

**UNITED STATES DEPARTMENT OF AGRICULTURE  
OFFICE OF INSPECTOR GENERAL**

**STATEMENT OF THE HONORABLE PHYLLIS K. FONG  
INSPECTOR GENERAL**

Before the  
Subcommittee on Agriculture, Rural Development, Food and Drug  
Administration, and Related Agencies  
Committee on Appropriations  
United States House of Representatives

**March 1, 2007**



Good morning, Chairwoman DeLauro and Members of the Subcommittee. I want to thank you for your invitation to testify about the Office of Inspector General's (OIG) recent and ongoing audit and investigative work, and our Fiscal Year 2008 Budget Request.

I would like to introduce the members of my senior management team who are with me today: Deputy Inspector General Kathleen Tighe; Assistant Inspector General for Audit, Robert Young; Assistant Inspector General for Investigations, Mark Woods; and Assistant Inspector General for Management, Suzanne Murrin.

My testimony today will present the highlights of our audit and investigative work in the year since we last appeared before the Subcommittee. OIG conducted extensive work in 2006 on important issues and USDA activities regarding food safety, the risks posed by plant and animal-based diseases, fraud that impairs vital nutrition and hurricane-relief programs, and financial management accountability within USDA agencies.

To ensure that OIG devotes its resources to the most pressing issues and challenges facing USDA agencies, stakeholders, and consumers, we have formally prioritized our work and organized our resources according to three Strategic Goals. They are improving Safety, Security, and Public Health in USDA operations; enhancing Program Integrity in the many USDA benefit programs that touch the lives of your constituents; and oversight work regarding USDA's Management of Public Resources. I will present the key elements of our recent and current work to the Subcommittee under the framework of these three strategic priorities.

### **I. Safety, Security, and Public Health**

One of OIG's top priorities is conducting independent and professional audits and investigations to protect the safety and security of USDA entities and the many agricultural stakeholders and consumers who benefit from USDA operations each day. In Fiscal Year (FY) 2006, we issued 12 audit reports and referred 120 investigative cases

for prosecution involving safety, security, and public health issues related to USDA programs and operations.

### **Assessing the Performance of Consumer Safety Inspectors in Meat and Poultry Establishments**

In our prior audits we determined that the Food Safety and Inspection Service's (FSIS) management control system needed strengthening to ensure accountability of consumer safety inspector performance. A key component of the FSIS management control system is the In-Plant Performance System (IPPS), which was established to strengthen supervision and improve inspector accountability. In response to several OIG audits, FSIS has cited IPPS reviews as a critical measure to improve monitoring of food safety at meat and poultry establishments.

In our most recent audit of this area, issued in 2006, we evaluated the adequacy of agency policy and procedures related to preparing for, executing, and monitoring IPPS reviews. FSIS did not require supervisors to complete and/or document the completion of all IPPS review procedures when evaluating inspectors. In 84% of the inspector assessments OIG reviewed, certain elements of inspector duties – some of which could be considered critical<sup>1</sup> – were not addressed. We found that FSIS did not have a system to schedule and track the completion of IPPS reviews and supervisors were not required to use the extensive guidance available to help them prepare for the reviews. As a result, supervisors had not used significant segments of the guidance to enhance their onsite review of consumer safety inspectors.

FSIS agreed to closely monitor field managers and supervisors involved in the IPPS process, analyze IPPS review data, and periodically evaluate the IPPS review process. FSIS also agreed to revise its guidance to require supervisors to examine specific data sources and system reports before performing an IPPS review and complete and provide

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<sup>1</sup> Such as Hazard Analysis and Critical Control Point system procedures.

narratives for all IPPS review elements during an inspector's performance rating period.

### **Improving Pathogen Reduction Testing in Meat and Poultry Establishments**

The Pathogen Reduction Enforcement Program (PREP) is a system used to support FSIS' pathogen reduction efforts by scheduling microbiological product sampling at FSIS-inspected meat and poultry establishments and generating automated reports that allow FSIS managers to monitor both the sampling process and the results of laboratory tests.

OIG evaluated the effectiveness of FSIS' process for scheduling and conducting microbiological testing of meat and poultry products. We found that in the testing programs for the adulterants *E. coli* 0157:H7 and *Listeria monocytogenes*, FSIS had developed procedures to transfer establishment data from the Performance Based Inspection System (PBIS) to the PREP (two separate systems) and was selecting the identified meat and poultry establishments for testing within reasonable timeframes.

