

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

**STATEMENT OF  
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Submitted to

The Subcommittee on Agriculture,  
Rural Development,  
Food and Drug Administration, and  
Related Agencies

Committee on Appropriations

U.S. House of Representatives

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Good afternoon, Chairman Aderholt, Ranking Member Bishop, and Members of the Subcommittee. Thank you for the opportunity to testify regarding the Office of Inspector General's (OIG) fiscal year (FY) 2019 budget request. My statement will highlight OIG's recent audit and investigative work, illustrating how we further our mission to promote economy, efficiency, effectiveness, and integrity of the Department of Agriculture's (USDA) programs and operations.

In FY 2017 and the first half of FY 2018, OIG conducted audits and investigations to determine if programs functioned as anticipated, if program payments reached intended recipients, and if funds achieved their intended purpose. We not only work to detect and prevent fraud and abuse in USDA's programs and operations; we make recommendations to improve how programs operate in the future. Our audit and investigative work last year resulted in potential monetary results totaling over \$388.2 million. We issued 47 audit reports, including 8 interim reports, and made 276 recommendations to strengthen USDA programs and operations, which produced about \$95 million in potential results. OIG investigations led to 518 convictions, with potential results totaling over \$293.2 million.

Before I discuss our most recent audit and investigative results under our strategic goals, I would like to thank Chairman Aderholt, Ranking Member Bishop, and Members of the Subcommittee for the funding provided to OIG as part of the Disaster Supplemental Bill.<sup>1</sup> This funding will help us perform audit and investigative oversight activities related to Hurricanes Harvey, Irma, and Maria.

### **Strategic Goal 1—Safety, Security, and Public Health**

OIG's highest goal priority is to help strengthen USDA's ability to ensure public health and safety. Our work reflects these endeavors and focuses on issues such as agricultural inspection activities, information technology (IT) security, and employee safety.

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<sup>1</sup> Further Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2018, Pub. L. No. 115-123, div. B, subdiv. 1, tit. I.

### *Food Safety Inspection Activities*

As an example of this type of work, OIG recently completed an audit regarding the Food Safety and Inspection Service (FSIS) and its inspection activities at establishments handling livestock. In response to a Congressional request that we review FSIS' controls to ensure adequately trained inspectors were properly performing humane handling activities, OIG incorporated these concerns into a current review of FSIS' response to 47 recommendations from previous audits of livestock handling activities in 2007 and 2008. Those 47 recommendations included suggested improvements to FSIS' oversight of the inspection process, how it collected critical information, and how it scheduled food safety assessments. Overall, in our most recent audit, we found that FSIS had proper procedures in place to ensure trained inspectors met humane handling requirements. We did not find any issues with the safety or wholesomeness of the products FSIS inspected during our review.

However, our current review revealed that FSIS did not always follow the corrective actions it developed to prevent reported conditions from recurring for 14 of the 47 prior recommendations. When these corrective actions did not remedy the identified problems, FSIS officials were either not monitoring the situations effectively or did not hold their staff accountable for errors. We concluded that FSIS must continue its efforts to support a comprehensive, timely, and reliable food safety inspection program. FSIS generally agreed to take corrective actions based on our 18 recommendations from the most recent review.

### *IT Security*

As required by the Federal Information Security Modernization Act of 2014,<sup>2</sup> OIG reviewed USDA's ongoing efforts to improve its IT security program and practices in FY 2017. Although USDA continues to improve its IT security posture, many longstanding weaknesses remain. In FYs 2009-2016, OIG made 67 recommendations for improving the overall security of USDA's systems; however, 26 of the 27 open recommendations are overdue. Moreover, our testing identified that security weaknesses still exist in 5 of the 40 closed recommendations.

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<sup>2</sup> Pub. L. No. 113-283, 128 Stat. 3073.

Our testing also identified weaknesses in areas such as risk management, configuration management, identity and access management, security training, and incident response. Due to these difficulties, we continue to report a material weakness in USDA's IT security, which was included in the Department's Federal Managers' Financial Integrity Act report.<sup>3</sup> As a result, OIG concluded that the Department lacks an effective information security program. The Department agreed with our findings and stated it has developed corrective actions and project plans to address prior recommendations.

