audit will evaluate the implementation of FERN to determine what progress FSIS has made in establishing capabilities for: (1) preventing attacks on the food supply; (2) preparing member (Federal, State, and local) laboratories to respond to food-related emergencies; (3) providing regional and national surge capacity for laboratories; and (4) assisting in recovery efforts to restore confidence in the food supply following a threat or emergency.

Animal and Plant Health Inspection Service (APHIS) Inspection of Breeders. The audit is evaluating the adequacy of APHIS’ controls to ensure breeders’ compliance with the Animal Welfare Act and review the impact of recent changes to the penalty assessment process. Our review will include an examination of APHIS’ procedures for inspections, violation citations, and followup.

Controls Over Animal Import Centers. The audit is reviewing APHIS’ controls over the quarantine and tracking of animals at Animal Import Centers and the user fees charged by those facilities.

Controls over APHIS Licensing of Animal Exhibitors. The audit is evaluating APHIS controls over the licensing of exhibitors of exotic animals, and the agency’s efforts to safeguard both the animals and members of the public. Our review will also follow up on recommendations of our previous audit issued in June 1996.

APHIS Oversight of Designated Qualified Persons Enforcing the Horse Protection Act. The audit is evaluating the effectiveness of APHIS’ oversight of the humane treatment of horses. The audit is also evaluating APHIS’ policies regarding the humane treatment of horses in transport to slaughter facilities.

Oversight of the National Organic Program (NOP). We are reviewing whether agricultural products marketed as organic meet the requirements of the NOP. In addition, we are examining the adequacy and consistency of the oversight provided by Agricultural Marketing Service (AMS) personnel and certifying agents to ensure that the NOP meets its objectives. (Certifying agents may be private sector or government entities). We also plan to perform a followup review of NOP as mandated in FY 2010 appropriations.

Followup on Purchase Specifications for Ground Beef. We are evaluating the effectiveness of AMS' oversight of the purchasing specification requirements for ground beef donated to the National School Lunch Program and other Federal feeding programs. We are assessing controls for overseeing suppliers' production processes, monitoring the eligibility of suppliers, and conducting microbial sampling. We are also following up on recommendations made in our prior report on purchase specifications for ground beef (Audit 01099-31-Hy).

Forest Service (FS) Contracted Labor Crews. Our audit assessed the effectiveness and efficiency of FS' use of contracted labor in firefighting activities. Specifically, we (1) tried to determine the actual cost of contracted labor and evaluate its efficiency and effectiveness; (2) determined if contractors complied with basic contract requirements (i.e., hiring and compensation packages); and (3) evaluated whether FS has achieved the most effective balance between contracted and in-house labor. We have issued the official draft report and are awaiting the FS' response.

FS Firefighting Succession Plans. Our primary objective was to evaluate whether FS has adequately planned for the timely replacement of its critical wildland fire personnel as retirements increase and fewer staff volunteer for fire assignments. Specifically, we assessed FS plans for recruiting, training, developing, and retaining those personnel who fill critical firefighter positions. Also, we identified other factors or barriers affecting FS' ability to develop and mobilize firefighters needed to fulfill its primary wildfire suppression mission. We have received FS' response to the official draft report and are reviewing their response.

Information Security Activities. To the extent possible with current resources, OIG continues to conduct information technology (IT) security audits to monitor agencies' compliance with Federal mandates, as well as perform investigations of IT security breaches stemming from such activities as IT intrusions and equipment thefts. Our audits have found that, despite strong guidance provided by the Office of the Chief Information Officer (OCIO), agencies' implementation of IT security requirements continues to be problematic and the Department continues to receive a failing grade from the Office of Management and Budget (OMB) on its Federal Information Security Management Act (FISMA) report. Based on our recommendations, agencies are accelerating their efforts to comply with Federal information security requirements. We will aim to provide the necessary followup work to support Department progress in this area.

Highlights of Current and Planned Investigations Work:

Animal Fighting. OIG Investigations has done numerous investigations related to animal fighting. As reported in past years, OIG conducted an investigation of a well-known athlete which raised public awareness regarding the issue of animal fighting. Animal fighting is often the precursor for other violent crimes which include money laundering, drugs, gambling and weapons. However, of greater concern from the USDA perspectives, are the implications of animal fighting on animal safety and health. In many instances animal diseases occur and are able to spread due in particular to avian influenza. Investigations continue to focus on identifying individuals who are supporting organized animal fighting rings throughout the country. The Office of Investigations has developed a brochure regarding animal fighting in an effort to raise the awareness of our partners in State and local law enforcement.

Emergency Response Program (ERP). A key component of the Emergency Response Team (ERT), one of the components of the ERP, is maintaining a constant state of readiness. The ERT is trained to respond to an Agroterrorism incident. Within the next year, the ERT will continue to maintain its training and certification requirements. ERT will focus on the development of a training program utilizing the advanced certifications of some team members to conduct some portions of their training internally. Additionally, the ERT will continue to increase its operational capability by serving as resource for Investigations regional personnel and the Department.

Wildland Fire Investigation Team. The Wildland Fire Investigation Team (WFIT) is the second component of OIG's ERP. Public Law 107-203, enacted on July 24, 2002, requires "in the case of each fatality of an officer or employee of the Forest Service that occurs due to wildfire entrapment or burnover, the Inspector General of the Department of Agriculture shall conduct an investigation of the fatality". The investigation shall not rely on, and shall be completely independent of, any investigation of the fatality that is conducted by the Forest Service.

Within the next year, WFIT will continue to aggressively obtain and pursue the training necessary to maintain their certifications and to stay current with new technology and techniques in their field of expertise. A primary focus for the WFIT team this year will be the development of procedures for conducting wildland fire fatality investigations when multiple Federal and State agencies are involved.

Selected Examples of Recent Progress – Audit:

Evaluation and Investigation of Pre-Slaughter Activities. In January 2008, a Humane Society of the United States video showed the mistreatment of non-ambulatory (downer) cows at a California slaughterhouse. We found there were deliberate actions by Hallmark personnel to bypass required inspections, as well as noncompliance with inspection procedures by FSIS in-plant staff. Management controls did not detect and/or prevent these incidents. Although we found varying degrees of noncompliance and/or inconsistent implementation of required inspection procedures by FSIS inspectors in other cull establishments reviewed, nothing indicated that unsuitable animals were passed for slaughter. We concluded that the events that occurred at Hallmark were not a systemic failure of the inspection processes/system as designed by FSIS. However, we did determine that management controls designed to provide oversight of the inspection processes, as well as organizational controls to demonstrate the sufficiency and competency of its personnel resources, could be strengthened to minimize the chance of such events in the future. FSIS agreed to reassess the inhumane handling risks associated with cull establishments; establish a process to analyze data for variances in both establishment and inspector performance that could require followup; develop a supportable, risk-based methodology for determining inspection resources and an appropriate supervisory structure; develop a structured training and development program for both its inspection and management resources; and strengthen its pre-slaughter inspection processes. We are also conducting an investigation, focused primarily on whether violations of the Federal Meat Inspection Act occurred.