However, we found that *Salmonella* testing program controls needed strengthening to ensure that all applicable establishments are included in the universe for microbiological testing. A significant number of establishments were excluded from *Salmonella* testing due to ineffective processes for identifying establishments eligible for testing. FSIS district office personnel did not fully understand the process for inserting/updating establishments into the testing database. In one district we visited, 28 percent of the establishments subject to *Salmonella* testing were excluded from testing. We also found that establishments whose slaughter or processing activity falls below a specific threshold or produces non-intact beef products (such as raw ground beef sausages and meatballs) were also excluded from the universe for testing.

We recommended that FSIS strengthen its procedures to ensure that all establishments subject to *Salmonella* testing are identified and modify PBIS to allow PREP to draw establishment information for testing from PBIS rather than depend on manual updates. The agency should develop a risk assessment to support its policy for excluding low-

volume establishments from *Salmonella* testing or conduct testing in all plants. Further, FSIS should 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. FSIS officials generally agreed with OIG's findings and recommendations.

### **Assessing FSIS Oversight of State Meat and Poultry Inspection Programs**

FSIS has oversight responsibility for State meat and poultry inspection (MPI) programs to ensure that meat and poultry products sold intrastate meet inspection standards “at least equal to”<sup>2</sup> Federal laws and regulations. OIG initiated a review to examine the effectiveness of FSIS management controls and procedures to ensure that State MPI programs were “at least equal to” Federal inspection programs.

We determined that FSIS was not providing timely oversight of State MPI programs. From October 2003 through June 2005, FSIS had conducted only 8 initial onsite reviews from a total of 28 State MPI programs. After our fieldwork began and since July 2005, FSIS initiated reviews of 16 more State MPI programs and developed plans to conduct the 4 remaining reviews prior to the end of FY 2006. Completing the review process is important, especially since four of the eight programs initially reviewed needed corrective actions to achieve “at least equal to” Federal standards.<sup>3</sup>

Moreover, FSIS had not performed timely onsite fiscal reviews and reviews of new programs and did not timely implement its year-end grant closeout procedures to ensure that State MPI programs promptly returned any excess Federal funds. FSIS had not recovered \$260,201 in excess Federal funds from one State for FY 2004. In this State, during FY 1997–2004, unnecessary interest costs of approximately \$100,000 were incurred by the Federal Government because the State retained unused Federal funds.

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<sup>2</sup> As established by the Federal Meat Inspection Act and the Poultry Products Inspection Act.

<sup>3</sup> FSIS issued a report in January 2007 that contained the results of all 28 reviews.

OIG made numerous program improvement recommendations based upon this audit. We recommended that FSIS establish criteria to determine how deficiencies in meat processing establishments affect State acceptability determinations. FSIS should analyze the staffing requirements of State MPI programs and confirm that laboratories adhere to standards “at least equal to” Federal requirements. The agency needs to eliminate the backlog of onsite fiscal reviews and perform timely, year-end grant closeouts of State MPI programs and seek prompt recovery of \$260,201 from the identified State MPI program. FSIS responded positively to OIG’s recommendations, and management decision was reached on 6 of the 12 recommendations.

### **The USDA Response to Avian Influenza**

The emergence of highly pathogenic Avian Influenza (HPAI) as a potential pandemic has rapidly changed the environment in which the Animal and Plant Health Inspection Service (APHIS) operates. The November 1, 2005, issuance of the President’s strategy for the preparation, detection, and response to a pandemic accelerated APHIS’ actions in dealing with AI. The strategy recognizes roles for all segments of society, including Federal, State, local and Tribal governments, private industry, international trade partners, and individual citizens.

In our June 2006 review of APHIS’ oversight of Avian Influenza (AI), we concluded that APHIS has made commendable progress in developing plans and establishing the networks necessary to prepare for, and respond to, outbreaks of AI. However, APHIS had not yet developed a comprehensive approach for surveillance and monitoring of AI in domestic poultry. APHIS relies on a variety of voluntary State and commercial programs to monitor and test domestic poultry and wild birds. Because these programs are voluntary, APHIS did not know the extent of surveillance activity in place and was not gathering consistent data to properly detect changes in epidemiological parameters (e.g., subtype of AI or rate of prevalence) or to report incidents of AI in accordance with new international trade requirements.

