

2008 Explanatory Notes

OFFICE OF INSPECTOR GENERAL

Table of Contents

	<u>Page</u>
Purpose Statement.....	9-1
Statement of Available Funds and Staff Years.....	9-2
Permanent Positions by Grade and Staff Year	9-3
Motor Vehicle Fleet Data.....	9-4
Salaries and Expenses:	
Appropriations Language and Lead-Off Tabular Statement	9-5
Project Statement	9-6
Justifications	9-7
Geographic Breakdown of Obligations and Staff Years	9-8
Classification by Objects	9-9
Status of Program.....	9g-1
Summary of Budget and Performance:	
Statement of Goals and Objectives	9-10
Strategic Objectives and Funding Matrix.....	9-12
Key Performance Outcomes and Measures	9-13
Full Cost by Strategic Goal.....	9-15

OFFICE OF INSPECTOR GENERAL

Purpose Statement

The Office of Inspector General 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 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; and
- 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.

The Office of Inspector General (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, 2006, total onboard employment was 596, including 587 full-time and 9 part-time employees. There were 123 employees located in the Washington, D.C., metropolitan area and 473 located in the field.

OFFICE OF INSPECTOR GENERAL

Available Funds and Staff Years
2006 Actual and Estimated 2007 and 2008

Item	Actual 2006		Estimated 2007		Estimated 2008	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
Salaries and Expenses.....	\$80,336,000	595	\$79,333,000	615	\$83,998,000	620
Rescission.....	-803,360	--		--		--
Total.....	\$79,532,640	595	\$79,333,000	615	\$83,998,000	620
<u>Obligations under other</u>						
<u>USDA appropriations:</u>						
Risk Management Agency						
Audit of Financial						
Statements.....	325,000	--	342,000	--	342,000	--
Rural Utilities Services						
Audit of Financial						
Statements.....	81,000	--	56,000	--	56,000	--
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	--
Total, Other USDA						
Appropriations.....	3,226,000	--	3,218,000	--	3,218,000	--
Total, Agriculture						
Appropriations	82,758,640	595	82,551,000	615	87,216,000	620
<u>Other Federal Funds:</u>						
Aumman Detail.....	26,445					
FEMA.....	30,628					
DOE-MWR.....	2,686	--	0	--	0	--
Total, Other Federal Funds.....	59,759					
Total, Office of the Inspector						
General	82,818,399	595	82,551,000	615	87,216,000	620

OFFICE OF INSPECTOR GENERAL

Permanent Positions by Grade and Staff Year Summary
2006 Actual and Estimated 2007 and 2008

Grade	2006			2007			2008		
	Wash DC	Field	Total	Wash DC	Field	Total	Wash DC	Field	Total
Executive Level IV	1		1	1		1	1		1
Senior Executive Service	8		8	8		8	8		8
GS-15	15	14	29	15	14	29	15	14	29
GS-14	28	51	79	28	52	80	28	52	80
GS-13	31	178	209	31	178	209	31	178	209
GS-12	9	94	103	9	94	103	9	94	103
GS-11	9	42	51	9	42	51	9	44	53
GS-9	4	32	36	4	32	36	4	33	37
GS-8	5	7	12	5	7	12	5	9	14
GS-7	10	25	35	10	25	35	10	25	35
GS-6	1	26	27	1	26	27	1	26	27
GS-5	4	16	20	4	16	20	4	16	20
GS-4	1	3	4	1	3	4	1	3	4
Total Permanent Positions.....	126	488	614	126	489	615	126	494	620
Unfilled Positions end-of-year.....	3	16	19	--	--	--	--	--	--
Total, Permanent Full-Time Employment, end-of-year.....	123	473	596	126	489	615	126	494	620
Staff Year Estimate.....	123	472	595	126	489	615	126	494	620

OFFICE OF INSPECTOR GENERAL

Size, Composition, and Cost of Motor Vehicle Fleet

The fiscal year (FY) 2008 budget estimate proposes a decrease in the number of motor vehicles.

OIG uses the bulk of its passenger vehicles for law enforcement activities; investigations, field work, surveillance and pursuit, obtaining evidence for prosecutions, protective services, and court proceedings. Additionally, OIG has installed specialized law enforcement equipment in these vehicles, which assists in undercover operations to obtain evidence for prosecutions. For example, we use these vehicles for investigations that include the illegal exchange of USDA food benefits for cash or contraband, as well as for observing criminal violations of USDA laws and regulations. OIG must have such operational capabilities and equipment to fulfill the statutory criminal investigative responsibilities specified in the Inspector General Act of 1978 and other related congressional acts.

Changes to the motor vehicle fleet. No significant changes in the motor vehicle fleet are expected in FY 2008.

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 2005	144	62	2	--	--	--	--	208	\$12,506
Change from 2005	8	-10	0	--	--	--	--	-2	
FY 2006	152	52	2	--	--	--	--	206	\$6,140
Change from 2006	0	-5	0	--	--	--	--	-5	
FY 2007	152	47	2	--	--	--	--	201	\$7,008
Change from 2007	-53	13	29	--	--	--	--	-11	
FY 2008	99	60	31	--	--	--	--	190	\$2,294

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

OFFICE OF INSPECTOR GENERAL

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 the Inspector General

For necessary expenses of the Office of the Inspector General, including employment pursuant to the Inspector General Act of 1978, \$83,998,000, 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 (7 U.S.C. 450b, 2201, 2202, 2220, 2270; Public Law 100-504).

Lead-Off Tabular Statement

Salaries and Expenses -- Current Law

Estimate, 2007.....	\$79,333,000
Budget Estimate, 2008.....	<u>83,998,000</u>
Increase in Appropriation.....	<u>+4,665,000</u>

Summary of Increases and Decreases -- Current Law
(On basis of appropriation)

<u>Item of Change</u>	<u>2007 Estimated</u>	<u>Pay Costs</u>	<u>Program Changes</u>	<u>2008 Estimated</u>
Audit and Investigations.....	\$79,333,000	+3,568,000	+1,097,000	+83,998,000

OFFICE OF INSPECTOR GENERAL

Project Statement - Current Law
(On basis of appropriation)

	<u>2006 Actual</u>		<u>2007 Estimated</u>		Increase or <u>Decrease</u>	<u>2008 Estimated</u>	
	<u>Amount</u>	<u>Staff Years</u>	<u>Amount</u>	<u>Staff Years</u>		<u>Amount</u>	<u>Staff Years</u>
1. Investigations.....	\$40,263,645	264	\$40,462,000	270	\$2,377,000	\$42,839,000	274
2. Audit.....	38,684,679	331	38,871,000	345	2,288,000	41,159,000	346
Total, Available or Estimate.....	78,948,324	595	79,333,000	615	<u>4,665,000</u>	<u>83,998,000</u>	<u>620</u>
Unobligated Balance.....	584,316						
Rescission.....	803,360	--	--	--			
Total, Appropriation.....	<u>80,336,000</u>	<u>595</u>	<u>79,333,000</u>	<u>615</u>			

OFFICE OF INSPECTOR GENERAL

Justification of Increases and Decreases

An increase of \$4,665,000 for the Office of Inspector General consisting of:

- (a) A total increase of \$3,568,000, of which \$1,909,000 is for 2008 pay costs, and \$1,659,000 is for 2007 pay costs.

This increase will allow OIG to continue to meet its objective of providing policy 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 82 percent of OIG's budget supports personnel compensation. The remaining 18 percent is expended for contract services and rental fees (8 percent); travel (6 percent); and supplies, equipment, and telecommunications (4 percent) – which leaves very limited flexibility for absorbing pay costs. OIG can absorb cost increases only by reducing staff, which will result in reduced audit and investigation activities.

- (b) An increase of \$ 340,000 and 5 staff years.

This increase will allow OIG to fund additional staff to perform audits, investigations, and inspections of over \$20 billion in USDA farm programs at a level of oversight commensurate with the fraud risk these programs represent. OIG has had to reallocate resources away from these areas in recent years, because the reduced OIG staff available had to be diverted to emerging, high priority food safety and public health issues.

- (c) An increase of \$ 757,000 to maintain and improve the effectiveness of the current staff.