Assessment of USDA's Controls to Ensure Compliance with Beef Export Requirements. OIG conducted this audit in response to a request by the Chairman of the Budget Committee of the United States Senate to assess FSIS' export certification process due to concerns over the trade impact of exported U.S. beef product rejected by foreign countries. 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, FSIS did not ensure that supervisors implemented this guidance by thoroughly assessing the export duties of inspection personnel. We determined that FSIS identified and addressed concerns with the requirements imposed by the foreign countries and had incorporated modules to instruct inspection personnel how to conduct export verification and certification procedures. We did find, however, that FSIS needs to further strengthen its oversight of

exports by analyzing the reasons why foreign countries reject U.S. beef products when these products are presented for re-entry into the United States. FSIS agreed with the findings and recommendations.

FSIS' Oversight of the Recall by Hallmark/Westland Meat Packing Company. OIG conducted this audit to evaluate the FSIS' effectiveness checks of Hallmark's 2008 beef recall, a voluntary recall of over 143 million pounds of beef – the largest recall in U.S. history. We also assessed whether FSIS had implemented corrective actions in response to recommendations we made in two prior reports on the agency's recall process. FSIS has generally taken appropriate actions in response to recommendations we made in two earlier reports that assessed the agency's recall procedures and oversight. However, our current audit 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; but the agency had no procedures to replace sampled customers who were found not to have actually purchased any of the recalled product. In this recall, 41 percent of the companies FSIS contacted had not received the recalled product and therefore should not have been used to evaluate 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 the findings and recommendations.

Rehabilitation of Flood Control Dams. Since the 1940s, the Natural Resources Conservation Service (NRCS) has assisted in the construction of more than 11,000 dams, many of which have reached, or will soon reach the end of their planned design lives and may be in need of rehabilitation. Recognizing the need to rehabilitate these dams, Congress appropriated \$159.6 million from fiscal year 2002 to 2007 to assist dam owners in rehabilitating "structures". OIG initiated this audit to review the adequacy of NRCS' controls for rehabilitating dams to mitigate potential threats to life and property.

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 the State agencies to assess high-hazard dams for rehabilitation. However, NRCS did not always work with the relevant State agencies to assess and rehabilitate high-hazard dams. Without this cooperation, NRCS selected dams for assessment as they were volunteered by their owners, regardless of the potential threat to life and property or their proximity to the end of the planned design life.

We also found a number of problems with NRCS' internal processes for administering the program. For example, NRCS did not prioritize the assessment and rehabilitation of high-hazard dams, which posed the greatest risk to public safety. Instead, 6 years after the program was initiated, NRCS has not assessed 1,345 of 1,711 high-hazard dams (79 percent) and has spent \$10.1 million to assess and rehabilitate lower-hazard dams, which are 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 with the findings and recommendations.

USDA's Role in the Export of Genetically Engineered Agricultural Commodities. The 2002 Farm Bill required USDA to develop a global marketing strategy and a biotechnology and agricultural trade program designed to remove, resolve, or mitigate barriers to the export of U.S. commodities. It also included several biotechnology-related initiatives such as funding public education on the benefits of agricultural biotechnology and researching how biotechnology can be used in developing countries. The 2008 Farm Bill extended many of these provisions. While auditing USDA's role in the export of genetically engineered (GE) agricultural commodities, we found that USDA has not developed a coordinated, comprehensive strategy for addressing the various challenges to the trade in agricultural commodities, including GE commodities, and that USDA has not fulfilled the biotechnology goals of the 2002 Farm Bill. OIG recommended that USDA (1) develop and implement a coordinated, comprehensive strategy for promoting

the export of U.S. GE crops; (2) assist program agency officials in requesting funds to implement the strategy; and (3) complete the outstanding requirements of the 2002 and 2008 Farm Bill. Department officials agreed with the audit findings and recommendations.

USDA Controls over Importation of Transgenic Plants and Animals. Since some of the transgenic plants and animals are unknown to the U.S. regulatory system, importing them could provoke health, commerce, and environmental concerns. An audit was performed to determine if USDA's controls were adequate to mitigate risks from their import. For known transgenic plants, we found that USDA's controls are appropriate for the current risk if they are declared during import. However, we found that USDA has no controls in place that would identify unknown or undeclared transgenic plants. For transgenic animals—including live animals, meat, poultry, and egg products—USDA has not established an import control policy. Further, USDA does not have a strategy for monitoring new transgenic plants and animals that may be developed abroad and imported into the United States. We also found that USDA has not formalized an overall transgenic import control policy. To improve its controls, we recommend that USDA (1) formalize a control policy for all transgenic imports, (2) implement a strategy for monitoring the development of transgenic plants and animals abroad, and (3) develop procedures for regular interagency USDA consultations on potential actions to address any emerging risks from new foreign transgenic plants and animals.

FS' Replacement Plan for Firefighting Aerial Resources. OIG conducted an audit of FS' strategic planning for aerial resources needed to support its firefighting program. 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. 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 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.

Federal Information Security Management. Although improvements have been made in the Department's IT security in the last decade, many longstanding weaknesses remain. The most important accomplishment for the Department during fiscal year 2009 was their implementation of the Cyber Security Assessment and Management system which will provide them with current agency security information enhancing their oversight capabilities. However, a continuing material weakness exists within the Department because of the lack of an effective Department wide plan for addressing IT security vulnerabilities. Although improvements were noted, weaknesses still remain in updating software, finding and fixing vulnerabilities, deploying both encryption and the Federal Desktop Core Configuration, and using standard security settings. With such a large and diverse Department, ensuring that all agencies comply with standards will take time and resources. OCIO is working diligently toward this goal.

Selected Examples of Recent Progress – Investigations:

Emergency Response Team. During fiscal year 2009, the ERT enhanced its technical expertise in response to and mitigation of Hazardous Waste and Confined Space Operations. In one such instance, ERT provided technical expertise in collecting numerous samples of known and unknown chemicals during a USDA search warrant on an organic liquid fertilizer plant. In addition, ERT worked in conjunction with the Federal Bureau

of Investigation (FBI) in collecting and analyzing a suspicious powder found in a container of meat product. The powder was analyzed and it was determined that it contained no harmful select agents or chemicals. Members of the ERT conducted numerous presentations and sustained outreach to Federal, State, and local responders through agro-terrorism workshops held throughout the country. ERT applied its skills in Incident Command Systems through coordinating a five-State arrest and search warrant operation by implementing an Incident Management Assistance Team. Furthermore, the ERT remained a resource to OIG's criminal investigators on numerous occasions during the execution of search warrants related to allegations of animal fighting. During these warrants, the ERT provided forensic expertise in evidence collection and worked with USDA veterinarians for testing and depopulation of fighting birds.

Wildland Fire Team. The WFIT issued the report of investigation of the Esperanza Fire. The fire occurred on October 26, 2006, in California and claimed the lives of five FS firefighters who were caught in a burnover while serving as a look out while monitoring the fire's behavior. This was the first investigation of fire fatalities when a State agency was in command of firefighting operations when the fatalities occurred. The investigation found no misconduct on the part of the FS firefighters or their counterparts in California Department of Forestry and Fire Prevention.

