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House Committee  
on Appropriations*

UNITED STATES DEPARTMENT OF AGRICULTURE  
OFFICE OF INSPECTOR GENERAL

STATEMENT OF THE HONORABLE PHYLLIS K. FONG  
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Submitted to  
The Subcommittee on Agriculture, Rural Development, Food and Drug  
Administration, and Related Agencies

Committee on Appropriations

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Good morning, Chairman Aderholt, Ranking Member Farr, and Members of the Subcommittee. Thank you for the opportunity to speak to you regarding the Office of Inspector General's (OIG) fiscal year (FY) 2016 budget request. My statement will provide the Subcommittee with the highlights of OIG's recent audit and investigative work, as well as touch on oversight initiatives we should complete in the near future.

In FY 2014, OIG concluded significant audits and investigations that have helped improve how the Department administers its annual budget of \$146 billion. As you know, our work is designed not only to find instances of fraud, waste, and abuse, but also to make recommendations that improve how programs will function in the future. Our audit and investigative work last year obtained potential monetary results totaling over \$700 million.<sup>1</sup> We issued 36 audit reports and made 247 recommendations to strengthen USDA programs and operations, which produced about \$325.4 million in potential results. OIG investigations led to 609 convictions with potential results totaling almost \$374.6 million.

Last year, as one of the broader concerns facing the Department, we discussed the need for USDA agencies to focus on how they monitor their programs and ensure that participants comply with requirements. Many USDA agencies place their primary focus on administering programs and providing benefits—often at the cost of ensuring that program funds serve their intended purposes. While improving management controls remains a challenge, we are pleased that the Department is receptive to our message. Whether it has been restoring integrity to the StrikeForce Initiative Program or ensuring that USDA agencies transfer money between programs in accordance with the Economy Act,<sup>2</sup> Department leadership has taken swift and decisive action to correct problems OIG has identified.

In my statement, I will discuss the outcomes of our audit and investigative efforts, organized under our major strategic goals. My statement concludes with a discussion of the return on investment Congress receives from our work, as well as details about future initiatives to improve our oversight of the Department.

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<sup>1</sup> As established by Congress in the Inspector General Act of 1978, audit monetary impacts derive from funds put to better use and questioned/unsupported costs. Investigation monetary impacts come from recoveries, court-ordered fines, restitutions, administrative penalties, as well as other judgments.

<sup>2</sup> 31 U.S.C. §1535.

## **Goal 1—Safety and Security**

One of OIG’s most important oversight responsibilities is helping USDA ensure the safety and security of the U.S. food supply, and we continue to conduct audits and investigations designed to accomplish this goal.

### *Inspections Circumvented for Condemned Cows*

OIG has completed an investigation into a California meat processing plant that was processing diseased cattle for human consumption and avoiding regulatory inspections by the Food Safety and Inspection Service (FSIS). One of the plant’s owners indicated to the plant foreman which condemned cattle should be processed; the foreman in turn directed kill floor employees to carve “USDA Condemned” stamps out of the cattle carcasses. The owner further instructed the foreman to circumvent inspection procedures for certain cows with “cancer eye,” an illness that results in unsightly tumors on cows’ eyes and eyelids. The foreman, or another employee at his instruction, placed the heads from apparently healthy cows next to the bodies of cows with cancer eye. This switch and slaughter of uninspected cows with cancer eye occurred during the FSIS inspector’s lunch breaks, a time during which plant operations were supposed to cease.

As a result of this case, the owner and two employees were charged with numerous criminal acts. They have pled guilty to conspiracy under the Federal Meat Inspection Act<sup>3</sup> and to distribution of adulterated, misbranded, and uninspected meat. FSIS suspended operations at the plant, which was subsequently sold to a new owner.

### *New York Company Forged Phytosanitary Certificates*

The International Plant Protection Convention requires that wood pallets and all solid wood packing material be heat-treated to prevent pests from spreading via international commerce, but OIG found that a Long Island company sold pallets bearing false stamps certifying that its pallets were treated, when they were not. The company owner defrauded U.S. companies by transmitting fraudulent phytosanitary certificates with the forged signature of an Animal and Plant Health Inspection Service (APHIS) inspector. In some instances, he sent uninspected wood products to foreign victims. Fraudulent transactions in the United States and abroad exceeded \$1 million. Our investigation also revealed that the defendant was a fugitive sought in five States on a total of eight open warrants.