This increase will allow OIG to maintain and improve the effectiveness of its Audit and Investigations staff. Funding will provide for: training and equipment costs for the Emergency Response Team so that it can continue to investigate threats against American agriculture, improvements to the Computer Forensics Unit primarily for training and equipment to conduct forensics on electronic evidence and to enable the unit to maintain its professional certifications, and fully implement the Teammate automated audit workpaper system so that electronic audit files would meet the security standards set by the Department of Justice.

OFFICE OF INSPECTOR GENERAL

Geographic Breakdown of Obligations and Staff Years
2006 Actual and Estimated 2007 and 2008

	2006		2007		2008	
	Amount	Staff Years	Amount	Staff Years	Amount	Staff Years
California.....	\$8,889,979	67	\$8,901,000	69	\$9,348,000	69
Washington, D.C.	16,320,410	123	16,253,000	126	17,341,000	126
Georgia.....	10,084,156	76	9,933,000	77	10,566,000	78
Illinois.....	9,155,352	69	9,417,000	73	9,890,000	74
Maryland.....	11,145,646	84	11,223,000	87	11,922,000	88
Missouri.....	13,666,685	103	13,544,000	105	14,361,000	106
Texas.....	9,686,096	73	10,062,000	78	10,570,000	79
Subtotal, Available or Estimate.....	78,948,324	595	79,333,000	615	83,998,000	620
Unobligated Balance.....	584,316					
Total, Available or Estimate	79,532,640	595	79,333,000	615	83,998,000	620

OFFICE OF INSPECTOR GENERAL
Salaries and Expenses

Classification by Objects
2006 Actual and Estimated 2007 and 2008

Personnel Compensation:	<u>2006</u>	<u>2007</u>	<u>2008</u>
Washington, DC.....	\$7,890,500	\$8,071,000	\$8,320,000
Field.....	43,877,557	43,904,000	44,120,000
11 Total personnel compensation.....	51,768,057	51,975,000	52,440,000
12 Personnel benefits.....	15,482,996	15,846,000	16,473,000
13 Benefits for former personnel.....	26,000	20,000	26,000
	<u>67,277,053</u>	<u>67,841,000</u>	<u>68,939,000</u>
 Other Objects:			
21 Travel.....	4,766,071	5,000,000	5,450,000
22 Transportation of things.....	367,642	200,000	450,000
23.1 Rental payments to GSA.....	80,999	131,000	200,000
23.2 Rental payments to others	385,553	325,000	575,000
23.3 Communications, utilities, and miscellaneous charges.....	1,065,218	883,000	1,920,000
24 Printing and reproduction.....	100,877	121,000	145,000
25.1 Advisory and assistance services...	457,179	590,000	670,000
25.2 Other services.....	583,808	600,000	680,000
25.3 Purchases of goods and services from Government accounts.....	765,908	510,000	1,080,000
25.4 Operation and maintenance of facilities.....	813,631	900,000	1,150,000
25.6 Medical care.....	67,426	84,000	86,000
25.7 Operation and maintenance of equipment.....	181,720	233,000	385,000
25.8 Subsistence and support of persons.....	33,713	44,000	65,000
26 Supplies and materials.....	619,798	639,000	716,000
31 Equipment.....	1,300,060	1,200,000	1,450,000
42 Insurance & Indemnities.....	76,364	30,000	35,000
43 Interest & Dividends.....	5,304	2,000	2,000
Total other objects	<u>11,671,271</u>	<u>11,492,000</u>	<u>15,059,000</u>
 Total direct obligations.....	 <u>78,948,324</u>	 <u>79,333,000</u>	 <u>83,998,000</u>
 <u>Position Data:</u>			
Average Salary, ES positions.....	\$151,000	\$155,000	\$162,000
Average Salary, GS positions.....	\$87,000	\$86,000	\$91,000
Average Grade, GS positions.....	11.5	11.5	11.6

OFFICE OF INSPECTOR GENERAL

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) 2006, OIG issued 251 investigative reports and 88 audit reports. Total Audit and Investigative monetary results totaled \$339.8 million. OIG investigations resulted in 350 indictments and 298 convictions. The period of time to get court action on an indictment varies widely; therefore, the 298 convictions are not necessarily related to the 350 indictments. Our return on investment is \$5.56 for every dollar invested in OIG since FY 2003 when we started collecting the data.

Audit Monetary Results:

During FY 2006, management decisions were made on 61 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		\$57.1
Recommended for recovery	\$49.9	
Not recommended for recovery	7.2	
Funds to be put to better use		<u>164.2</u>
Total audit monetary results		\$221.3

Investigative Monetary Results:

		<u>(in millions)</u>
Claims established		\$15.2
Recoveries and collections		15.6
Cost avoidance (USDA program payments not made due to OIG investigations)		1.2
Fines		2.7
Administrative penalties		0.2
Restitutions		<u>83.6</u>
Total investigative monetary results		\$118.5

The President's Management Agenda for the Federal Government includes expected goals and outcomes. In turn, USDA developed specific goals for the Department to support this overall agenda. OIG developed goals and outcomes that relate to and support those of USDA. OIG's audit and investigatory work for

FY 2006 is summarized below in three main challenge areas we have identified for USDA. These areas – (1) safety, security, and public health; (2) integrity of benefits and entitlements programs; and (3) management of public resources – serve as both a roadmap for OIG’s audit and investigatory work and as the main groupings for this Status of Program Report.

Goal 1: SAFETY AND SECURITY – Support USDA in the enhancement of safety and security measures to protect USDA and agricultural resources and in related public health concerns.

OIG audits and investigations disclose weaknesses, make recommendations for improvement, and highlight strengths in USDA programs. OIG audits and investigations help the Department protect: (1) consumers and provide a measure of confidence that the Nation’s commercial supply of imported and domestic meat, poultry, and egg products are safe, wholesome, and correctly labeled; (2) production agriculture from pests, disease, and other threats; and (3) USDA personnel and property and the public from other threats.

One of OIG’s priorities is to ensure the safety and security of agricultural resources. In furtherance of this effort, OIG conducts audits and investigates allegations involving significant risk to such resources and the public. During FY 2006, OIG issued reports into matters relating to incidents of suspected Bovine Spongiform Encephalopathy (BSE), agricultural inspection operations at ports-of-entry and border crossings, and export licensing processes for dangerous biological materials.

OIG’s investigative arm continued to play an active and aggressive role addressing the smuggling of prohibited animal and plant products into the country; the resale of adulterated, mislabeled, or tainted food products; the enforcement of animal welfare laws; and partnered with the Food Safety and Inspection Service (FSIS) as well as external law enforcement agencies for the development of a comprehensive strategy to address the smuggling of poultry products into the United States from regions affected by Avian Influenza.

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/Inspections Work:

USDA’s Implementation Plan for National Strategy for Pandemic Influenza (the Plan). The audit will determine whether the Animal and Plant Health Inspection Service (APHIS) has adequately implemented the measures required by the Plan issued by the Homeland Security Council in May 2006. Specifically, we will determine whether APHIS is taking the necessary steps to fulfill its roles and responsibilities as required in the Plan. We will also follow up on corrective actions initiated in response to our prior audit, Oversight of Avian Influenza, Audit Report No. 33099-11-Hy, issued in June 2006.

U.S. Customs and Border Protection’s (CBP) Agricultural Inspection Activities. The audit will determine the extent to which CBP is conducting agricultural inspection activities transitioned from USDA to prevent or minimize the harmful introduction of harmful exotic pests and diseases into the United States. USDA/OIG is participating with the U.S. Department of Homeland Security (DHS) in the audit.

Controls over Permits To Import Agricultural Products. The audit will assess the effectiveness of APHIS’ corrective actions to address conditions found in our 2003 audit (Audit No. 33601-4-Ch) of APHIS’ pathogen permit process and assess any new controls and procedures developed since our last audit.

USDA Role in the Export of Genetically Engineered (GE) Agricultural Commodities. This review was initiated in November 2005 and includes an evaluation of the coordination with other Federal agencies to protect and ensure the U.S. share of world markets and the USDA policies and objectives for the development of tests for GE commodities.

USDA's Controls over the Importation and Movement of Live Animals. The audit will evaluate USDA's controls over the importation and movement of live animals.

Forest Service's (USFS) Air Safety Program. The audit will evaluate whether USFS' air safety program is adequate to minimize accident risks and contributes to the effective use of its aerial resources.

Selected Examples of Recent Progress – Audit:

BSE Surveillance Program and Specified Risk Material Controls (SRM) Could Be Improved.