Owners of a California Corporation Sentenced for Selling Uninspected Meat and Poultry Products. In November 2008, in Federal court in the Central District of California, a California corporation was fined \$25,000 and ordered to serve 3 years of probation. The three owners were each fined \$5,000, and one owner was also ordered to serve 3 years of probation. The owners of the corporation had produced and sold meat and poultry raviolis to the public, without Federal inspection, in violation of the Federal Meat Inspection Act (FMIA) and Poultry Products Inspection Act (PPIA). After having been notified of their previous FMIA and PPIA violations, from September 2001 to October 2002, the owners sold more than \$121,000 worth of meat and poultry raviolis. No illnesses were reported.

Pennsylvania and Virginia Individuals Convicted for Illegally Importing Asian Beetles. In two unrelated investigations, the U.S. Postal Service intercepted packages sent from Japan and Taiwan, each containing dozens of live beetles found only in Asian countries. Some of the beetles were as large as a baseball and, due to their uniqueness, required identification by scientists specializing in beetles. It was determined that the beetles, if released, could cause considerable damage to native plants and agriculture in the United States.

In December 2008, a man in Mohnton, Pennsylvania, pled guilty to a 1-count felony for illegally importing 25 exotic plant pests into the United States. In April 2009, he was sentenced in Federal court to 36 months of probation and fined \$5,025. The judge also ordered the beetles to be turned over to the Smithsonian Institution, which had written to the court to request them. The other subject, a Chinese national who was a college biology major living in Arlington, Virginia, pled guilty to importing plant pests into the United States. He said he liked the colorful, exotic beetles and wanted to breed them. In October 2008, he was sentenced to 12 months of probation and ordered to pay a \$2,000 fine. These investigations were conducted jointly with the U.S. Department of Homeland Security (DHS), the U.S. Postal Inspection Service, and the Animal and Plant Health Inspection Service (APHIS).

Florida Company Sentenced and Ordered to Pay \$475,000 for Conspiracy to Ship Contaminated Food. A joint investigation by OIG, APHIS-Investigative and Enforcement Service (APHIS-IES), and ICE determined that a company in Florida conspired with three growers in Guatemala to ship snow peas and sugar snap peas that were contaminated with hazardous levels of pesticides into the United States. 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 five years probation, fined \$100,000, and was ordered to pay \$375,000 in criminal forfeiture. The corporate president was sentenced to three years probation, including a nine-month term 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.

Major Animal Fighting Criminal Enterprise Disrupted in Virginia. OIG agents investigated allegations of illegal cockfighting, gambling, money laundering, and other corrupt practices in Virginia. The investigation first focused on four individuals who owned, operated, or supported a sportsman's club that hosted illegal cockfights on an almost weekly basis. The then-sheriff of Page County accepted campaign contributions to protect the club by raids by law enforcement. A game bird association that lobbied to make cockfighting a legal sport and its president were prosecuted for violating Federal campaign contributions laws. In May 2009, the game fowl breeding association pled guilty to money laundering conspiracy, and the former president of the association pled guilty to making illegal campaign 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 and then resigned in February 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. OIG conducted the investigation jointly with the FBI and Internal Revenue Service's (IRS) Criminal Investigation Division.

INTEGRITY OF BENEFITS AND ENTITLEMENTS PROGRAMS - Reduce program vulnerabilities and strengthen program integrity in the delivery of benefits to program participants.

USDA works to harness the Nation's agricultural abundance with a goal of ending hunger and improving nutrition and health throughout the country and the world. Benefit and entitlement programs in USDA include many programs that provide payments directly to those individuals or entities in need of support in order to achieve the goals of USDA. These benefit programs, which are extremely high in cost, are also very susceptible to misuse by organized groups and individuals.

In addition, USDA helps rural communities develop, grow, and improve the quality of life by targeting financial and technical resources to areas of greatest need. Programs include those that help build competitive businesses and community facilities and low-to moderate-income housing. Other programs establish and sustain agricultural cooperatives, and provide modern, affordable utilities. Again, there is great potential for misuse of the funds that USDA administers by organizations and individuals. The challenge is associated with ensuring the integrity of USDA's entitlements and benefits programs, particularly those related to nutrition, farm programs, and rural communities.

Highlights of current and planned OIG audits, inspections, and investigations, as well as select examples of recent progress accomplished through OIG audits and investigations are described below:

Highlights of Current and Planned Audit Work:

Child and Adult Care Food Program (CACFP) – Effectiveness of the Food and Nutrition Service (FNS) Actions to Reduce Program Abuses. The objectives of the audit are to determine if FNS has implemented the corrective actions agreed to in OIG's prior nationwide audit of the program (Audit No. 27601-7-SF). We will also evaluate the effectiveness of the corrective actions taken by the agency.

Emergency Disaster Assistance for the 2008 Natural Disasters: Emergency Conservation Program (ECP). The audit objectives are to follow up on the sufficiency of corrective actions taken on prior audit findings and

recommendations related to ECP, and also to assess how the Farm Service Agency (FSA) officials administered the ECP with respect to responding to natural disasters. Specifically, we plan to evaluate how effectively FSA delivered the program as well as the adequacy of FSA's internal controls to prevent and minimize improper payments and fraud. This includes assessing the impact of any waivers or revised procedures on the propriety of payments made.

Highlights of Current and Planned Investigations Work:

Recovery Act Funds. USDA received several billion dollars in Recovery Act funds. As a result, OIG Investigations immediately initiated outreach activities to our Federal, State and local partners to discuss the importance of reporting potential fraud involving Recovery Act monies. OIG Investigations reviewed its Hotline procedures and made adjustments to ensure that any complaints or allegations received are acted upon quickly and the results are provided to the Recovery Accountability and Transparency Board (RATB). Additionally, OIG Investigations identified Criminal Investigators with an expertise in contract fraud and those individuals actually conducted the analysis of the initial referrals received from the RATB and worked with the USDA program agencies to resolve any identified issues with the contracting process. Within the next year, Investigations will continue its work of responding to allegations of misuse of Recovery Act funds and conducting investigations into any attempt to fraudulently obtain or utilize these funds.

Natural Disasters. USDA has allocated significant monies within recent years for disaster relief. Investigations will ensure accountability for USDA disaster assistance funds and enhanced integrity in the delivery of benefits by identifying criminal activity in the programs that OIG will pursue through investigative efforts.

FNS Program Investigations. OIG Investigations is working with State and local law enforcement entities that have a joint interest, to investigate violations involving the WIC/Infant formula, CACFP, and the Supplemental Nutrition Assistance Program (SNAP). The WIC/Infant formula investigations often involve stolen infant formula that is relabeled and sold by unscrupulous wholesalers and retailers. The CACFP cases involve entities fraudulently over-reporting numbers of individuals receiving benefits at their respective facilities.

EBT/SNAP Initiative. OIG Investigations devotes a significant amount of resources to the investigation of EBT/SNAP fraud. In most instances, OIG focuses on the retailers who utilize various schemes to illegally exchange the benefits for cash. OIG Investigations will continue to conduct these investigations as well as work closely with FNS to identify new schemes developed by individuals in attempts to defraud the program.