In regard to USDA's National AI Preparedness and Response Plan, OIG found that APHIS needed to provide additional guidance on preparing and responding to HPAI or notifiable AI outbreaks in live bird markets or other "off farm" environments.<sup>4</sup> APHIS also needed to clarify actions that employees should take in obtaining and administering necessary vaccines and anti-virals in the event that a culling operation for HPAI occurs. Finally, APHIS needed to finalize interagency coordination on the process and procedures for notifying owners of susceptible animals of the current infectivity risks and the necessary protective actions they should take when an outbreak of AI occurs. In its response, APHIS described a number of initiatives planned and in-process to address our concerns.

OIG currently has a related audit underway. We are evaluating the effectiveness of APHIS' implementation of the Homeland Security Council's National Strategy for Pandemic Influenza (issued May 2006). We will also follow up with the agency on its corrective actions responding to our prior audit.

### **Targeting the Smuggling of Animals and Plant Products**

The smuggling of animals and animal/plant products into the United States is of significant concern. The smuggling of these products presents both a human health risk and a risk to the United States' animal and plant populations because of the potential for the transmission of disease.

OIG works closely with USDA regulatory agencies such as APHIS and FSIS that enforce standards for the importation for meat, poultry, and live animals into the United States. As stated in our testimony before the Subcommittee last year, OIG works with USDA agencies to achieve a balance among risk mitigation efforts, regulatory investigations, and criminal investigations when such products are smuggled into the United States. To

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<sup>4</sup> The plan is intended to complement regional, State, and industry plans that are written to be more specific to local issues and needs. States should continue to develop plans that are specific to their poultry industries and requirements. The USDA/APHIS plan will evolve as additional information and experience is gained.

achieve this goal, we have been working to establish protocols to clarify each USDA agency's role in response to smuggling. We anticipate the Department will issue these protocols this summer.

One of the groups in which OIG is participating is an interagency working group comprised of both regulatory and law enforcement agencies from the Department of Homeland Security (DHS), the Department of Justice, and the Department of Interior. While the initial objective of this working group was to improve smuggling investigations concerning HPAI, OIG's participation has also improved our investigative capabilities to respond to smuggling investigations involving any type of prohibited product. The inter-agency working group fostered productive relationships and communications between OIG and those departments and more clearly defined our respective roles.

OIG participated in a joint investigation at the Port of Newark known as "Operation Fowl Play." The investigation led to the seizure of approximately 1 million pounds of prohibited poultry, fowl, meat, pork, vegetables, fruit, and other merchandise over several months. The investigation, which began in 2005, involved several New York based companies responsible for importing these products from China.

### **Preparing for Agricultural Emergency Situations and Wildland Fire Fatalities**

OIG's Emergency Response Team (ERT) and Wildland Fire Investigation Team (WFIT) engaged in training and were both actively deployed in FY 2006. The ERT has the capability to safely and effectively respond to criminal acts that could threaten or compromise the United States' food supply, agricultural infrastructure, or USDA facilities. The WFIT is responsible for conducting an independent investigation into the deaths of any Forest Service (FS) firefighters who are killed as a result of a burnover or entrapment. We thank the Members of the Subcommittee for your continued support of these important programs.



During 2006, ERT members participated in several tabletop exercises concerning AI and Foot and Mouth Disease, attended Food Defense Exercises, and State and local emergency preparedness meetings. Our ERT works with various Federal, State, and local agencies to educate them about the assistance and resources OIG can provide when an agriculture-related incident occurs. Coordination with and outreach to our counterparts at the State and local level is vital to build the skills and partnerships necessary for effective, multi-level government responses to agricultural emergencies.

During the execution of a search warrant in one investigation in 2006, the ERT assisted with the identification and depopulation of game fowl at an illegal cockfighting pit in Oklahoma. Birds utilized in animal fighting competitions present a health risk to humans and animals because the birds may carry infectious diseases such as Exotic Newcastle Disease and AI.

Our WFIT members undergo extensive training to gain the skills and experience necessary to conduct wildland fire-related investigations.<sup>5</sup> The OIG agents comprising the WFIT attend the FS' Basic Fire Academy that incorporates training in Incident Command, Basic Wildfire Suppression Orientation, Firefighter Training, Introduction to Wildland Fire, and Interagency Serious Accident Investigation Training. In October 2006, WFIT members responded to the Esperanza Fire that claimed the lives of five FS fire engine crew members near Cabazon, California. WFIT members arrived at the site within 24 hours of the fatalities to begin organizing their investigation. OIG's investigation of the circumstances leading to the Esperanza Fire deaths is ongoing.