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<sup>3</sup> 21 U.S.C. §§ 601, *et seq.*

The owner and three additional co-defendants were charged with conspiracy to commit wire fraud and wire fraud. In 2014, the owner was sentenced to 116 months in prison, followed by 36 months of supervised release. The defendants were ordered to pay restitution in the amount of \$1.4 million.

### *Quarantine of Plant Pests Entering the United States*

Although OIG did not find instances of harmful pests entering the United States, we found that APHIS' Plant Protection and Quarantine (PPQ) program did not have sufficient management controls to ensure that the Preclearance Offshore Program was able to effectively protect U.S. agriculture from foreign pests and diseases. This occurred because PPQ did not define clear reporting requirements, roles, and processes when the program came under PPQ's control in FY 2011. The lack of oversight from the agency's top levels affected all aspects of the Preclearance Program's administration. We found that program managers did not read reports from the inspectors they oversee, despite the fact that these reports showed work plan violations. We also found that all 12 of the work plans we reviewed did not have criteria showing consequences for repeated noncompliance; 7 of the 12 plans we reviewed did not include an effective sampling methodology. These issues could potentially put the United States at risk for the introduction of foreign pests and diseases. APHIS officials stated that they are developing policies and procedures to address these issues.

OIG has significant upcoming work related to food safety, including how FSIS samples and tests ground turkey, as well as the new information system FSIS has developed to record, track, and analyze its inspection data.

### **Goal 2—Integrity of Benefits**

Another of OIG's most important goals is helping USDA reduce vulnerabilities and strengthen integrity in the delivery of program assistance. Over the past several years, OIG has aided the Department in improving the integrity of the Supplemental Nutrition Assistance Program (SNAP), as well as other food assistance programs. Accounting for \$82 billion in FY 2014 benefits, or 54 percent of USDA's budget, SNAP is among the Government's largest programs.

### *Food Assistance*

In FY 2014, about 57 percent of OIG's investigative resources were devoted to SNAP-related criminal investigations; these OIG investigations resulted in 484 convictions and monetary results totaling \$77.7 million.

In a recent case, OIG investigators found that a man ran a large-scale SNAP trafficking ring involving multiple vendors in a flea market. He was charged with food stamp fraud and wire fraud in November 2013 and pled guilty to the charges in April 2014. In July 2014, in U.S. District Court, Southern District of Florida, he was sentenced to 33 months in prison, followed by 36 months of supervised release, and was ordered to pay restitution totaling \$2.5 million. The store was removed from SNAP.

Another investigation determined that a criminal ring opened multiple stores in Georgia to defraud the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), depositing over \$18 million in WIC vouchers into their bank accounts. This ring canvassed neighborhoods for WIC recipients, and then bought their benefits for pennies on the dollar. In December 2012, agents served 12 search warrants across Georgia. To date, 14 co-defendants have pled guilty and been sentenced to prison terms ranging from 30 to 60 months. In total, approximately \$31 million in restitution has been ordered by the U.S. District Court in the Southern District of Georgia. In addition, 32 WIC program recipients have pled guilty to theft of government funds and have been ordered to pay restitution in amounts ranging from between \$1,200 and \$14,000. This case was especially noteworthy because, unlike most food assistance cases, which tend to involve white-collar criminals, this Georgia criminal ring was operated by drug dealers who had turned to WIC fraud as a safer and more profitable activity.

OIG also is working to minimize waste and abuse by performing audits designed to improve controls over the Food and Nutrition Service's (FNS) food and nutrition programs. For example, we reviewed the FNS strategy for monitoring State agencies' food costs and found that it does not ensure Federal resources are being used efficiently for WIC. Although FNS reports that management evaluations of State operations are WIC's main oversight tool, we found that the management evaluations have several weaknesses. Evaluations did not always identify significant issues that may affect a State agency's food costs; when FNS did identify deficiencies at State agencies, it did not always ensure that those agencies took appropriate and timely corrective actions. Finally, although FNS is aware of individual State agency policies to reduce food costs, it has not evaluated those policies for program-wide implementation and has thus missed potential cost-saving opportunities in excess of \$19.7 million. The agency generally accepted our recommendations.