Selected Examples of Recent Progress – Audit:

Peanut Pricing for FSA Program Purposes. From 2002 through 2007, FSA provided more than \$1 billion in financial assistance to peanut producers. To determine how much assistance is needed, FSA relies on weekly average peanut prices published by the National Agricultural Statistics Service (NASS). Since FSA's assistance can be affected significantly by even small changes in peanut prices—an estimated \$33 million per \$0.01 difference for one type of assistance¹—we undertook this audit to determine if NASS' peanut prices are based on reliable market data. Overall, we concluded that they are not because, in the absence of a public commodities market for peanuts, NASS solicits price data from peanut buyers (e.g., shellers) whose

¹ According to our estimates, a \$0.01 difference in the average peanut price per pound, as determined by NASS, would have affected total counter-cyclical payments by an average of more than \$33 million a year.

participation is voluntary and confidential by law.² Moreover, NASS lacks authority to verify the price data reported by buyers that do participate. As a result, without mandatory and verifiable price reporting, FSA has no assurance that its program payment rates that depend or rely on NASS' published prices are based on reliable and supportable data. FSA generally agreed with our recommendations, to include working with the new Administration to develop policy recommendations regarding mandatory price reporting for peanuts.

Socially Disadvantaged Borrower Foreclosures – Farm Loan Programs. Under the 2008 Farm Bill, Congress directed OIG to “determine whether decisions of the [Department of Agriculture] to implement foreclosure proceedings with respect to farmer program loans made under subtitle A, B, or C of the Consolidated Farm and Rural Development Act ... to socially disadvantaged farmers or ranchers during the year period preceding [June 18, 2008] were consistent and in conformity with the applicable laws (including regulations) governing loan foreclosures.” Congress required that we report our findings no later than June 18, 2009. We found that FSA followed its established process in servicing and foreclosing loans to socially disadvantaged borrowers and were generally consistent and in conformity with applicable laws and regulations. We analyzed the agency's actions at critical points in FSA's loan servicing process where laws, regulations, policies, and procedures may not be fully complied with. We did find a few instances where FSA did not technically conform to prescribed timeframes for some policies and procedures, 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 as 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 the letters notifying borrowers that they were delinquent were not timely sent out, but the letters were eventually sent before the next loan servicing actions occurred. FSA agreed with our findings.

Risk Management Agency (RMA) 2005 Emergency Hurricane Relief Efforts in Florida. In 2005, hurricanes Katrina, Rita, and Wilma struck Florida, resulting in more than \$275 million in nursery claims³ from policies reinsured under RMA's Nursery Crop Insurance Program, which is part of the Federal Crop Insurance Program. RMA administers the Federal Crop Insurance Program through cooperative financial assistance agreements, known as the standard reinsurance agreement (SRA), with private insurance companies, or approved insurance providers (AIP). Under this contractual obligation, an AIP assumes primary responsibility for underwriting policies and adjusting any losses that may occur.⁴ Specifically, the AIPs' underwriting responsibilities include determining producers' eligibility, the risk involved to insure crops, and the amount of coverage. When losses occur, an AIP is required to verify the extent of damage and determine the appropriate losses under the insured's policy. OIG initiated this audit to determine how well the AIPs responded to these disasters. At all phases of the insurance process—underwriting policies, adjusting claims for losses, and reporting its indemnities to RMA—the AIP did not fulfill its contractual obligations to which it had agreed to under the SRA. The total errors identified during this review resulted in erroneous payments of \$16,601,134. Because of the extent of the errors we found at the AIP, we decided to limit our review to this one AIP. For the same reasons, we also concluded that RMA should seek an Office of the General Counsel (OGC) opinion as to whether it may apply a provision of the SRA to the AIP which allows it to suspend the company from the Federal Crop Insurance Program. We recommended that RMA deny reinsurance for \$1.2 billion in liability for calendar years 2005 and 2006. This liability has resulted in \$177.8 million in indemnity payments. We also recommended that RMA recover the government's share of these indemnity payments, \$33.1 million in premium subsidies, and \$6.4 million in administrative and operating expenses. RMA should also recalculate the effect on the underwriting gains for both crop years

² Public Law 99-198: §1770 “Confidentiality of Information.”

³ Total based upon RMA indemnity payment data.

⁴ The SRA defines underwriting as the determination of the terms and conditions by which the AIP will accept the risk for an eligible crop insurance contract.

and assess additional penalties to the maximum extent allowed under the SRA. RMA agreed with our recommendations. We are working with RMA to reach management decision on the audit recommendations.

Farm and Ranch Lands Protection Program Review (FRPP) of Non-Governmental Organizations. Under FRPP, NRCS works with cooperating entities (including State, local, tribal governments and non-government organizations (NGOs)) to purchase conservation easements from landowners who must then relinquish in perpetuity their right to develop the land. During our audit we found that NRCS has not implemented an effective management control structure to monitor NGOs' compliance with program regulations and to ensure that landowners are treated equitably. NGOs used landowner funds to pay their share of the purchase price for FRPP easements. This is in violation of program regulations. Also, NGOs varied widely in both the types and amounts of costs passed on to landowners. 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, while others paid as much as \$150,000. We concluded that NRCS should establish standards for the types and amounts of costs NGOs can pass on to landowners. NRCS agreed with our findings and is taking steps to improve its controls over NGOs and FRPP easements.

Selected Examples of Recent Progress – Investigations:

Corporate Chief Executive Officer (CEO) Pleads Guilty to \$3.2 Million in Wireless Broadband Scam.

In March 2002, the Rural Utilities Service (RUS) approved a \$3.295 million loan to a Parkersburg, West Virginia, corporation to construct a fixed wireless broadband system to serve areas in Ohio and West Virginia. RUS loan funds were fraudulently disbursed based on phony invoices submitted for payment and were also paid to an Ohio company where former principals of the West Virginia corporation became employed after submitting their resignations. The matter was investigated jointly by OIG, IRS-Criminal Investigation (CI), and the West Virginia Legislature, Commission on Special Investigations.

In August 2008, the corporation's former CEO and former Chief Operating Officer (COO), as well as the Ohio company and its Chief Financial Officer (CFO), were charged in the Southern District of West Virginia with mail fraud, theft or bribery concerning programs receiving Federal funds, money laundering, and aiding and abetting. In September 2008, a representative of the Ohio company and the former COO of the West Virginia corporation pled guilty to money laundering conspiracy. In February 2009, the former CEO of the West Virginia corporation also pled guilty to money laundering conspiracy. Sentencing is scheduled for early 2010 for all three. Charges were refiled against the CFO of the Ohio company in September 2009 for obstruction of a Federal audit. In addition, the former chairman of the board of the West Virginia company was also charged in September 2009 with obstruction of a Federal audit and perjury. Charges remain pending against them.

Two Tennessee Businessmen Ordered To Pay \$4.5 Million in Restitution for Bank Fraud, Wire Fraud, and Money Laundering.

A joint investigation conducted by OIG, IRS-CI, the FBI, and the Tennessee Valley Authority's (TVA) OIG disclosed that two Dyersburg, Tennessee, businessmen, who were the primary owners of a Hickman, Kentucky, corporation, fraudulently received a \$5 million bank loan, for the purchase of a building and business operating funds, that had been guaranteed by the Rural Business-Cooperative Service and fraudulently obtained an additional \$500,000 direct loan from TVA. These two individuals provided a listing of collateral to secure the USDA-guaranteed loan in Kentucky, even though several items of this collateral were already under obligation for an existing USDA-guaranteed loan for another business they owned in Tennessee. The fraudulent TVA loan was obtained through a similar scheme involving the collateral. A portion of these loan proceeds was later used to pay off non-related debts owed by these two businessmen. In February 2009, a Federal court in Kentucky sentenced the businessmen to 30 months and 27 months of imprisonment, respectively, for bank fraud, wire fraud and money laundering, and ordered them jointly liable for restitution of \$4.1 million regarding the USDA-guaranteed loan and \$420,000 restitution to TVA.