Approximately 6 months after the December 2003 discovery of a cow infected with BSE (widely known as “mad cow disease”), APHIS implemented its expanded BSE surveillance program. As of May 2005, more than 350,000 animals had been sampled and tested for BSE. Since the expansion of the surveillance program, two additional animals have tested positive for BSE.

At the time of our audit, we could not fully assess any of APHIS' approaches to determining the prevalence of BSE because it had not finalized its analysis, although we did offer some observations. APHIS obtained significantly more samples for testing than originally thought needed, but, because the program is voluntary and USDA-published data on the U.S. herd was not comprehensive, we could not determine the extent to which APHIS obtained a representative sample of either high-risk or apparently healthy adult cattle. Specifically, we could not determine how similar the distribution of tested cattle is to that of the U.S. herd, especially regarding age, geographic location, and surveillance stream (clinical suspects, fallen stock, casualty slaughter, and routine slaughter). We recommended that USDA reevaluate and adjust its testing protocols based on its evaluation of emerging science and strengthen its proficiency testing and quality assurance reviews at participating laboratories, especially for inconclusive test results. At the Secretary's direction, APHIS revised its testing protocols to require additional confirmatory procedures when inconclusive test results occur. APHIS also agreed to publish information to fully advise stakeholders of assumptions and procedures, limitations of data, and conclusions reached as a result of the BSE surveillance program. In addition, APHIS agreed to perform additional outreach to emphasize the importance of accurately determining and recording the age of the target animals and ensure laboratory personnel understand procedures.

FSIS condemns cattle if they exhibit signs associated with BSE and bans SRMs, such as brain, skull, eyes, and spinal cord, from the food supply. We did not identify SRMs entering the food supply; however, due to the lack of adequate records, we could not determine whether procedures to remove, segregate, and dispose of SRMs were followed and/or adequate in nine of the twelve establishments reviewed. FSIS does not have an information system to track noncompliance violations relating to SRMs. FSIS agreed to verify the adequacy of SRM control programs at all beef slaughter and processing establishments and confirm compliance with SRM control procedures through its Performance Based Inspection System, which should be modified to allow for timely analysis of violation trends and tracking corrective action. Management agreed to implement all of OIG's recommendations.

Significant Steps Still Need To Be Implemented Regarding the Canadian Inspection System. FSIS regulations require foreign inspection systems for meat and poultry products to provide standards equivalent to those of the United States to allow imports from those countries into the United States. In July 2003 — and again in June 2005 — FSIS found that Canada was not enforcing certain pathogen reduction and Hazard Analysis and Critical Control Point (HACCP) system regulations. All plants must develop, adopt, and implement a HACCP plan for each of their processes. Under HACCP, plants identify critical control points during their processes where hazards, such as microbial contamination, can occur, establish controls to reduce those hazards, and maintain records documenting that controls are working as intended. FSIS did not have protocols for evaluating deficiencies that could jeopardize a country's overall equivalence determination. In addition, FSIS did not institute compensating controls (e.g., increased port-of-entry testing) to ensure that public health was not compromised by deficiencies. More than 4.4 billion pounds of Canadian processed products entered the United States from January 2003 through May 2005, even though FSIS officials questioned the equivalence of the Canadian inspection system.

Our July 2005 management alert reported that FSIS had not taken timely action to resolve the 2003 finding that Canada does not require daily inspection coverage at processing establishments to approximate U.S. standards. Further, in testing for *Listeria monocytogenes*, Canada requires risk-based environmental sampling versus the finished product sampling required by FSIS. In addition, FSIS' actions regarding Canadian establishments were not consistent with its treatment of establishments in other countries.

OIG recommended that FSIS develop and implement protocols for determining which equivalence deficiencies would call into question a country's overall equivalence to U.S. standards. FSIS also needs to make an equivalence determination on the Canadian inspection system control for *Listeria monocytogenes* in ready-to-eat products. In response to our audit, FSIS agreed to make an equivalence determination regarding daily inspection coverage by 2007. In the interim, FSIS agreed to ensure that there is no increased risk to public health in the United States by doubling the sampling of Canadian shipments, and Canadian inspection officials agreed to increase the presence of inspectors in processing establishments exporting to the United States.

Comprehensive Approach to Surveillance and Monitoring of Avian Influenza (AI) Needed. USDA/OIG found that APHIS had made commendable progress in developing plans to respond to an outbreak of highly pathogenic avian influenza (HPAI) on a large commercial poultry operation but had not developed a comprehensive approach for surveillance and monitoring for AI in domestic poultry. APHIS agreed to detail how and when its inventory of current surveillance activities was to be developed, revise the National AI Preparedness and Response Plan with detailed instructions for handling HPAI occurrences in "off-farm" environments, and obtain and administer vaccines and anti-viral medication to personnel involved in culling operations.

APHIS' Oversight and Enforcement of Security for Biological Agents and Toxins Need Strengthening. "Select" plant and animal biological agents and toxins are those that pose a severe threat to animals, plants, and products. For such agents and toxins, APHIS had not ensured that entities were fully complying with regulations regarding security plans; restricting access; training individuals authorized to possess, use, or transfer them; and maintaining current and accurate inventories. This occurred because APHIS had not promptly or adequately reviewed required security measures, leaving select agents or toxins vulnerable to potential theft or misuse. APHIS generally agreed with our recommendations about specific ways to improve inspections and the need to reinspect registered entities to ensure compliance with security regulations, using formal written procedures to ensure that the inspections are consistent and thorough.

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

We recommended that FSIS: (1) strengthen its procedures to ensure that all establishments subject to *Salmonella* testing are identified and included in the testing database, (2) develop a risk assessment to determine which establishments need to be tested for *Salmonella*, and (3) obtain scientific advice to evaluate whether its policy of not testing certain raw ground beef products for *E. coli* O157:H7 contamination should be continued. Agency officials generally agreed with the findings and recommendations. They have initiated corrective actions to include all establishments in the *Salmonella*

testing program and will begin a new testing program to strengthen controls against *E. coli* contamination. We continue to work with FSIS on the issue of whether small-volume establishments should be tested for *Salmonella*.

Highlights of Current and Planned Investigations Work:

AI. Investigations is actively partnering with APHIS and FSIS, as well as external law enforcement agencies (i.e., DHS and the U.S. Fish and Wildlife Service) to develop a comprehensive strategy to address the smuggling of poultry products into the United States from regions affected by AI. The efforts of this task group include the development and implementation of USDA smuggling protocols and Governmentwide smuggling protocols that will reflect the coordination between all agencies in investigations of smuggling matters.

Emergency Response Program. The OIG Emergency Response Program is comprised of two teams: (1) the Emergency Response Team (ERT) and the Wildland Fire Investigation Team (WFIT). ERT's objective is to safely and effectively respond to the scene of criminal acts and other incidents, including natural disasters that threaten the Nation's food supply, agriculture infrastructure, USDA facilities and personnel, or USDA mission areas in general. During FY 2006, ERT attended numerous agroterrorism working group meetings and participated in agriculture-related tabletop exercises. The team members continue to educate city, county, State, and other Federal agencies about ERT and its mission. The team members have received certifications in Hazardous Waste Operations and Emergency Response Level "A" Personal Protective Equipment orientation, as well as Advanced Crime Scene Processing. ERT recently supported OIG special agents executing a search warrant at an Oklahoma cockfighting facility by assisting APHIS in the documentation, depopulation, and sampling of the game fowl found at the site. A total of 145 game fowl were collected and tested for AI and Exotic Newcastle Disease.

As mandated by P.L. 107-203, enacted July 24, 2002, OIG established a WFIT to conduct independent investigations of any USFS firefighter deaths that are caused by wildfire entrapment or burnover and report to Congress and the Secretary of Agriculture on the results of such investigations. Both of these teams continually stand ready to deploy resources when needed. OIG's WFIT has actively been investigating the deaths of five USFS firefighters, which occurred in October 2006, as a result of the Esperanza Wildland Fire. WFIT team members were deployed to the accident site after official notification of the fatalities and met with members of USFS' Serious Accident Investigation Team, as well as representatives from the California Division of Forestry and Occupational Safety and Health Administration. This investigation remains ongoing.