### *Investigations*

During the last year, we completed a joint investigation with the Animal and Plant Health Inspection Service's Investigative and Enforcement Services. The investigation determined that a father and son duo transported quarantined citrus trees from Florida to Michigan with the intention of selling and distributing the trees for profit through retail sales online. The subjects purchased the citrus trees from a nursery stock supplier in Florida and traveled by vehicle with other family members to take delivery. Upon their return to Michigan, the individuals repackaged the trees and sold them throughout the United States via online sales in violation of the citrus quarantine. The movement of trees from a quarantined area to the rest of the United States, without proper USDA inspection, created the potential to spread citrus-related diseases to other States. In October 2017, the father and son pled guilty and were sentenced and fined.

### *Office of Data Sciences*

In January 2018, OIG's recently established Office of Data Sciences (ODS) published a report entitled *Survey of the Forest Service (FS) Region 5 Regarding Sexual Harassment*. The survey was conducted, independent of other OIG work in this area, in response to concerns over possible sexual harassment in FS. OIG undertook the survey and analysis to help determine whether Region 5 employees perceive the occurrence of sexual harassment in their work environment and, if so, how they perceive it. Key observations from the survey data included

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<sup>3</sup> Pub. L. No. 97-452, § 1(12), 96 Stat. 2467, 2468-69 (1983) (previously enacted as the Federal Managers' Financial Integrity Act of 1982, Pub. L. No. 97-255, § 2, 96 Stat. 814).

that: a small number of respondents reported directly experiencing sexual harassment in Region 5, a larger number reported knowing someone who has been harassed in Region 5 or elsewhere in FS, and a noticeable minority of respondents viewed harassment behaviors (both sexual and non-sexual harassment) as problematic in Region 5.

### *Future Work*

In upcoming work related to Goal 1, OIG is reviewing whether FS' actions in response to sexual harassment and sexual misconduct complaints addressed workplace concerns adequately. Although our work is ongoing, we recently issued an interim audit report that found that, while FS has taken significant steps to improve its process of handling such complaints, the process could be further improved. We expect to complete this work in FY 2018. Other upcoming audits for Goal 1 include IT security at select agencies and use of IT resources, USDA agencies' activities related to agroterrorism, and commodity purchases for international food assistance.

### **Strategic Goal 2—Integrity of Benefits**

Another important OIG goal is to help reduce USDA program vulnerabilities and strengthen program integrity in the delivery of USDA benefit and entitlement programs that support nutrition, rural development, and farm production.

### *Food Assistance*

In FY 2017, the Supplemental Nutrition Assistance Program (SNAP) accounted for \$78 billion (57 percent) of USDA's spending. Due to this large allocation of funds, OIG devotes a considerable amount of resources to help safeguard program integrity, ensure SNAP is functioning as intended, and confirm that benefits are reaching intended recipients. About 50 percent of OIG's investigative resources were devoted to SNAP-related investigations in FY 2017. These investigations resulted in 380 convictions and monetary results totaling \$99.6 million. Our investigations seek to hold SNAP abusers, both recipients and retailers, accountable for their actions.

A recent investigation found that two brothers working at a California gas station engaged in SNAP trafficking. Their father owned the gas station. The brothers were indicted on counts of conspiracy, SNAP fraud, and wire fraud. The indictment alleged that a loss of approximately \$12 million was attributed to the trafficking scheme. In March 2017, the brothers were each sentenced to 41 months in prison and ordered to pay approximately \$12 million in restitution to USDA. The judge also signed a court order forfeiting their interest in approximately \$1.5 million in assets.

Our investigations also pursue fraud in food assistance programs other than SNAP. The Summer Food Service Program (SFSP) is intended to feed low-income children in the summer months, when school is not in session. Based on a referral from the Arkansas Department of Human Services, OIG initiated work on the At-Risk Afterschool Feeding Program, a part of USDA's Child and Adult Care Food Program, and SFSP. To date, our investigation has resulted in 16 convictions and \$12.1 million in monetary results. Our investigative work raised questions about how effectively these programs are being administered, so we initiated a series of audits to examine program management. Our audit work on SFSP is ongoing, but in FY 2017 and the start of FY 2018 we published several interim reports describing food safety issues at SFSP sponsor sites in California, Florida, New York, and Texas. We expect to complete this audit work in FY 2018.

### *Rural and Farm Programs*

Our recent audit work also covers rural and farm assistance programs, which accounted for \$24 billion, or 18 percent of USDA's budget, in FY 2017.<sup>4</sup> For example, we reviewed whether the Rural Business-Cooperative Service (RBS) had completed corrective actions on the Intermediary Relending Program (IRP) from a past audit and if it effectively eliminated or reduced weaknesses regarding loans and intermediaries.<sup>5</sup> RBS updated its IRP regulations since

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<sup>4</sup> USDA reorganized and shifted the Natural Resources Conservation Service (NRCS) into the new Farm Production and Conservation Mission Area. As a result, spending information will be higher in this area than in prior years. We also included the Foreign Agricultural Service (FAS), which is now its own Trade and Foreign Agricultural Affairs Mission Area, in this figure.