Corporation and Producer Sentenced in Crop Insurance Scheme. A joint investigation by OIG, RMA - Special Investigations Branch (RMA-SIB), and IRS-CI disclosed that a Florida corporation received over \$1 million in fraudulent crop insurance payments from July 2001 to June 2004. In October 2008, criminal information were filed in Federal court for the Middle District of Florida charging the corporation with wire fraud and the producer 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 in the amount of \$1.1 million. The producer was sentenced to 3 months in prison and 3 months home confinement, followed by 1 year probation. She also paid \$1,564,000 in taxes, fines and penalties.

SNAP and Related Offenses Result in Significant Prison Sentences and Monetary Recoveries. Our ongoing investigative efforts to combat large-scale SNAP benefit fraud trafficking in Chicago, Illinois, determined that a store owner and clerk, who were not authorized by FNS to participate in the program, conspired with at least five other retailers from March to September 2005, to defraud the program of approximately \$6.3 million. The scheme involved relocating Electronic Benefit Transfer (EBT) terminals from authorized stores to an unauthorized store where SNAP recipients would sell their benefits. The subjects of our investigation were ultimately indicted on wire fraud and criminal forfeiture charges at the U. S. District Court, Northern District of Illinois. The store owner pled guilty as charged and was sentenced in March 2009, to 42 months of incarceration, 3 years of supervised release, and \$3.5 million in restitution. The store clerk also pled guilty and was sentenced to 41 months of incarceration, 3 years of supervised release, and \$2.8 million in restitution. This investigation was conducted with the U.S. Secret Service.

An OIG investigation in Miami, Florida, revealed that two store owners and the sister of one of the owners illegally exchanged SNAP benefits for cash at an estimated loss to USDA of \$3.3 million. The three individuals were charged with conspiracy to commit EBT fraud/wire fraud and money laundering. In October 2008, a Federal court in the Southern District of Florida sentenced one of the store owners to 37 months of imprisonment and ordered him to pay \$1.7 million in restitution to USDA. In December 2008, the other store owner was sentenced to 37 months of imprisonment and paid \$135,000 directly to the court. The owner was further ordered to pay restitution to USDA of \$1.465 million jointly and severally with his sister. In December 2008, the sister was sentenced to 24 months of imprisonment.

Missouri Farmer Sentenced and Ordered to Pay \$550,000 for False Statements, Bank Fraud and Obstruction of Justice. An OIG investigation disclosed that a farmer made false statements to obtain loans, converted collateral, and committed bank fraud. He was also charged with obstruction of justice for threats he made against persons in the Federal Bankruptcy Trustee's Office. After pleading guilty to all charges in December 2008, he was sentenced by a Federal district court in Missouri to 9 months of imprisonment and 3 years of supervised release. He was ordered to pay \$350,000 in restitution to the Commodity Credit Corporation (CCC) and \$200,000 to a local bank. The farmer was also ordered to stay away from several FSA and bank employees, and to conduct himself in a "civil, courteous, and professional manner" in his dealings with FSA.

MANAGEMENT IMPROVEMENT INITIATIVES - Support USDA in implementing its management improvement initiatives.

To strengthen management through more efficient program operations that offer improved customer service, OIG works with USDA agencies to ensure that the programs the agencies administer continue to (1) improve human capital and real property management; (2) improve financial management; (3) expand electronic government; (4) eliminate improper payments; and (5) enhance research and development criteria as it pertains to programs and agencies within USDA.

Highlights of current and planned OIG audits and investigations, as well as select examples of recent progress accomplished through OIG audits and investigations are described below:

Highlights of Current and Planned Audit Work:

National Agricultural and Statistic Service (NASS) Establishment of Average Yields. We are evaluating NASS' controls and processes for collecting and determining average crop yields used in USDA programs and their impact on farm payments.

Pasture, Rangeland, and Forage Loss (PRF) Program. The objectives of the review are to determine: (1) whether RMA effectively implemented the PRF Pilot Program, and (2) the adequacy of RMA's controls in the PRF Pilot Program to minimize program losses and to ensure program integrity, including preventing producers from receiving improper indemnity payments for acres enrolled in FSA and NRCS program. As part of the latter objective, we also plan to evaluate RMA's controls to communicate and coordinate PRF Pilot Program information with other Departmental agencies to ensure that the agencies can properly administer their programs.

Hurricane Indemnity Program – Integrity of Data Provided by the RMA. Eligible producers who received a crop insurance indemnity for crop losses attributable to the 2005 hurricanes (based on the producer-reported causes of loss and dates of damage) were eligible to receive Hurricane Indemnity Program (HIP) benefits equal to 30 percent of the crop insurance indemnity. HIP payments were based on RMA data downloaded weekly to FSA. We are assessing FSA's delivery of HIP and evaluating the agency's management controls to determine if they were adequate to minimize improper payments and fraud. Since FSA relied on data supplied by the RMA to administer HIP, we are also examining RMA's control over that information. Specifically, we are reviewing changes to loss claims in RMA's database made by AIPs that retroactively qualified producers for HIP.

Citrus Indemnity Payments Resulting from 2005 Florida Hurricanes. Our overall objective of the audit is to evaluate the adequacy of RMA's management controls to ensure the propriety and accuracy of crop year 2006 citrus indemnity payments resulting from Hurricane Wilma in Florida. Our specific objectives are to assess (1) the impact of RMA's emergency loss adjustment procedures for citrus fruit claims, (2) RMA's oversight of AIP's underwriting of 2006 citrus crop insurance policies, (3) RMA's oversight of AIP's processing of loss adjustments and citrus indemnity claims for Hurricane Wilma damaged citrus crops, (4) whether citrus producers provided the same acreage information to FSA, and (5) whether citrus producers receiving RMA indemnity payments also appropriately received APHIS' 2006 citrus canker payments.

Highlights of Current and Planned Investigations Work:

National Computer Forensics Division (NCFD). OIG's NCFD is recognized within USDA as a leader and trusted resource in the area of computer forensics. As an authority in the investigation and analysis of network intrusions and attacks on USDA networks, the NCFD ensures that a thorough and accurate analysis of any network compromise is accomplished by analyzing compromised servers, firewall logs, Intrusion Detection System (IDS) logs, and IP traffic logs. The NCFD continues to provide support, training and advice on evidence collection and analysis to USDA agencies.

OIG's use of the NCFD has rapidly increased over the last few years due to the heavy reliance upon technology to further criminal enterprises. Cases we anticipate working in the future include the analysis of multiple-site, networked, and stand-alone workstations seized during the investigation of animal cruelty, farm program fraud, and SNAP fraud investigations. Additionally, NCFD is utilized by the Department to assist in ongoing employee misconduct investigations. There has been an increase in the number of requests received to obtain and analyze the e-mail accounts of individuals potentially involved in misconduct or other criminal activities.