In our upcoming work, OIG will determine if FNS has adequate controls to ensure that SNAP error rates are accurate and if the agency is taking adequate action to reduce these rates.

### *Farm and Conservation Programs*

OIG also provides oversight of USDA's farm and conservation programs, which totaled approximately \$23 billion in FY 2014. We produced audit reports with significant findings involving the Risk Management Agency (RMA), the Natural Resources Conservation Service (NRCS), and the Farm Service Agency (FSA).

RMA administers the Federal crop insurance program and helps insure producers against crop failures due to diseases, hurricanes, and other risks. Beginning in crop year 2007, RMA offered a rainfall and vegetative index plan of insurance for pasture, rangeland, and forage (PRF) as a pilot program for forage produced for grazing or harvested for hay. OIG found that, in Colorado and New Mexico, RMA insures non-irrigated hay producers at the same rate as irrigated hay producers, even though irrigated land is capable of producing much more hay. Our initial sample of seven producers found that they received over \$8.2 million in indemnity payments for non-irrigated forage acres, based on average yields they could not feasibly produce. In one case, a producer was indemnified \$336 per acre when his land could only produce hay worth about \$28 per acre. We issued an interim report so that RMA could correct this problem before offering PRF coverage for crop year 2015. RMA generally agreed.

Similarly, we found that NRCS' controls over the Environmental Quality Incentives Program (EQIP)—the agency's largest program for FYs 2009 through 2011, receiving nearly \$3.5 billion in appropriations, cumulatively—need to be strengthened so that the program can effectively assist participants in addressing environmental concerns. While the agency's allocation method adequately considered environmental concerns at the national level, the State-level allocation processes did not. Of the six State offices we reviewed, three based their allocations on data such as number of acres, prior year obligations, or geographic location, but not environmental outcomes. We also found that NRCS did not require followup visits to ensure practices were in working order for their intended lifespan, which resulted in several practices not being maintained. Without effective monitoring controls to address these deficiencies, these conservation practices may not be resulting in the intended environmental benefits. OIG recommended that NRCS implement controls and perform an analysis to ensure State allocation formulas are tied to environmental concerns. Also, NRCS should implement controls to ensure that participants not meeting contractual timelines are identified as noncompliant. The agency generally agreed.

FSA's Economic Adjustment Assistance to Users of Upland Cotton Program (EAAP) assists domestic users of upland cotton, such as textile mills, in order to maintain a globally competitive U.S. textile industry. OIG found that, even though FSA anticipated that EAAP payments would limit market losses, plant closures, and job losses, FSA has not developed a way to measure this impact. We also found that management controls were insufficient to prevent one upland cotton user from improperly transferring \$1.5 million of \$12.1 million in payments to another user. Altogether, we questioned 75 expenditures, totaling over \$2.4 million. Without necessary controls in place, FSA cannot ensure that EAAP stimulates investments that make the U.S. textile industry more competitive. FSA generally agreed with our recommendations.

OIG has upcoming work that will more fully evaluate RMA's methodology for setting crop values for pasture, rangeland, and forage production, as well as an audit evaluating the adequacy of NRCS' controls over land valuations for conservation easements.

### *Rural Development*

OIG reviewed how the Rural Housing Service's (RHS) Single Family Housing Program administers direct loans to determine if borrowers are repaying the required portion of their housing subsidy. We found that RHS could improve how it services these accounts. Specifically, the agency inaccurately calculated the final recapture receivables for 13 of the 100 borrower accounts in our sample. Based on statistical projections, we estimate that 8,103 borrower recapture receivable accounts may not have been accurately established, with a total value of \$33 million. Additionally, our review of the payment subsidy renewal process found that, for 7 of the 100 borrower accounts, RHS inaccurately calculated the borrowers' payment subsidy. We estimate that the payment subsidy for 7,784 borrower accounts—with a projected total value of \$4.9 million over the term of the payment subsidy agreement—may also be inaccurately calculated. OIG recommended that RHS strengthen its oversight controls, and the agency generally concurred.