<sup>5</sup> An intermediary is the entity requesting or receiving RBS IRP loan funds for establishing a revolving fund and relending to the ultimate recipient.

the prior audit and implemented all of the prior audit's recommendations, but OIG determined that RBS had not resolved all of the reported weaknesses. For example, we found that intermediaries continued not to relend program funds promptly. We also found that weaknesses remain with intermediary compliance regarding the "credit elsewhere" provisions. We concluded that RBS needs additional controls to correct these recurring program weaknesses, and RBS concurred with the majority of our recommendations.

In the first half of FY 2018, OIG also reported on Rural Housing Service's (RHS) Single Family Housing (SFH) Direct Loan program, which assists low-income applicants in obtaining safe, affordable housing in rural areas. OIG evaluated RHS' controls over the program to determine if they are adequately designed and efficiently operating. We found that, in one State, Rural Development officials either did not secure primary lien positions or did not have adequate legal documentation to determine that the agency was the primary lien holder. We also found internal control weaknesses in all four States we reviewed. RHS generally agreed with our findings.

OIG evaluates farm programs in order to help ensure the integrity of farm benefits. Another early FY 2018 audit reviewed the Risk Management Agency's (RMA) use of contracted data mining results. The Agricultural Risk Protection Act of 2000 required the Secretary of Agriculture to use data mining and data warehousing to improve compliance with, and the integrity of, the Federal Crop Insurance Program.<sup>6</sup> To address this requirement, RMA contracted with the Center for Agribusiness Excellence (CAE). Our audit reviewed whether RMA and approved insurance providers used the results of CAE's data mining to administer and enforce crop insurance program compliance and integrity initiatives. We found that RMA needs to make improvements to maximize the use of data mining results to safeguard the integrity of the Federal crop insurance program. We also found that RMA is not obtaining the information necessary to identify and implement controls that mitigate potential problem areas and weaknesses. RMA agreed with our findings and recommendations.

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<sup>6</sup> Pub. L. No. 106-224, 114 Stat. 358.

Our investigators also performed work relating to rural and farm programs. In FY 2017, we obtained 56 convictions and \$145 million in monetary results.<sup>7</sup> In one investigation, a man acted as a loan broker for his cousin. The cousin received guarantees totaling \$6.65 million from RBS and the Small Business Administration on two loans to purchase hotels in Texas. The investigation revealed that financial documentation the broker submitted for both loans contained materially false information pertaining to the cousin's personal assets. Additionally, the investigation determined that the broker had been convicted of embezzlement in a separate matter and was scheduled to report to prison prior to submitting the false information on behalf of his cousin. In January 2017, the cousin was sentenced to 60 months' probation. In March 2017, the man who acted as a broker was sentenced to 78 months in prison and ordered to pay restitution totaling \$3.7 million, jointly and severally, with his cousin. He was also ordered to forfeit interest in assets totaling \$1 million.

In another investigation, FAS referred two individuals to OIG for investigation following an FAS partial audit of a business participating in the Export Credit Guarantee Program. Both individuals controlled numerous business entities registered as exporters in this program. OIG's investigation revealed that the individuals acquired copies of shipping documents from various sources and thereafter presented false and altered shipping documents to secure loans from U.S. banks. In September 2017, the two individuals were ordered to pay \$18.8 million in restitution, with \$18.5 million payable to USDA and \$305,700 payable to a private bank. The individuals involved in the scheme were sentenced in June 2017 to 15 months and 5 months in prison and were ordered to forfeit \$1.5 million and \$63,500, respectively.

### *Future Work*

In upcoming work, OIG is reviewing FSA's required implementation of the Agriculture Risk Coverage and Price Loss Coverage Program. We are also reviewing the adequacy of controls over SFSP in the States of California, Florida, New York, and Texas and determining whether selected sponsors and sites in these States are compliant with SFSP program requirements.

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<sup>7</sup> These numbers reflect statistical results from OIG investigations involving convictions and monetary results from FSA, RHS, the Rural Utility Service, RBS, RMA, and NRCS programs.

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

By conducting audits and investigations that focus on areas such as improved financial management and accountability, OIG helps USDA better manage its assets.