Participation on Council of Inspectors General on Integrity and Efficiency Information Technology (CIGIE IT) Investigations Subcommittee. The NCFD is an active participant in the CIGIE IT Committee's Investigations Subcommittee and the Working Group on Computer Forensics.

The NCFD continues to be a participant in the FBI Heart of America Regional Computer Forensics Lab (HARCFL) in Kansas City. This is one of eleven labs throughout the United States that is hosted by the FBI and is staffed with Federal, State and local law enforcement personnel. Each lab is governed by the local participants and currently the Director of the NCFD is the co-chair of the Local Executive Board at the HARCFL.

Selected Examples of Recent Progress – Audit:

Use of the NASS County Average Yields For the Group Risk Protection (GRP) Plans of Insurance. OIG conducted a review to evaluate NASS' establishment of average yields and the use of such yields by USDA agencies to administer programs and determine program benefits. We identified problems in counties where the RMA offered GRP and Group Risk Income Protection (GRIP) insurance plans that did not specify or differentiate between irrigated and non-irrigated practices. In some counties, RMA offered GRP/GRIP insurance plans based on a blended yield (weighted average of irrigated and non-irrigated practices) because it believed it did not have sufficient NASS production and acreage data to establish the insurance coverage by practice. This approach could result in producers receiving excessive indemnity payments even though a normal crop was produced. In one county alone, we determined that producers of irrigated and non-irrigated corn acres could receive excessive indemnities totaling as much as \$35 million for the 2008 crop year. This occurred because of the wide disparity between irrigated and non-irrigated yields (138 bushels per acre), as well as an increase in non-irrigated acres planted compared to acres irrigated. We identified 15 States and 376 counties that are potentially at risk of producers taking advantage of disparities between irrigated and non-irrigated yields. RMA agreed with our recommendations.

RMA's Compliance Activities. RMA oversees private companies that sell crop insurance policies to American farmers. From 2005 to 2008, total liability increased from \$35 billion to nearly \$90 billion. OIG found that RMA needs to take a number of steps to strengthen its compliance activities. Above all, it needs a comprehensive, systematic, and well-defined strategy for improving the integrity of the crop insurance program, including a strategy that coordinates the various activities being conducted by the different divisions of the agency. In order to use RMA's limited compliance resources as effectively as possible, the strategy should focus those resources on program vulnerabilities, which we recommended RMA determine by performing a risk assessment. We also identified the steps RMA can take to strengthen how it oversees the insurance companies that are responsible for much of the day-to-day operations of the crop insurance program. Such steps include improving the agency's review of particularly large insurance claims and not ending these reviews when it finds evidence that the insurance company made errors while processing the claim. Finally, we recommended that RMA comply with the Agricultural Risk Protection Act in such matters as reconciling producer data with FSA, maximizing the effectiveness of its data mining reports, and evaluating agents' and insurance adjusters' performance. RMA concurred with 14 of 22 recommendations.

Livestock Indemnity Program (LIP) and Feed Indemnity Program (FIP) Help Producers Recover from Livestock and Feed Losses After the 2005 Hurricanes. In FYs 2006 and 2007, FSA provided nearly \$22.3 million in LIP payments and more than \$4.8 million under FIP for the 2005 hurricane losses. We found that while overseeing several disaster related programs with limited staff, FSA personnel successfully administered many aspects of the two programs, but we did find some areas needing improvement. Almost half (97 of 200) of the approved LIP applications we reviewed relied on third-party certifications. However, producers often provided unclear and inadequate third-party certifications to substantiate their losses. We also identified payments based on unsupported beginning livestock inventories (prior to the hurricanes), livestock losses in excess of the beginning inventories, and improper changes to Farm Operating Plans that

increased the number of participants eligible to receive LIP payments. As a result, we questioned more than \$900,000 in program payments. In addition, we determined that the 60 day disaster period may have been excessive, especially in Florida. For example, producers claimed livestock losses from stress and calving complications that occurred more than 30 days after the hurricane. For future LIP programs, FSA agreed to develop procedures detailing the documentation required for applicants and third party certifiers to clearly substantiate claimed livestock losses and provide specific instructions for local FSA office personnel to follow when applicants do not have verifiable evidence for establishing beginning inventory. In addition, FSA agreed to (1) instruct the Louisiana State FSA Office to coordinate with OIG Investigations to take corrective action on six cases under investigation, (2) determine the adequacy of documentation supporting beginning and ending inventories, (3) review the State Committee's determination to approve changes made to 2005 farm program records that increased program payments and request the Deputy Administrator for Farm Programs to make a final determination, (4) seek recovery of any unsupported payments from the producers in three parishes associated with those issues, 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.

Grain Inspection, Packers and Stockyards Administration's (GIPSA) Management and Oversight of the Packers and Stockyards Program (P&SP) – Followup. In response to 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 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 followup 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, but the program did not have a process in place to ensure these policies were carried out. GIPSA concurred with our recommendations.

Broadband Loan Program. At the request of Congress, OIG initiated this audit to determine if RUS had made sufficient corrective actions in response to our September 2005 report. We found that RUS has not fully implemented corrective action in response to 8 of the 14 recommendations from our September 2005 audit report. RUS had written a proposed change to the regulation, which would have affected two of the eight recommendations; however, it chose to wait for passage of the Food, Conservation, and Energy Act of 2008 (2008 Farm Bill) to ensure that their proposed rule met the new requirements. While waiting for the enactment of the 2008 Farm Bill, RUS continued to make loans to providers in areas with preexisting service, sometimes in close proximity to large urban areas. Based on the agency's written response, dated March 25, 2009, it agreed to take corrective actions. However, we remain concerned with RUS' current direction of the Broadband Loan Program, particularly as it receives greater funding under the American Recovery and Reinvestment Act of 2009 (Recovery Act), including its provisions for transparency and accountability. As structured, RUS' Broadband Loan Program may not meet the Recovery Act's objective of awarding funds to projects that provide service to the most rural residents who do not have access to broadband service.

Controls over Lender Activities in the Single Family Housing Guaranteed Loan Program. Our review found that lenders could submit false documents with little risk of detection by agency staff. This condition exists because the agency does not verify information with an independent source, such as borrower income with employers. Instead, it relies on lenders' internal quality control reviews to ensure the accuracy and

legitimacy of applications, which is also inadequate. We also disclosed that some lenders had set interest rates on loans that were greater than the maximum allowed by the agency. The agency had not established policies and procedures that required field staff to verify interest rates set by lenders were within required limits. Agency officials agreed with the findings and recommendations in the report.

Selected Examples of Recent Progress – Investigations:

FS Employee Embezzles \$282,000 in Overtime and Holiday Pay. This investigation was initiated after a Hotline complaint alleged that an employee in the FS national office was involved in a scheme to repeatedly and fraudulently claim overtime and holiday pay for hours which she did not work. The investigation revealed that the employee, through processing her own time and attendance (T&A) reports, fraudulently claimed and received \$282,134 in overtime and holiday pay. In September 2008, the employee was charged in U.S. District Court for the District of Columbia for conversion of public money and later pled guilty. In January 2009, the employee was sentenced to serve 18 months in prison, followed by 3 years supervised release, and ordered to pay \$282,134 in restitution to FS. In conjunction with the terms of the plea agreement, the employee resigned from FS. In addition, FS took administrative action against two managers whose failure to certify the employee's T&A reports resulted in her ability to carry out the fraudulent scheme. NCFD members assisted this investigation by forensically imaging and preserving approximately 180GB worth of data.