### **The Bovine Tuberculosis Eradication Program**

APHIS administers the Bovine Tuberculosis Eradication Program (BTEP) that was established in 1917 to eliminate bovine tuberculosis (TB) in the United States. Because of concerns we previously identified regarding the agency's systemic classification and

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<sup>5</sup> Public Law 107-203, enacted July 24, 2002, established the statutory requirement for a USDA-OIG investigation of FS fatalities occurring due to wildland fires.

testing of relevant TB cases in one State, OIG conducted a more comprehensive audit of APHIS' administrative controls over BTEP. We found that APHIS had made improvements to BTEP since the Secretary's Emergency Declaration in October 2000,<sup>6</sup> but weaknesses in oversight made it difficult for the agency to timely detect and eradicate the disease. APHIS' status system—important because it dictates the extent of Federal testing and movement controls for cattle in each State or zone—did not capture most TB cases. From FY 2001 through 2005, 272 TB-infected cattle were detected through slaughter surveillance, but APHIS excluded 96% from the status system because it could not locate the source herd or find an additional infected animal in that herd. Approximately 75 percent of the TB-infected cattle detected through slaughter surveillance originated in Mexico, and these animals spent months at U.S. farms and feedlots with no restrictions to prevent commingling with domestic cattle. Mexican cattle are tested before entry, but APHIS had not established controls to compensate for the 3-to-12 month TB incubation period.

We recommended that APHIS perform program reviews periodically; review and approve States' annual and monthly reports and use them to assess/minimize areas of highest risk; enhance its two key BTEP control functions (the status classification and slaughter surveillance systems); and strengthen movement/testing controls to address the disease's incubation period. The agencies agreed to take corrective actions based on our findings and recommendations.

### **Agricultural Inspection Efforts on the U.S. Border**

With the creation of DHS in March 2003, U.S. Customs and Border Protection (CBP) assumed responsibility to inspect agricultural goods arriving at U.S. ports while APHIS retained responsibility for agriculture related policies and procedures. We are issuing a report this week from our joint review with DHS-OIG of border inspection issues. We assessed selected agricultural inspection activities that were transferred to CBP.

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<sup>6</sup> The emergency declaration authorized the transfer of \$44.1 million from emergency contingency funds to APHIS to expand the TB eradication program.

Our joint review found that CBP generally complied with agricultural inspection requirements at the ports we visited. However, improvements are needed regarding risk identification activities. CBP's sampling for Agricultural Quarantine Inspection Monitoring (AQIM)—which helps USDA predict future risks to agriculture from pests/diseases—did not meet sampling requirements for 13 of 18 pathway activities at four ports.<sup>7</sup> CBP also lacks a current staffing model for agriculture specialists and performance measures for many activities that would ensure personnel are used effectively.

APHIS officials agreed to develop a risk assessment process for incoming rail cargo. However, agency officials cite operational difficulties (such as obtaining timely cargo manifests) as a barrier to developing a workable system. APHIS has not yet issued policies and uniform procedures to clearly define how transportation/export shipments will be monitored. We also found that APHIS needs to issue instructions to CBP clarifying APHIS policy on labeling and packaging seized agricultural products.

## **II. Protecting and Improving the Integrity of USDA Programs**

OIG's second strategic priority is audit and investigative work to protect the integrity and efficiency of USDA programs and benefits. A substantial amount of OIG's audit and investigation resources in FY 2006 were focused on Farm Service Agency (FSA) and Risk Management Agency (RMA) programs and operations. OIG continues to work to combat fraud and deter criminal activity in farm programs, such as payment limitations, crop insurance, and conversion of mortgaged property.

Food and Nutrition Service (FNS) programs providing food assistance to needy Americans is a major portion of USDA's annual budget—the Food Stamp Program helps over 26 million people each month, and 15.5 million children receive a free or reduced-price school lunch. Fraud in FNS programs such as the Women, Infants, and Children

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<sup>7</sup> Such as air passengers and truck cargo AQIM inspections.

(WIC), Food Stamp, and the Children and Adult Care Feeding Programs remains a high priority for OIG.

### **USDA Compliance with the Improper Payments Information Act**

Within USDA, the Office of the Chief Financial Officer (OCFO) is designated as the lead agency for coordinating and reporting on the Department's efforts to implement the Improper Payments Information Act (IPIA). OCFO has designated IPIA compliance as a top priority for FY 2007.