OIG investigators have also worked to ensure that USDA funds are being used properly to spur rural development. In one instance, we found that the president of a bank and the corporate officer of a company colluded to submit a fraudulent Business and Industry loan application for \$8.3 million. This loan was intended to refinance construction debt and build a truck stop in Oklahoma. The defendants engaged in a scheme to hide \$9 million of losses from bank examiners. Ultimately, the bank and its shareholders lost \$26 million, and the bank failed. The former bank president was sentenced to

24 months imprisonment and restitution totaling \$14.7 million, while the company's corporate officer was ordered to forfeit \$3.2 million.

### **Goal 3—Management Improvement Initiatives**

OIG works to improve the systems the Department needs to function effectively, ranging from management controls to information technology (IT) systems. As you are aware, USDA has faced an ongoing challenge in modernizing its IT infrastructure, which must manage vast amounts of data associated with its many programs and operations.

#### *Information Technology*

A number of OIG's recent audits have emphasized the continuing challenges USDA faces in updating this technology. For example, in 2010, USDA signed a multi-year task order with AT&T to operate the Department's Universal Telecommunications Network (UTN), the data network backbone for USDA's customers and agencies. We found that USDA is not adequately overseeing UTN security and performance, and that AT&T had not yet installed required network security features or performed an adequate reconciliation of UTN charges. As a result, AT&T had both overbilled and underbilled USDA for an aggregate total of more than \$1.9 million. USDA has agreed to strengthen its internal controls over task order administration and correct the amounts AT&T mischarged.

Likewise, USDA needs to better oversee its cloud computing environment. This technology has been integrated into the Department's overall IT environment, but OIG found that the Department does not have a complete inventory of its cloud systems—17 of the 31 cloud systems were not included in the inventory, while 8 additional systems were in the inventory, but not identified as cloud systems. Additionally, the level of detail included within the contracts for procuring the systems varied across our sample, with all six reviewed contracts lacking provisions required by Federal guidelines. Five of the six contracts, totaling approximately \$66.9 million, did not specify how the provider's performance would be measured, reported, or monitored. As a result, USDA's data are exposed to risk of loss or unauthorized disclosure, which could compromise the Department's programs and producer data. Again, USDA generally agreed with our findings.

In compliance with the Federal Information Security Management Act of 2002,<sup>4</sup> OIG continues to report many longstanding weaknesses in USDA's IT security. In FYs 2009 through 2013, OIG made 55 recommendations for improving the overall security of USDA's systems, but the agreed upon

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<sup>4</sup> 44 U.S.C. §§ 3541-3549.



corrective actions have been implemented for only 21 of the recommendations. Nevertheless, the Office of the Chief Information Officer (OCIO) is taking positive steps which should improve the Department's security posture. For example, OCIO released five key Departmentwide policies in the latter parts of FYs 2013 and 2014.

In upcoming work, we plan to release a report on whether FSA's efforts to modernize its IT systems have met the expectations of Congress, and if the project is being implemented effectively, efficiently, and timely.

### *Financial Management*

OIG has also made significant recommendations aimed at helping the Department improve its financial management. For a third consecutive year, OIG found that USDA did not comply with the Improper Payment Information Act (IPIA), as amended.<sup>5</sup> Although USDA has made progress, the Department was not compliant with three of the seven IPIA requirements, including reporting comprehensive estimates, reporting error rates below 10 percent, and meeting annual reduction targets. These noncompliances continue to illustrate the risks of improper payments affecting taxpayers, as USDA could have avoided approximately \$416 million in improper payments by meeting reduction targets. The Department generally agreed with our recommendations.

USDA can also improve its compliance with the President's Executive Order on Reducing Improper Payments and Eliminating Waste in Federal Programs.<sup>6</sup> For FY 2013, USDA reported 569 high-dollar overpayments totaling over \$47.1 million. This represents an increase of 42 percent from overpayments reported the previous year. In our fourth year of reporting, we found that USDA implemented actions to adhere to the high-dollar reporting requirements. However, USDA quarterly reports included errors, inadvertently omitted data, and were published up to 222 days after the due date. Without accurate and timely reporting, the results of USDA's actions or strategies to reduce high-dollar overpayments are not fully known. USDA agreed with our recommendations.