FS Grant Coordinator in Wisconsin Misappropriated \$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 imprisonment, 36 months supervised release, and \$320,000 restitution. She had previously been removed from her position in September 2004.

FSIS Meat Inspector Guilty of Witness Tampering and Unlawful Possession of a Firearm While Using Methamphetamine. In September 2006, a Federal jury in Iowa found a former Sioux City FSIS meat inspector guilty of possession of narcotics, unlawfully possessing a firearm while under the influence of methamphetamine, and transporting a firearm across State lines. The jury also found the employee and his brother guilty of witness tampering and intimidation of witnesses. In November 2008, the former FSIS meat inspector was sentenced by a U.S. District Court judge in Iowa to serve 30 months in Federal prison followed by 376 months of probation. The meat inspector's brother was also sentenced to serve 18 months in prison, followed by 36 months of probation. This investigation was conducted jointly with the Bureau of Alcohol, Tobacco, Firearms, and Explosives.

Former RMA Employee Sentenced for On-Line 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. 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. NCFD members aided in the investigation of this case by providing both on-site forensic imaging services and the forensic analysis of 60GB of data.

Employees at USDA Lab Face Administrative Sanctions for Buying and Selling Prescription Drugs Without a Prescription. A biological science lab technician at the National Veterinary Services Laboratory (NVSL),

APHIS, Ames, Iowa, and two veterinarians at the Center for Veterinary Biologics (CVB) in Ames, Iowa, purchased prescription drugs from veterinary supply companies and resold them to other USDA lab employees at cost. The drugs were ordered using the subject veterinarians' accounts at veterinary supply companies. The lab 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 drugs sold were for human use and required a prescription from a physician before they could be dispensed.

As a result of the investigation, one USDA employee was terminated, one resigned, and two others retired before disciplinary action could be imposed. 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.

NCFD members aided in the investigation of this case by forensically imaging and analyzing 240GB of data.

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

The administration of national forests and grasslands, including restoration and health of the watershed and sustainable forest ecosystem management, is a major concern. USDA conservation activities on public and private lands are through cooperative efforts with State, Tribal and local governments, as well as conservation districts, non-governmental organizations, private land managers, and local interests. Our goal is to work with USDA agencies to maintain healthy watersheds, high quality soils and sustainable ecosystems; to enhance soil quality to maintain productive working croplands; and to protect forests and grasslands and enhance the wildlife habitat these areas foster.

Highlights of current and planned OIG audits, inspections, and investigations, as well as select examples of recent progress accomplished through OIG audits and investigations are described below:

Highlights of Current and Planned Audit Work:

Evaluating FS' Processes to Obtain and Grant Rights of Way and Easements. The audit will determine if FS is both properly obtaining rights-of-way and easements (ROW&E) necessary to manage Federal lands and granting and modifying ROW&E in accordance with laws and regulations and the best interests of the agency. The audit will also determine if FS has adequately planned for how changing land use patterns and the use of ROW&E will affect FS mission areas.

Highlights of Current and Planned Investigations Work:

Chemical Representative Assisted in the Submission of False Claims for Conservation Security Program (CSP) Benefits. Eighteen participants in NRCS' CSP, in a scheme to defraud, submitted fraudulent soil test results in 2005 to qualify for and receive compensation from CSP totaling \$473,567. OIG determined that a Spokane, Washington, chemical representative assisted several of the 18 participants in the creation of fraudulent soil test reports submitted to NRCS. From 2006 to 2008, the 18 CSP participants paid administrative recoveries totaling \$628,591 to NRCS. In March 2009, five of the most egregious violators involved in this scheme and the chemical representative each agreed to a Civil False Claims Act settlement in the amount of \$5,500.

Selected Examples of Recent Progress – Audit:

NRCS' Conservation Security Program. The NRCS' CSP is a voluntary program that encourages farmers and ranchers to become good stewards of their land. In FY 2006, NRCS provided \$259 million in CSP funding. Our audit concluded overall that systemic and pervasive management control weaknesses over participant and land eligibility determinations jeopardized NRCS' goal of using 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. 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.

OFFICE OF INSPECTOR GENERAL

Summary of Budget and Performance
Statement of Department Goals and Objectives

OIG has five strategic goals and five objectives that contribute to all of the strategic goals of the Department.

USDA Strategic Goal	OIG Strategic Goal	OIG Objectives	Programs that Contribute	Key Outcome
OIG supports all USDA Strategic Goals	OIG Goal #1: Strengthen USDA's ability to implement safety and security measures to protect the public health as well as agricultural and Departmental resources.	Objective 1:1 Continuously monitor and assess risks in USDA programs and operations to identify those that are critical to the achievement of our goals. Target resources to address those critical risks.	Audit/ Investigations	Definition of criteria to establish priorities in terms of dollars; level of Congressional, Departmental, or public interest; risk factors; or other concerns.
OIG supports all USDA Strategic Goals	OIG Goal #2: Reduce program vulnerabilities and strengthen program integrity in the delivery of benefits to program participants.	Objective 2:1 Continuously monitor and assess risks in USDA programs and operations to identify those that are critical to the achievement of our goals. Target resources to address those critical risks.	Audit/ Investigations	Definition of criteria to establish priorities in terms of dollars; level of Congressional, Departmental, or public interest; risk factors; or other concerns.
OIG supports all USDA Strategic Goals	OIG Goal #3: Support USDA in implementing its management improvement initiatives.	Objective 3:1 Continuously monitor and assess risks in USDA programs and operations to identify those that are critical to the achievement of our goals. Target resources to address those critical risks.	Audit/ Investigations	Establishment of prevention and detection methods to reduce program losses. Continuous evaluation of our technological and physical resources to aid USDA in facing new technology-based and information security challenges.

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USDA Strategic Goal	OIG Strategic Goal	OIG Objectives	Programs that Contribute	Key Outcome
OIG supports all USDA Strategic Goals	OIG Goal #4: Increase the efficiency and effectiveness with which USDA manages and exercises stewardship over natural resources.	Objective 4:1 Continuously monitor and assess risks in USDA programs and operations to identify those that are critical to the achievement of our goals. Target resources to address those critical risks.	Audit/ Investigations	Definition of criteria to establish priorities in terms of dollars; level of Congressional, Departmental, or public interest; risk factors; or other concerns.
OIG supports all USDA Strategic Goals	OIG Goal #5: Strive for a highly qualified diverse workforce with the tools and training necessary to continuously enhance OIG's ability to fulfill its mission and communicate its accomplishments.	Objective 5:1 Hire, train, develop, motivate, and effectively manage a high-performing and diverse front-line, supervisory, and executive workforce with the technical and workplace skills necessary to meet OIG's strategic goals and plans. Continuously acquire and deploy state-of-the-art technology, equipment, and other physical resources to enable OIG to meet its strategic goals and annual plans. Enhance internal OIG communication so that all staff understands OIG's priorities and the contribution their work makes toward fulfilling OIG's mission.	Management/ Counsel/ Audit/ Investigations	Utilization of self-assessment tools, such as surveys, to continually measure the impact of our human capital efforts and organizational progress. Achievement of human capital development goals by improving our recruitment, hiring, and training of a diversified skilled workforce.