Selected Examples of Recent Progress – Investigations:

Former USFS Firefighter Sentenced – Ordered To Pay \$2.4 Million for Setting Fires to National Forest System Land in California. On July 10, 2006, a former USFS firefighter was sentenced in U.S. District Court, the Northern District of California, to 4 months in prison, 4 months' home detention, 36 months' supervised release, and 150 hours of community service and was ordered to pay \$2,422,000 in restitution for intentionally setting three fires in the Los Padres National Forest in 2004.

Indiana Farm Quarantined – Smuggled Poultry and Eggs Destroyed. For circumventing USDA requirements on importation of poultry and eggs into the United States, an Indiana man and his wife had their poultry operation quarantined and the birds and eggs destroyed. The wife had genetically developed a specific type of chicken with unique feathering. From May to September 2005, nine shipments of such eggs from the United Kingdom were intercepted at Chicago's O'Hare International Airport by DHS's Customs and Border Protection though other shipments were delivered. A total of 149 chickens, 9 turkeys, and 111 eggs were quarantined and destroyed. This was a joint investigation with APHIS' Investigative Enforcement Services.

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

Smuggling Contaminated Produce. On August 23, 2006, two men were sentenced in U.S. District Court, Southern District of Florida, to 6 months' home confinement, 24 months' probation, 150 hours of community service, and ordered to pay a fine of \$3,500. The OIG investigation disclosed that a produce importer was involved in a substitution/smuggling scheme to introduce produce contaminated with pesticides into U.S. commerce in violation of Federal law. In March 2006, the men were charged with conspiracy, entry of goods by means of false statements, and smuggling goods into the United States. This OIG investigation was conducted jointly with the Food and Drug Administration and DHS/Immigration and Customs Enforcement.

Goal 2: INTEGRITY OF BENEFITS – Reduce program vulnerabilities and enhance integrity in the delivery of benefits to individuals.

Benefit and entitlement programs in USDA encompass a variety of programs that provide payments directly and indirectly to individuals or entities. These include programs to feed at-risk populations, including the poor and mothers and children and to support farmers and rural communities. These programs – involving tens of billions of dollars in outlays – are susceptible to misuse by organized groups and individuals. OIG's priority in these areas is to reduce program vulnerabilities and enhance integrity in the delivery of benefits. One of the means OIG uses to assist in this goal is to identify and criminally prosecute those individuals who fraudulently misuse these programs. OIG investigates matters involving Food Stamp Program/Electronic Benefit Transfer (FSP/EBT) trafficking in relation to illegal activities by retailers and recipients of the program. In addition, OIG investigates fraud involving the National School Lunch Program; the Special Supplemental Nutrition Program for Women, Infants and Children; and the Child and Adult Care Food Program.

In response to the devastating hurricanes that affected the Gulf States in September and October 2005, the President requested and the U.S. Congress approved disaster relief packages containing a number of provisions for emergency food and farm disaster assistance and other provisions expanding a wide array of USDA programs, including livestock feed assistance, farm conservation programs, specialty crop assistance, and farm loans, as well as rural development and housing assistance. The President and the Congress have requested that all Inspectors General take a proactive role in preventing fraud, waste, and abuse of any monies allocated in response to the hurricanes. Currently, USDA/OIG auditors and investigators are monitoring operations at USDA headquarters in an effort to stay current on all disaster-relief operations and provide timely advice and assistance. OIG's audit and investigative work in support of Katrina disaster assistance is being coordinated with the President's Council on Integrity and Efficiency's Homeland Security Steering Group, the U.S. Government Accountability Office, and USDA program managers.

In addition, OIG will continue to investigate matters of large-scale fraud involving crop insurance, payment limitations, and rural development programs. Such efforts include investigating matters of loan fraud, embezzlement, theft, false statements, conversion of collateral, equity skimming, and contract fraud.

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/Inspections Work:

Hurricanes Katrina and Rita Recovery Efforts. In September 2005, the Gulf Coast Region of the United States suffered loss of life and severe damage to the overall infrastructure, including private residences, public buildings, businesses, and farms resulting from Hurricanes Katrina and Rita. OIG work to protect the integrity of hurricane relief benefits to the Gulf States includes:

- Disaster FSP for Hurricanes Katrina, Rita, and Wilma. OIG audit efforts include a review of the Food and Nutrition Service (FNS)-implemented Disaster Food Stamp Programs operations in the affected States of Alabama, Louisiana, Mississippi, and Florida. We are reviewing the effectiveness of FNS and State controls to prevent improper payments.
- Livestock and Feed Indemnity Programs (LIP and FIP). This audit will evaluate the effectiveness of the Farm Service Agency's (FSA) program delivery of LIP and FIP and the adequacy of its management controls to ensure program integrity.
- Emergency Forestry Conservation Reserve Program (EFCRP). This audit will evaluate the effectiveness of FSA's program delivery of EFCRP and the adequacy of its management controls to ensure program integrity.

Tobacco Transition Payment Program (TTPP)/Tobacco Buyout. The objective of this audit is to determine if FSA's internal controls are adequate to ensure that payments are issued to eligible quota holders, and if flue-cured tobacco quotas are correct.

Crop Bases on Lands with Conservation Easements – Nationwide. OIG will conduct a nationwide review of FSA's and the Natural Resources Conservation Service's (NRCS) controls to ensure proper disposition of crop base acres on land subject to conservation easements and rental agreements (restrictions) and to identify improper farm subsidy payments to producers participating in these conservation programs.

Rural Business-Cooperative Service Intermediary Re-lending Program (IRP). The audit will test whether expenditures made by IRP recipients are proper and if the recipients of IRP loans are eligible.

Origination Practices in the Rural Housing Service's (RHS) Single Family Housing Direct Loan Program. This audit will determine whether weaknesses in RHS loan approval procedures have led to increased loan delinquency rates.

Rural Rental Housing (RRH) Construction Costs. Prior OIG audits have disclosed instances where RRH borrowers have charged unauthorized, fictitious, inflated, and ineligible expenses during the construction of RRH projects. This would often involve identity-of-interest relationships where the borrower had a controlling interest in the company, providing the goods or services to the RRH project. We will determine whether the internal controls RHS has implemented to correct the deficiencies reported back in 1992-1993 have been effective.

Oversight of the Rural Development's (RD) Rural Community Advancement Program. Our review will determine whether the transfer and use of over \$2.9 billion in FY 2006 funds among RD programs was effective in targeting RD funds to those rural communities, programs, and recipients that needed funding most.

FNS Oversight of EBT Operations. We will evaluate the adequacy of established EBT controls on a national basis and the effectiveness of oversight efforts. This includes an assessment of controls at EBT processor(s) and State agencies. In FY 2006, FSP benefits are estimated to be about \$33 billion.

FSP Retailer Authorizations and Store Visits. FSP enables low-income families to buy nutritious foods through local stores using FSP benefits. For a store or retailer to participate in FSP, FNS must authorize the store through a process to ensure that a variety of qualifying food items are available at the store and that food sales exceed 50 percent of the store's total gross sales. FNS must also ensure that disqualifications are imposed on retailers found violating program rules and that disqualified retailers do not continue to participate in the program. Our audit will assess FNS' controls over retailer authorizations including store visits.

Agricultural Research Service (ARS) Research Facilities. We will evaluate the ARS research facility organizational structure, age, condition of the laboratories, and associated capital improvement funding levels to identify program vulnerabilities and options for maximizing facility usage.

Selected Examples of Recent Progress – Audit/Inspections:

More Than \$9 Million in Loans Issued to Ineligible Applicants With Prior Debt Forgiveness. When farmers and ranchers are unable to repay their Farm Loan Programs (FLP) loans in full, Congress requires that FSA consider them ineligible for future loans. Using data-mining techniques, we reviewed the 139,466 loans active in FSA's database (as of October 1, 2004) to isolate 239 borrowers who were potentially ineligible for having received prior debt forgiveness. Our review of six potentially ineligible borrowers revealed that three were, in fact, ineligible and should not have received FLP loans. FSA subsequently reviewed all 239 borrowers and confirmed that 98 (41 percent) of the borrowers were ineligible and should not have received 127 loans, totaling \$9,053,004, issued from 1999 through 2004. In general, we determined that the unauthorized assistance occurred because FLP loan officials did not follow established procedures for determining applicants' eligibility, and FSA's automated management tools lacked applicants' complete debt histories.