#### *Financial Management*

After an absence of sufficient, appropriate audit evidence to provide a basis for an audit opinion in FY 2015, OIG did not express an opinion on USDA's consolidated financial statements. In FY 2016, USDA, along with two component agencies—the Commodity Credit Corporation (CCC) and NRCS—made progress in addressing significant challenges to ensure accurate presentation of their financial statements. CCC's and NRCS' progress in addressing these weaknesses resulted in an unmodified opinion on their balance sheets. Overall, due to these efforts, USDA received an unmodified opinion on its balance sheet for FY 2016.

In FY 2017, though CCC and NRCS improved their presentation of their financial statements, we continued to find weaknesses. The material weaknesses for financial management were due to needed improvements in accounting and internal controls for both agencies. However, both CCC and NRCS received an unmodified opinion on their balance sheets, resulting in an unmodified opinion for USDA again on its balance sheet for FY 2017. We continue to work with the Department and its agencies to improve their controls over financial reporting.

#### *Improper Payments*

OIG performs statutorily required work intended to ensure that USDA is reducing its improper payments. We found that USDA did not comply with improper payment requirements as set forth by the Improper Payments Information Act of 2002 (IPIA), as amended,<sup>8</sup> for a sixth consecutive year. USDA reported improper payment information for 18 programs identified as

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<sup>8</sup> Pub. L. No. 107-300, 116 Stat. 2350, as amended by the Improper Payments Elimination and Recovery Act of 2010 (Pub. L. No. 111-204, 124 Stat. 2224) and by the Improper Payments Elimination and Recovery Improvement Act of 2012 (Pub. L. No. 112-248, 126 Stat. 2390).

susceptible to significant improper payments (thus considered high-risk programs), and complied with 3 of 6 IPIA requirements. However, 9 of the 18 high-risk programs did not comply with 1 or more of the following requirements: publishing an improper payment estimate as required, meeting annual reduction targets, or publishing gross improper payment rates of less than 10 percent. The Department generally agreed with our findings and recommendations.

#### *Office of the Chief Financial Officer Controls over Final Action*

OIG reviewed Departmental controls over final action on OIG audit recommendations. We found that the Office of the Chief Financial Officer (OCFO) needed to strengthen its controls over the final action process and its monitoring of pending collection recommendations. Specifically, OCFO did not follow its standard operating procedures and omitted a second-level review of final action determinations, did not maintain current claim balances for some pending collection recommendations, and needed to improve its audit tracking system. OCFO agreed with our findings and recommendations.

#### *Suspension and Debarment*

OIG reviewed USDA's implementation of prior audit recommendations and oversight of the Department's suspension and debarment program. We found that while OCFO had implemented a comprehensive set of suspension and debarment tools since a previous audit in 2010, 5 of the 27 recommendations were not implemented effectively and a sixth had yet to reach final action. Additionally, 12 USDA agencies had not fully implemented their suspension and debarment tools. OCFO generally agreed with our findings, and we accepted management decision on all nine recommendations.

## *Investigations*

Under the strategic goal of management improvement, OIG investigates matters involving the alleged personal misconduct of USDA employees. One recent investigation was conducted to determine if a county executive director and a program technician were involved with authorizing approximately \$161,604 in fraudulent payments from the FSA's Emergency Conservation Program to family members who were not entitled to such payments. The former director initially pled guilty to the charge of the conspiracy, but later tried to withdraw the plea. Her motion was denied and she was sentenced to 27 months in prison and ordered to pay \$146,401 in restitution to FSA. The county executive director's husband also participated in the scheme and, in May 2017, he was sentenced to 46 months in prison and ordered to pay restitution with his wife, jointly and severally.

## **Conclusion**

We would like to thank the Subcommittee for your continuing support and interest in our work. This support enabled us to carry out our mission of identifying potential improvements to USDA's programs and operations.

OIG's appropriations for FYs 2013-2017 totaled approximately \$460 million. During this period, the potential dollar impact of OIG's audits and investigations was \$3.9 billion, resulting in cost savings and recoveries of approximately \$8.43 for every dollar invested. During this same period, OIG made 1,387 total audit recommendations. While some of these recommendations carry no monetary value, they can significantly improve safety, security, and public health. Furthermore, OIG investigations resulted in 3,116 successful convictions in that same 5-year period.

We appreciate your support in continuing to provide funding that will allow us to provide effective oversight and beneficial recommendations to Congress and USDA decision makers.

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