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USDA Strategic Goal	OIG Strategic Goal	OIG Objectives	Programs that Contribute	Key Outcome
		<p>Provide timely and reliable legal and management advice, reports, and services to support the effective functioning of all OIG components.</p> <p>Support the integrity of OIG operations by maintaining an effective quality assurance and internal review program.</p> <p>Effectively communicate the outcome of our work to Congress, agency management officials, the press, and members of the public.</p>		
<p>Secretary’s Strategic Goals and High Priority Performance Goals (HPPGs) are as follows: Goal: Assist rural communities to create prosperity so they are self-sustaining, repopulating and economically thriving. Goal: Ensure our national forests and private working lands are conserved, restored, and made more resilient to climate change, while enhancing our water sources. Goal: Help America promote agricultural production and biotechnology exports as America works to increase food security. Goal: Ensure that all America’s children have access to safe, nutritious, and balanced meals.</p>				

Key Outcomes:

- Definition of criteria to establish priorities in terms of dollars; level of Congressional, Departmental, or public interest; risk factors; or other concerns.
- Establishment of prevention and detection methods to reduce program losses.
- Continuous evaluation of our technological and physical resources to aid USDA in facing new technology-based and information security challenges.
- Utilization of self-assessment tools, such as surveys, to continually measure the impact of our human capital efforts and organizational progress.
- Achievement of human capital development goals by improving our recruitment, hiring, and training of a diversified skilled workforce.

HPPG Measures: OIG supports all of the Department’s Priority Goals.

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Long-term Performance Measures: OIG focuses on the most important issues that face USDA. Through coordinated audits, investigations, and other reviews, OIG addresses the areas of highest risk and provides insight and support to USDA program agencies. Our concerted efforts focus heavily on prevention, including reviewing controls and advising Departmental officials of recommended improvements needed in agency programs and operations. To determine how we are doing and where we go next, we will continue to meet periodically with stakeholders, particularly USDA management officials, U.S. attorneys, and Congressional representatives and staff to obtain feedback on our work. However, our work follows several stages of decision-making and implementation in order to ultimately influence change. These stages are:

- Are we doing the most important work?
- Are our recommendations and actions encouraging response?
- Has the response to our work been implemented?
- Has the response had the desired improvement effect?
- How does this improvement manifest itself as progress toward OIG's and USDA's goals?

Past Accomplishments Toward Achievement of Key Outcomes: OIG has continued to demonstrate considerable law enforcement actions, programmatic improvements, and dollar returns for the funding provided for the office.

- Potential cost avoidances and funds returned to the government as a result of OIG work totaled \$1,318.2 million, while our estimated appropriations were \$360.2 million, providing a potential return of \$3.65 for every dollar invested in OIG during the period noted above.
- OIG issued a total of 298 audit reports and 1,270 investigative reports during the above period. OIG's law enforcement activities led to 1,824 indictments, 1,972 convictions, and 3,044 sanctions.
- During the first half of FY 2009, OIG issued 22 audit reports and 141 investigative reports. Our investigative work resulted in convictions or pleas and recoveries for violations of the Supplemental Nutrition Assistance Program (formerly the Food Stamp Program) and food safety laws.

In summary, OIG audits and investigations have continued to save the taxpayers money while fulfilling its mission of ensuring the safety of the Nation's agricultural resources, reducing program vulnerabilities, and strengthening program integrity.

Selected Accomplishments Expected at the FY 2011 Proposed Resources Level: Annually, OIG identifies the most significant USDA programs for audit and allocates resources to these areas. During FY 2011, OIG will use its audit resources to evaluate how well the Department has accomplished its strategic goals and objectives. OIG will also use its audit resources to determine how well the Department has implemented the initiatives in the American Recovery and Reinvestment Act of 2009.

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Summary of Budget and Performance
Statement of Department Goals and Objectives

 Strategic Goal Funding Matrix
 (On basis of appropriation)

	<u>2009 Actual</u>		<u>2010 Estimated</u>			<u>2011 Estimated</u>	
	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>	Increase Or <u>Decrease</u>	<u>Amount</u>	<u>Staff Years</u>
Audit.....	\$41,964	281	\$43,475	306	\$772	\$44,247	306
Investigations.....	43,676	269	45,250	294	803	46,053	294
Total.....	<u>85,640</u>	<u>550</u>	<u>88,725</u>	<u>600</u>	<u>1,575</u>	<u>90,300</u>	<u>600</u>

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Summary of Budget and Performance
Key Performance Outcomes and Measures

OIG Goals.

- 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.
- Strategic Goal 2: Reduce program vulnerabilities and strengthen program integrity in the delivery of benefits to program participants.
- Strategic Goal 3: Support USDA in implementing its management improvement initiatives.
- Strategic Goal 4: Increase the efficiency and effectiveness with which USDA manages and exercises stewardship over natural resources.
- Strategic Goal 5: Strive for a highly qualified diverse workforce with the tools and training to continuously enhance OIG’s ability to fulfill its mission and communicate its accomplishments.

Key Outcomes:

- Definition of criteria to establish priorities in terms of dollars; level of Congressional, Departmental, or public interest; risk factors; or other concerns.
- Establishment of prevention and detection methods to reduce program losses.
- Continuous evaluation of our technological and physical resources to aid USDA in facing new technology-based and information security challenges.
- Utilization of self-assessment tools, such as surveys, to continually measure the impact of our human capital efforts and organizational progress.
- Achievement of human capital development goals by improving our recruitment, hiring, and training of a diversified skilled workforce.

Key Performance Measures:

Performance Measure 1: Percentage of OIG direct resources dedicated to critical-risk or high-impact activities.

Performance Measure 2: Percentage of audit recommendations where management decisions are achieved within 1 year of report issuance.

Performance Measure 3: Percentage of audits initiated where the findings and recommendations are presented to the auditee within established timeframes.

Performance Measure 4: Percentage of closed investigations that resulted in a referral for action to the Department of Justice, State/local law enforcement officials, or relevant administrative authority.

Performance Measure 5: Percentage of closed investigations that resulted in an indictment, conviction, civil suit or settlement, judgment, administrative action, or monetary results.

Key Performance Measures and Targets:

Performance Measure	2006 Actual	2007 Actual	2008 Actual	2009 Actual	2010 Target	2011 Target
Performance Measure No. 1 Percentage of OIG direct resources dedicated to critical-risk or high-impact activities.	91%	92%	95%	95%	90%	90%
Performance Measure No. 2 Percentage of audit recommendations where management decisions are achieved within 1 year of report issuance.	94%	85%	84%	88%	85%	85%
Performance Measure No. 3 Percentage of audits initiated where the findings and recommendations are presented to the auditee within established timeframe.	N/A	N/A	92%	100%	90%	90%
Performance Measure No. 4 Percentage of closed investigations that resulted in a referral of action to the Department of Justice, State/local enforcement officials, or relevant administrative authority.	N/A	N/A	70%	75%	70%	70%
Performance Measure No. 5 Percentage of closed investigations that resulted in an indictment, conviction, civil suit or settlement, judgment, administrative action, or monetary results.	59%	68%	65%	77%	65%	65%