In response to the audit, FSA again reviewed these 127 loans and determined that 14 loans totaling \$1,511,860 were eligible. The agency then began to collect the remaining 113 ineligible loans totaling \$7,541,144. Further, FSA issued guidance to help employees determine whether applicants have received prior FLP debt forgiveness and is developing a new automated system that will automatically display applicants' complete debt histories.

FSA's Controls Over Disaster Payments Need Strengthening. FSA issued approximately \$2.5 billion nationwide in 2001 and 2002 Crop Disaster Program (CDP) payments. To the extent practicable, CDP payments are based on the producers' calculated crop insurance production losses. We reviewed approximately \$1.8 million of those payments in three Texas counties and identified improper CDP payments totaling \$261,767 and related improper Noninsured Crop Disaster Assistance Program payments totaling \$116,938.

Generally, the improper payments were made to producers with crop insurance that was based on group risk (rather than verified losses per individual producer) and to producers who, under production contracts with vendors, did not have title to the crops. The improper payments were attributed to FSA county office employees' lack of training on procedures for CDP applications that require special handling, e.g., applications for producers with group risk crop insurance, etc. Further, we found that FSA's CDP quality control review process was neither functioning as designed nor adequate to detect the processing errors identified by the audit.

FSA agreed to improve its CDP review process by completing all required reviews on time, providing appropriate training for reviewers, and expanding the universe for second-party reviews. FSA also agreed to have FSA State office personnel better train county office employees to: (1) identify and process applications that require special handling and (2) review production contracts. FSA addressed some of the concerns in training and procedures for the 2003/2004/2005 CDP. FSA also agreed to improve controls for future disaster programs and began to correct the identified improper payments.

FSA Needs To Strengthen Controls Over Farm-Stored Loan Collateral. Marketing Assistance Loans (MAL) help farmers store their crops at harvest when prices are low and sell them later at more advantageous prices. In response to 2005 Hurricanes Katrina and Rita and their effect on grain storage, on-ground farm storage was approved for commodities offered as MAL collateral for CYs 2005 and 2006. FSA's controls were generally adequate, but the agency could improve how it secures farm-stored loan collateral. For instance, due to ambiguities in FSA's procedures and regulations, FSA overvalued high-moisture collateral for 16 loans by 80 percent, or nearly \$1.6 million, and county offices did not consistently use commodity seals to identify loan collateral. Moreover, when regulations were clear, county offices did not always comply with them: Four of sixteen county offices did not perform required spot checks of loan collateral, 10 of 16 did not complete required loan documents when processing applications for MALs, and 1 State and county office made a number of errors (resulting in questioned loans of more than \$600,000) when administering MALs to a cooperative marketing association.

FSA agreed to: (1) clarify its procedures regarding the MAL collateral value of low-quality, high-moisture commodities and the use of commodity loan seals; (2) take action to determine and recover the potentially overstated value of such collateral, as deemed appropriate; (3) strengthen its systems for performing spot checks of loan collateral and for completing and reviewing MAL documents; and (4) provide training to the State and county office that committed errors administering MALs.

Formal Policies and Procedures Have Not Been Established for New Crop Insurance Products. OIG found that formal policies and procedures have not been established for monitoring and reviewing the performance of section 508(h) products. OIG determined that without more consistent, formal procedures for monitoring and reviewing section 508(h) products, vulnerabilities to the products may go undetected and result in losses. OIG recommended that the Risk Management Agency (RMA) develop and implement standardized procedures for monitoring and reviewing section 508(h) products to include a timeframe for performing a contract review if deemed necessary. In addition, OIG recommended that RMA establish guidelines for annual evaluation performed by private companies if required in memorandums of agreement. RMA agreed with the recommendations and has agreed to formalize the monitoring, reviewing, and evaluating processes of the 508(h) products.

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

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

Contract Provisions Not Enforced Against Food Service Management Companies (FSMC) Cost Local School Food Authorities (SFA) \$1.3 Million. We found that a large nationwide FSMC did not pass on to local SFAs at least \$1.3 million in incentives, discounts, and/or rebates it had received from food manufacturers for food, beverage, and supply purchases as required in 106 contracts with SFAs. State agencies responsible for overseeing the SFAs' contracts did not have procedures in place to ensure that the incentive provisions were enforced. FNS has proposed regulations to clarify that State agencies must check SFA contracts for compliance prior to SFAs signing contracts with FSMCs on a yearly basis. The

proposed regulations also require that companies providing food management services identify all incentives (discounts, rebates, and other applicable credits) when billing an SFA. FNS generally agreed to instruct the State agencies to work with SFAs to evaluate FSMC contract compliance pursuant to the terms of the contracts.

Highlights of Current and Planned Investigations Work:

Hurricanes Katrina/Rita Activities. Investigations is continually participating in seven Hurricane Katrina Fraud Task Forces throughout the country. To date, our investigations have yielded six indictments and two convictions in investigations related to FSP. We are continually meeting with Departmental agencies to determine what new programs have been implemented in support of the victims of these hurricanes, as well as to determine what claims from the various Departmental programs appear to be fraudulent and would be considered for investigation.

Crop Insurance, Deficiency, and Indemnity Payments Investigations. We are performing investigative work on the fraudulent reporting by producers, as well as improper appraisals/evaluation of aflatoxin-infected corn, which caused the improper payment of crop insurance claims and farm program deficiency and indemnity payments. Further, we are looking into whether such corn was advertently or inadvertently released into the food supply.

FNS Program Investigations. Investigations is working with State and local law enforcement entities, who have a joint interest to investigate violations involving the Women, Infant, and Children Program (WIC)/Infant formula and Child and Adult Care Feeding Programs (CACFP). The WIC/Infant formula investigations 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.

Selected Examples of Recent Progress – Investigations:

Texas Producer and Corporation Sentenced – Ordered To Pay \$362,775 for Farm Subsidy Fraud. On September 29, 2006, a Texas producer and a corporation were sentenced in U.S. District Court, Northern District of Texas, to serve 60 months of probation and were ordered to pay \$362,775 in restitution. The OIG investigation disclosed that, during 2000, individuals operating independently as a corporation and as other farming entities fraudulently participated in RMA and FSA programs. The parties shifted their 2000 cotton production (totaling approximately \$400,000) and reported the same production for program payments. In June 2006, the producer pled guilty to misprision of a felony.

Fraudulent Receipt of Hurricane Disaster Benefits. On October 3, 2006, a woman was sentenced in U.S. District Court, Southern District of Mississippi, to serve 36 months of probation and was ordered to pay \$4,000 in restitution to the Federal Emergency Management Agency (FEMA). The OIG investigation disclosed that three individuals fraudulently received FEMA emergency assistance related to a damaged dwelling that was unoccupied for the prior 2 years. The ineligible applicants included the woman who submitted the application, a food stamp recipient serving prison time in the State penitentiary, and an individual residing in a drug rehabilitation unit. In July 2006, the woman pled guilty to making false claims to FEMA in relation to Hurricane Katrina disaster benefits.

Former Financial Officer Sentenced for Role in Payment Limitations Scheme in Montana. On August 16, 2006, a former FSA financial officer was sentenced in U.S. District Court, District of Montana, to 4 months' home confinement and 30 months' probation for his role in assisting another individual in defrauding FSA. The OIG investigation disclosed that the other individual circumvented payment limitations and illegally received \$1.4 million from FSA. The former financial officer assisted this individual by providing false financial documents to FSA. The other individual was previously sentenced in June 2006 to 10 months in Federal prison and ordered to pay \$226,035 in restitution.

Company President in Arizona Sentenced – Ordered To Pay \$608,707 for Fraud in Market Access Program. On July 31, 2006, the president of an export management company was sentenced in U.S. District Court, District of Arizona, to serve 12 months in prison followed by 3 years of supervised release. He was also ordered to pay \$608,707 in restitution. The OIG investigation revealed that the company president submitted false claims pertaining to the Market Access Program (MAP), which pays half the promotional costs for selling American agricultural products to foreign countries. From December 2000 to March 2004, the company president submitted 44 claims totaling \$1,322,503 for payment to the Foreign Agricultural Service under MAP. He submitted fraudulent checks in support of the reimbursement claims and received \$585,057 in USDA funds. He was charged with theft and false statements.