Recently, OIG has completed important work intended to ensure that USDA transfers money between its agencies according to the Economy Act.<sup>7</sup> Although Congress reduced funding for USDA's Departmental Administration and Office of Tribal Relations for FYs 2011 and 2012, the Department used its authority, as well as its Working Capital Fund, to support staff that likely would have been

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<sup>5</sup> 107 Pub. L. No. 300.

<sup>6</sup> Exec. Order No. 13520 (2009).

<sup>7</sup> 31 U.S.C. § 1535.

affected by the reductions. As a result, USDA spent at least \$3.7 million that was not directly appropriated to those accounts. We also found that USDA exceeded its authority to pay for the Intertribal Technical Assistance Network, since it improperly transferred \$2.1 million from agencies that did not have the authority to fund the network's activities directly. Finally, we questioned \$43 million in transfers because we found them not properly supported.

OIG has upcoming work that will determine whether USDA employees are using their purchase cards correctly and will analyze purchase card data for signs of potential fraud, waste, and abuse.

### *Civil Rights*

As part of a series of reviews of the Office of Advocacy and Outreach (OAO), OIG found that OAO did not effectively implement the StrikeForce Initiative Pilot Program, a program whose goals include assisting agricultural producers and communities in poverty-stricken and predominantly minority areas to gain access to USDA programs. Instead, OAO bypassed Federal regulations and hand-picked four community-based organizations to receive grants. Generally, these organizations' qualifications to achieve the goals of the initiative were questionable. OIG also found problems with how the Office of Small and Disadvantaged Business Utilization and other USDA agencies transferred almost \$2.7 million for FYs 2010 and 2011 to OAO to fund the StrikeForce Initiative pilot program. Ultimately, OAO did not fully ensure that the transferred funds met the specific purpose for which they were originally appropriated, or that they were used in the best interest of the Government. USDA generally agreed with our recommendations.

OIG has ongoing audit work relating to civil rights, including a review of the completed *In re* Black Farmers Discrimination Litigation and the claims resolution process for Hispanic and women farmers. Both reviews will determine whether the funds were paid to eligible claimants.

### **OIG's FY 2016 Budget Request**

We appreciate the Subcommittee's interest in using the results of our work to identify potential improvements in the wide array of USDA's programs and operations, and for your support of our FY 2016 budget request.

The total appropriation for OIG, over the last five fiscal years, was approximately \$435.1 million. For that period, the potential dollar impact of OIG's audits and investigations was \$7.9 billion, resulting in cost savings and recoveries of approximately \$18.15 for every dollar invested in our work.

This metric does not capture, however, the value of our audit recommendations that carry no monetary value, per se, but can significantly improve safety, security, and public health. Such recommendations can also contribute considerably toward economy, efficiency, and effectiveness in USDA's programs and operations. During that same five year period, OIG made 1,603 recommendations for needed program improvements. OIG investigations resulted in 2,606 successful convictions.

In the last several years, OIG has responded to budgetary realities by streamlining our organization, reducing costs in the areas of office space and travel, as well as looking for innovative new ways to accomplish our mission. One of these innovations is a pilot program to assist our investigators in using data analytics to identify potential criminal fraud in FSA and RMA programs. We are currently setting up and staffing this unit and will be analyzing the results of the pilot at the end of FY 2015.

The President's \$98.9 million budget request for OIG would support our current level of effort as well as fund two high impact enhancements to our capabilities. With \$1.6 million, OIG would create a Center of Excellence to review agency program vulnerabilities that will enhance the Department's oversight of improper payments. The Center would have a data analysis component which would determine if there were any data anomalies within the USDA high-risk programs' payments. This would complement Audit's planning and execution of reviews to evaluate the methodology of an agency's improper payment error rate. With \$700,000, we plan to perform additional audit work to help address the Department's material weakness in IT security. Given the continuing threats posed to the USDA IT infrastructure, additional resources are needed to ensure that appropriate reviews are being conducted to test the security controls for the Department. The requested funding would enable OIG to conduct simultaneous reviews on the most critical and vulnerable controls for Federal systems, such as access control, business continuity, and disaster recovery.

This concludes my testimony. I would be pleased to address any questions you may have.