Arkansas Kennel Owners Sentenced – Agree To Forfeit \$1.3 Million in Assets and Pay \$42,000 to Animal Rescue Groups for Animal Welfare Act (AWA) Violations. On July 14, 2006, the owners of a kennel in Williford, Arkansas, were sentenced in the U.S. District Court, Eastern District of Arkansas, for mail fraud and misprision (failure to report knowledge) of a felony. The OIG investigation disclosed that from January 1999 to December 2003, the kennel owners fraudulently made approximately \$3.5 million by selling dogs and cats to USDA-licensed research facilities. The kennel owners admitted obtaining the majority of their dogs from unauthorized sources, in violation of the AWA. Both kennel owners pled guilty and agreed to forfeit \$200,000 in cash and 700 acres of land valued at \$1,100,000. They also agreed to pay a total of \$42,400 in partial reimbursements to 12 animal rescue groups. One of the kennel owners was sentenced to serve 6 months' home detention and 36 months' probation and was ordered to pay a \$7,500 fine. The spouse was sentenced to serve 24 months' probation and ordered to pay a \$2,500 fine.

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

Goal 3: MANAGEMENT OF RESOURCES – Increase the efficiency and effectiveness with which USDA manages and employs public assets and resources including physical and information resources.

Given the scope of USDA program assets and annual spending, the effectiveness and efficiency with which USDA manages its assets is critical. Increasing the efficiency and effectiveness with which USDA manages and employs public assets and resources, including physical and information resources, involves continual audit and investigative efforts in the areas of financial management and accountability, protection of public assets, natural resources, employee corruption, information technology (IT) security and IT management, and special resource challenges facing USFS – the steward of 193 million acres of national forests and grasslands.

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:

Hurricanes Katrina and Rita Recovery Efforts. In addition to the activities noted in the previous section on the 2005 hurricane-related reviews, auditors have specific plans for reviewing the short, intermediate, and long-term recovery efforts. The overriding objective of the USDA/OIG audit plan is to ensure

accountability, and it focuses heavily on prevention. OIG is reviewing controls and monitoring and advising Department officials on contracts, grants, and purchase transactions.

Barge Movement and Transportation Differential Agreements. This audit evaluates FSA's awards of Barge Movement Agreements and Transportation Differential Agreements to reduce stress on the grain transportation system caused by Hurricane Katrina. It includes an evaluation of the award process and oversight of the award recipients' compliance with the award.

Emergency and Alternative Grain Storage. This audit is evaluating the actions initiated by FSA officials in awarding and administering the emergency and alternative grain storage initiatives, as related to Hurricanes Katrina and Rita.

Conservation Security Program. This audit will determine the adequacy of NRCS' controls to ensure program integrity.

Review of RMA's Compliance Activities. The audit will determine if compliance activities are adequate to improve program compliance and integrity and detect and reduce fraud, waste, and abuse.

Management Controls Over Research. OIG initiated an audit to evaluate ARS' management controls over internal and external research agreements.

Implementation of Renewable Energy Programs in USDA. The audit will determine whether efforts in USDA to implement and deliver renewable energy programs have controls to prevent duplication of funding or research and to ensure that recipients of renewable funding are eligible and that funds are spent on authorized purposes only.

Review of USDA's Accountability for Actions Taken on Civil Rights Complaints. The audit will evaluate USDA's progress in addressing employee civil rights complaints and holding employees accountable for acts of discrimination.

USFS Invasive Species Program. The audit will evaluate the efficiency and effectiveness of USFS' efforts to reduce, minimize, or eliminate the introduction, establishment, spread, and impact of detrimental species.

USFS Operations Under the National Response Plan. The audit will be conducted jointly with DHS/OIG. It will determine if USFS' past charges for work related to hurricane response and recovery are adequately supported. It will also evaluate the adequacy of coordination, training, direction, and written agreements between DHS and USFS. The audit will also identify factors or barriers that may affect USFS' ability to fulfill its mission under the National Response Plan.

Compliance with the Improper Payments Information Act – Risk Assessment. We initiated audits of several USDA agencies' efforts to quantify improper payment error rates for high-risk programs. We will determine if accurate estimates of improper payments have been made.

Selected Examples of Recent Progress – Audit/Inspections:

Grain Inspection, Packers and Stockyards Administration's (GIPSA) Management and Oversight of Packers and Stockyards Programs (P&SP) Need Improvement. We found P&SP had difficulties defining and tracking investigations, planning and conducting competition and complex investigations, and making agency policy. GIPSA agreed to: (1) define investigations by differentiating between performing onsite reviews and obtaining publicly available data; (2) validate data in the tracking system; (3) timely identify the work to be performed, perform the fieldwork and analysis, and report on the results; (4) promptly act on policy issues and guidance; and (5) perform internal reviews to monitor and report on agency activities.

Saving the Chesapeake Bay Watershed Requires Better Coordination of Environmental and Agricultural Resources. We found that the U.S. Environmental Protection Agency (EPA) must improve its coordination and collaboration with its Bay partners and the agricultural community to better reduce nutrients and sediment entering the Chesapeake Bay watershed. USDA, a Bay partner at the Federal level, could significantly assist EPA in implementing the needed conservation practices within the agricultural community. Given its many conservation programs, extensive field organization, and long experience working with the agricultural community, USDA's commitment and collaboration would significantly contribute to the EPA Chesapeake Bay Program Office's plan for long-term improvement to the Bay's water quality. However, USDA has not coordinated a Departmentwide strategy or policy to address its commitment as a Bay partner.

We recommended that USDA assign a senior level official to coordinate with EPA's Chesapeake Bay Program, review the feasibility of targeting USDA funds geographically, direct agencies to expedite the development and implementation of outcome-based performance measurements for evaluating the effectiveness of their conservation efforts and programs, and develop a tracking system for maintaining a list of technical assistance and financial assistance requests from landowners and agricultural producers that cannot be completed due to limited funding. Although these steps will not by themselves solve the Bay's problems, they will significantly assist the Bay partners in cleaning up the Bay. USDA concurred with the recommendations and has moved expeditiously to implement them.

Relief Determinations Not Properly Tracked and Analyzed To Prevent Errors. The "finality rule" and "equitable relief" allow the forgiveness of repayment in those cases when a farm program participant acted in good faith, but FSA or the producer erred to cause an overpayment. Our review of the States' manual equitable relief reports submitted to the national office for calendar year 2003 and our detailed review of equitable relief determinations in three States found that the \$694,629 of approved equitable relief reported to Congress for that year was understated by at least \$1,894,254. Further, FSA did not analyze its equitable relief and finality rule cases to identify weaknesses in program delivery — neither the national office nor the three State offices reviewed had analyzed the more than \$2.7 million of approved 2003 requests identified during the audit. FSA agreed to implement an automated system to track finality rule and equitable relief determinations, analyze the information, and share the information with FSA's Financial Management Division for purposes of reporting on improper payments under the Improper Payments Information Act of 2002.

RMA Needs to Improve Crop Insurance Premium Ratemaking Process. From 1975 to 2003, cotton and wheat premiums were not sufficient to cover indemnities, resulting in net program losses totaling over \$1.2 billion and \$1.6 billion, respectively. Corn, however, netted a surplus of \$1.4 billion. To address the significant losses and inequities, OIG found that RMA should improve its quality control over the ratemaking process. In response to the audit, RMA performed an analysis of historical net indemnities and premium rates to provide a more accurate indication of the current state of the crop insurance program. In addition, RMA is working with OIG to finalize RMA procedures for the ratemaking process and plans to contract with an actuarial firm to review, update, and document the disaster reserve factor.

Hurricanes Katrina and Rita Recovery Efforts – RHS Provided Duplicate Rental Housing Assistance to Hurricane Victims. After Hurricanes Katrina and Rita, USDA's RD placed 11,000 evacuees into 4,100 apartments and provided \$2.6 million in emergency rental assistance. USDA/OIG found that much of the \$2.6 million was unnecessary and duplicative of aid provided by FEMA. Our review found RD's database contained inaccurate information. RD did not monitor owners to ensure they were not receiving rental assistance from RD as well as rent from victims of the hurricane. RD is preparing for its response to future disasters by developing policy and procedures for coordinating actions and sharing information with other agencies and improving information system controls.

USFS Needs To Reevaluate Cost Share Agreements and Wildland Fire Use. The majority of USFS' large fire suppression costs are directly linked to protecting private property in the wildland urban interface (WUI). USFS managers need to renegotiate their agreements with State and local governments to more

appropriately apportion WUI protection responsibilities and costs. We also determined that USFS needs to change some policies regarding wildland fire use (WFU). USFS needs to increase the number of available qualified personnel and expand WFU to help control the costs of future fires. Additionally, USFS needs to strengthen its costs containment controls. Processes need to be implemented to more effectively hold managers accountable for financial impact of their decisions. USFS's cost containment reviews had limited effectiveness. The reviews did not sufficiently address large cost drivers, did not assure identified problems were corrected and communicated to affected parties, and were not conducted with sufficient frequency. USFS agreed with the reports' findings and recommendations and has started initiating corrective action.

USFS Needs To Improve Its Oversight and Management of Contracted Fire Crews. USFS needs to improve its contract oversight to ensure that contract employees had achieved both the training and experience requirements for the positions they held on firefighting crews. Our review found that a significant number of contract firefighters may not have been qualified to perform the duties required under the contract. We determined that USFS also needs to address control weaknesses at wildfire suppression associations that provide training to contract employees. Additionally, USFS needs to improve language proficiency assessments to ensure contract crew personnel can communicate adequately with USFS incident management personnel. Finally, USFS needs to coordinate with other Federal agencies to identify undocumented workers on contracted crews. USFS agreed with all the recommendations contained in the report and established timeframes for corrective actions.

USFS Process for Identifying Risks, Prioritizing, and Funding Hazardous Fuels Projects Needs Improvement. Hazardous fuels that feed forest fires are accumulating at a rate three times faster than USFS has the ability to accomplish reduction treatments. Our audit determined USFS lacked a consistent analytical process for assessing risks that communities faced from wildfires and determining if hazardous fuel projects would be cost beneficial. USFS lacked controls that would enable it to identify, prioritize, and fund fuel reduction projects that would decrease risk the most and provide the greatest benefits. Under USFS' decentralized management structure, the identification and prioritization of projects was performed by and at the discretion of individual field units. There was no uniform methodology to enable projects to be compared between districts, forests, regions, or on a National basis. There were no controls in place to prevent funds from being allocated to projects in order to achieve targets of acres treated instead of reducing the most risk. USFS has accepted our recommendations for corrective action and has provided timeframes for completion.

FY 2005 and 2006 Consolidated Financial Statement Audits. USDA and the standalone agencies (Commodity Credit Corporation, USFS, FNS, Federal Crop Insurance Corporation/RMA, Rural Telephone Bank, and RD Mission Area) received unqualified opinions on their FY 2006 financial statements. An unqualified opinion means USDA and standalone agencies' financial statements fairly presented their financial position and related reporting. This achievement reflected the overall improvements made by USDA in the area of financial management. OIG noted, however, that USDA needed to improve its overall financial management, IT security and controls, and certain financial management practices and processes. The Office of the Chief Financial Officer has immediate and long-term plans to substantially improve these financial and IT weaknesses. The Department plans to submit a detailed Action Plan no later than December 31, 2006.

FY 2005 Federal Information Security Management Act. We conducted an audit of USDA's effort to meet the requirements of FISMA and improve the management and security of its IT resources. Although USDA agencies have accelerated their efforts to comply with Federal information security requirements during the fiscal year, we continued to find significant weaknesses that can be attributed to a lack of management oversight and monitoring at both the Department and its agencies. While progress has been made, there is still much to be accomplished. Due to the significance of these weaknesses, the Department cannot be assured that its systems and data are adequately secured. IT security remains a material internal control weakness for the Department.

Highlights of Current and Planned Investigations Work:

OIG's National Computer Forensics Division (NCFD). In 1987, OIG established an NCFD and expanded the unit in 2006 to include five computer specialists. These specialists are uniquely trained to detect high-tech criminal activity, collect and analyze digital evidence, and preserve it for use in court. The computer specialists are on-call at all times and prepared to travel to any location in the country to provide computer support in criminal investigations. As a result, OIG has increased its IT capacity in evidence recovery, detection of computer intrusion, and other forensic applications. Virtually all OIG investigations now involve some form of electronic evidence. As criminals have begun to use more sophisticated methods for committing and concealing their crimes and proceeds, criminal investigators have had to keep abreast with equally sophisticated methods to combat such criminal activity through IT solutions, such as the use of computerized data mining and analysis techniques and sophisticated computer hardware and software packages.

Investigations will continue its efforts of fully utilizing IT forensic analysis throughout its criminal investigations. Such efforts are to enhance its investigations in retrieving and analyzing evidence found on computer systems and equipment.

Bioenergy Program. Investigations identified the Bioenergy program, administered by FSA, as a priority on which to focus investigative resources. This program seeks to expand industrial consumption of agricultural commodities by promoting their use in bioenergy.

Selected Examples of Recent Progress – Investigations:

Water Authority Manager Gets 8 Years in Prison. In June 2006, the former general manager of a rural water authority in Ohio, which was a Rural Utilities Service borrower, was sentenced to 96 months of imprisonment for a variety of illegal activities, including bribery, acceptance of gratuities, and false statements. The former official was also ordered to pay \$88,000 in restitution and will be subject to 36-60 months of post-release supervision. The former general manager accepted bribes (money and home remodeling) and gratuities (hunting trips and hunting and fishing equipment) from vendors and contractors; offered bribes and directed potential witnesses to destroy documentary evidence and make false statements to investigators; directed a vendor to issue checks to a contractor who in turn wrote checks to him; defrauded the rural water company by having contractors bill the water company for the remodeling of his home, the repair of his family's automobiles, and repairs to his home computer (which was purchased by the rural water company); and diverted the rural water company's purchased merchandise and services to his and his family's use. Also, in June 2006, the water authority's former fiscal officer was sentenced to 24 months of probation, fined \$5,000, and ordered to perform 200 hours of community service for aiding the general manager in the illegal activities. This investigation was conducted jointly with the Office of the Ohio Auditor of State.

State Executive Director Retires After Investigation. In January 2006, an FSA State Executive Director (SED) unexpectedly retired on the heels of an OIG investigation into an alleged conflict of interest involving construction bids for a new USDA Service Center. In 2005, the SED became personally involved in the bidding process to select a contractor to build a USDA Service Center and attempted to influence the decisions of the bid selection committee in favor of the SED's son, a licensed contractor. The bid was never awarded, and the Service Center will not be built.

OIG Investigates Computer Intrusion Involving 26,000 USDA Employees. After a request by the Department, OIG used its NCFD to determine that two computer servers had been compromised multiple times by hackers in June 2006, but that the database containing personal identity information for 26,000 USDA employees had not been compromised or transferred from USDA computers. OIG continues to work with the Office of the Chief Information Officer to ensure that all USDA networks and employee personal information are secure.

Employee Steals and Resells Over \$162,000 in USDA-Owned Software. In April 2006, a former Agricultural Marketing Service (AMS) supervisor pled guilty to theft of Government property and was later terminated by AMS. From November 2000 through December 2003, the former employee purchased and/or directed subordinate employees to purchase 294 copies of computer software from various vendors at the expense of the Government. The software, valued at \$162,859, was re-sold by the former employee for personal gain. In September 2006, the former AMS supervisor was sentenced to serve 18 months in prison, to be followed by 36 months of supervised release and was ordered to pay restitution of \$162,859.

OFFICE OF INSPECTOR GENERAL

Summary of Budget and Performance
Statement of Agency Goals and Objectives

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

USDA Strategic Goal	OIG Strategic Goal	OIG Objectives	Programs that Contribute	Key Outcome
Supports all of USDA's Strategic Goals	Strategic Goal 1: Support USDA in the enhancement of safety and security measures to protect USDA and agricultural resources and in related public health concerns.	<u>Objectives:</u> (Strategic Goals 1, 2, & 3) – Continuously monitor and assess risks and areas of emphasis in USDA programs and operations to identify those that are critical. – Target resources to address critical risks in USDA vulnerabilities in areas of emphasis related to safety and security, program integrity, and resources management. – Increase quality and frequency of communication and information sharing with USDA agencies and other organizations.	Audit/ Investigations	<u>Key Outcome 1:</u> (below)
Supports all of USDA's Strategic Goals	Strategic Goal 2: Reduce program vulnerabilities and enhance program integrity in the delivery of benefits to individuals.	<u>Objectives:</u> – same as above for Strategic Goals 1, 2, & 3	Audit/ Investigations	<u>Key Outcome 2:</u> (below)
Supports all of USDA's Strategic Goals	Strategic Goal 3: Increase the efficiency and effectiveness with which USDA manages and employs public assets and resources including physical and information resources.	<u>Objectives:</u> – same as above for Strategic Goals 1, 2, & 3	Audit/ Investigations	<u>Key Outcome 3:</u> (below)

Key Outcomes:

Key Outcomes – Strategic Goals 1-3:

- Establishment of internal systems' capabilities and reporting requirements to track progress against performance measures and goals.
- Development of criteria to establish priorities in terms of dollars; level of Congressional, Departmental, or public interest; risk factors; or other concerns.
- Establishment of inventory of resources to include ad hoc experts.
- Establish prevention and detection methods to reduce program losses through trend analysis.
- Development of self-assessments and other tools for USDA agencies to identify fraud, waste, and abuse in internal and program operations.
- Establish process for continuous exchange with USDA program officials and other stakeholders.

OFFICE OF INSPECTOR GENERAL

Strategic Objective 1: Continuously monitor and assess risks and areas of emphasis in USDA programs and operations to identify those that are critical.

Strategic Objective 2: Target resources to address critical risks in USDA vulnerabilities in areas of emphasis related to safety and security, program integrity, and resources management.

Strategic Objective 3: Increase quality and frequency of communication and information sharing with USDA agencies and other organizations.

Strategic Objective and Funding Matrix
(Dollars in Thousands)

Program	<u>2006 Actual</u>		<u>2007 Estimated</u>		Increase Or Decrease	<u>2008 Estimated</u>	
	<u>Amount</u>	<u>Staff- Years</u>	<u>Amount</u>	<u>Staff- Years</u>		<u>Amount</u>	<u>Staff- Years</u>
Investigations	\$40,562	264	\$40,462	270	\$2,377	\$42,839	274
Audit	38,971	331	38,871	345	2,288	41,159	346
Total	79,533	595	79,333	615	4,665	83,998	620

Selected Accomplishments Expected at the FY 2008 Proposed Resource Level:

Annually, OIG identifies the most significant USDA programs for audit and allocates resources to these areas. During FYs 2007 and 2008, 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 President's Management Agenda.

OIG's proposed current and planned audits/investigations for 2008 are contained in the Status of Programs summary. A sampling of what OIG expects to accomplish includes reviewing: the Strategy for Pandemic Influenza; Agricultural Inspection Activities; Hurricanes Katrina and Rita Recovery Efforts; Crop Insurance, Deficiency, and Indemnity Payments Investigations; and Food and Nutrition Service Program Investigations.

OFFICE OF INSPECTOR GENERAL

Summary of Budget and Performance
Key Performance Outcomes and Measures

OIG Goals.

- Strategic Goal 1: Support USDA in the enhancement of safety and security measures to protect USDA and agricultural resources and in related public health concerns.
- Strategic Goal 2: Reduce program vulnerabilities and enhance program integrity in the delivery of benefits to individuals.
- Strategic Goal 3: Increase the efficiency and effectiveness with which USDA manages and employs public assets and resources, including physical and information resources.

Key Outcomes:Key Outcomes – Strategic Goals 1-3:

- Establishment of internal systems' capabilities and reporting requirements to track progress against performance measures and goals.
- Development of criteria to establish priorities in terms of dollars; level of Congressional, Departmental, or public interest; risk factors; or other concerns.
- Establishment of inventory of resources for special assignments to include ad hoc experts.
- Establishment of prevention and detection methods to reduce program losses through trend analysis.
- Development of self-assessments and other tools for USDA agencies to identify fraud, waste, and abuse in internal and program operations.
- Establishment of processes for continuous information exchange with USDA program officials and other stakeholders.

Long-term Performance Measures: OIG recognizes that we have only limited control, primarily in our ability to influence others over the action taken in response to our work and that many of our statutorily mandated functions (e.g., audit and investigations) have lengthy external decision and implementation processes associated with them. Therefore, we will take a life-cycle approach to our recommendations and actions and measure our performance in the stages required for OIG to ultimately influence change. These stages are:

- Are we doing the most important work?
- Are our recommendations and actions motivating a 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?

Key Performance Measures:

Performance Measure 1: Percentage of direct resources dedicated to critical risks or high-impact activities related to the improvement of USDA's safety and security, program integrity, or resources management.

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

Performance Measure 3: Percentage of cases where criminal, civil, or administrative action is taken in response to investigative reports.

Key Performance Measures and Targets:

Performance Measure	2003 Actual	2004 Actual	2005 Actual	2006 Actual	2007 Target	2008 Target
Performance Measure No. 1 Percentage of direct resources dedicated to critical risks or high-impact activities related to the improvement of USDA's safety and security, program integrity, or resources management.	81%	93%	92%	91%	90%	90%
Performance Measure No. 2 Percentage of audit recommendations where management decisions are achieved within 1 year.	78%	79%	87%	94%	85%	85%
Performance Measure No. 3 Percentage of cases where criminal, civil, or administrative action is taken in response to investigative reports.	61.6%	68%	68%	59%	65%	65%

OFFICE OF INSPECTOR GENERAL

Summary of Budget and PerformanceFull Cost by Strategic Objective

(Dollars in thousands unless noted)

Program Items	2006 Amount	2007 Amount	2008 Amount
Goal 1: Support USDA in the enhancement of safety and security measures to protect USDA and agricultural resources and in related public health concerns.			

Investigations	\$5,476	\$5,462	\$5,783
Audit	5,261	5,248	5,639
Total – Goal 1	10,737	10,710	11,422

Number of Audits That Fall Under Goal 1	11	12	12
Number of Days Charged	5,866	5,698	5,874
Auditor Cost Per Day (\$)	\$897	\$921	\$946
Dollar Expenditure for Goal 1	\$5,261	\$5,248	\$5,556
Number of Investigations That Fall Under Goal 1	60	60	60
Number of Days Charged	5,202	5,053	5,209
Investigator Cost Per Day (\$)	\$1,053	\$1,081	\$1,110
Dollar Expenditure for Goal 1	\$5,476	\$5,462	\$5,783

Goal 2: Reduce program vulnerabilities and enhance program integrity in the delivery of benefits to individuals.

Investigations	\$16,874	\$16,832	\$17,821
Audit	16,212	16,170	17,122
Total – Goal 2	33,086	33,004	34,943

Number of Audits That Fall Under Goal 2	35	38	38
Number of Days Charged	18,077	17,557	18,102
Auditor Cost Per Day (\$)	\$897	\$921	\$946
Dollar Expenditures for Goal 2	\$16,212	\$16,170	\$17,122
Number of Investigations That Fall Under Goal 2	103	100	100
Number of Days Charged	16,030	15,570	16,051
Investigator Cost Per day (\$)	\$1,053	\$1,081	\$1,110
Dollar Expenditures for Goal 2	\$16,874	\$16,832	\$17,821

Goal 3: Increase the efficiency of and effectiveness with which USDA manages and employs public assets and resources including physical and information resources.

Investigations	\$18,212	\$18,167	\$19,235
Audit	17,498	17,453	18,480
Total - Goal 3	35,710	35,621	37,715

Number of Audits That Fall Under Goal 3	41	45	45
Number of Days Charged	19,511	18,950	19,538
Auditor Cost Per Day (\$)	\$897	\$921	\$946
Dollar Expenditures for Goal 3	\$17,498	\$17,453	\$18,480

Program Items	2006 Amount	2007 Amount	2008 Amount
Number of Investigations That Fall Under Goal 3	88	80	80
Number of Days Charged	17,302	16,805	17,325
Investigator Cost per Day (\$)	\$1,053	\$1,081	\$1,110
Dollar Expenditures for Goal 3	\$18,212	\$18,167	\$19,235

Total Cost for All Objectives

Investigations	\$40,562	\$40,462	\$42,839
Audit	38,971	38,871	41,159
Total	79,533	79,333	83,998

Performance Measures – Audit/Investigations

(1) Percentage of direct resources dedicated to critical risks or high-impact activities related to the improvement of USDA's safety and security, program integrity, or resources management.	91%	90%	90%
(2) Percentage of audit recommendations where management decisions are achieved within 1 year.	94%	85%	85%
(3) Percentage of cases where criminal, civil, or administrative action is taken in response to investigative reports.	59%	65%	65%