To determine the Department's compliance with IPIA, OIG initiated audits of four USDA agencies in FY 2006 – FSA, FS, Rural Development's (RD) Rural Housing Service (RHS), and the Natural Resources Conservation Service (NRCS). Our objectives included reviewing agency efforts to quantify improper payments for high risk programs, assessing agency corrective actions related to our previous audits, and substantiating agency results reported in USDA's Performance and Accountability Report for FY 2005.

Our audits revealed significant findings on agency compliance with IPIA. OIG found that valid statistical samples had not been performed for three of the four agencies reviewed. Improper payments reported in FY 2005 were not properly calculated and the estimated improper payments reported in FY 2005 did not always include payments made to ineligible recipients. We determined that corrective actions were too narrow in scope and ineffective in addressing our prior findings. OCFO generally agreed with our recommendations to correct these conditions and we are working with agencies to improve their implementation of IPIA requirements. OIG is currently auditing several USDA agencies to assess their efforts to quantify improper payment error rates for high risk programs.

## **Farm Programs—Improving Agency Controls to Prevent Loans to Ineligible Recipients**

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 approximately 139,000 loans active in FSA's database (as of the beginning of FY05) to isolate 239 borrowers who were potentially ineligible for having received prior debt forgiveness. Our detailed 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 ultimately found 113 loans totaling over \$7.5 million, issued during 1999–2004, were ineligible. 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 the applicants' complete debt history.

FSA took action to collect the 113 ineligible loans as appropriate. 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 is currently pilot testing the new system at two State offices and plans to implement it nationwide.

## **Improving the Integrity of the Crop Insurance Program**

Due to continuing concerns about costs incurred by the Federal crop insurance program, OIG conducted an overview of the program. In collaboration with FSA and RMA, OIG identified conditions that are often associated with fraud, abuse, and mismanagement.

We identified two major factors that must be in place to enhance the integrity of the crop insurance program: effective management controls to ensure program operations are meeting program objectives and aggressive enforcement through criminal investigations and agency compliance reviews.

Based on this overview and our discussions with FSA/RMA about the current state of the crop insurance program, we presented a series of recommendations that are consistent with OIG's prior work. Among other recommendations, we found that agency officials should accelerate plans to create a single comprehensive information system for crop insurance, conservation, and farm programs; increase coordination and communication between RMA and FSA to ensure more effective growing season inspections; and strengthen RMA's oversight and monitoring of the private sector's application of the quality control review system.

### **Investigating Fraud in USDA Farm Programs**

A recent OIG investigation resulted in a Montana producer and a former loan officer being sentenced for a scheme in which the producer filed false claims with FSA in order to receive program payments. The producer circumvented program payment limitations to fraudulently receive \$1.4 million. The private loan officer provided false financial documents to FSA regarding the other partners' participation in the farming operation. In July 2006, the producer was sentenced to serve 10 months in Federal prison and ordered to pay \$226,035 in restitution. The former loan officer was sentenced the following month to a period of home confinement and probation.

Another OIG investigation into potential farm program fraud resulted in orders to repay the Government over \$1 million and the sentencing of two individuals and three corporations in 2006. Our investigation revealed that two individuals and three corporations in the Texas panhandle fraudulently obtained approximately \$400,000 in RMA crop insurance indemnity payments and FSA disaster program payments by shifting their unreported cotton production for program payment purposes. The producers assigned their hidden cotton production to other established accounts at a cotton gin owned by one of the individuals. A producer and two corporations were sentenced in August 2006. The producer was sentenced to 12 months' imprisonment, followed by

36 months' supervised release, and was ordered to pay approximately \$331,000 in restitution. The corporations each received sentences of 60 months of probation and were ordered to pay restitution totaling approximately \$331,000. In September 2006, the second individual and the remaining corporation were both sentenced to 60 months of probation and were ordered to pay restitution of \$362,775, severally and jointly.

A third OIG investigation involving farm program fraud resulted in the repayment of \$1,085,000 to FSA. The Idaho producer involved received 3 years of probation and 80 hours of community service. The producer's son was also sentenced to 3 years probation and was fined \$4,000. The sentence included a joint restitution order of \$1,085,000 imposed on the two defendants. The OIG investigation disclosed that the mother and son converted 305 head of cattle pledged as collateral to FSA. They pled guilty in May 2006 to theft/conversion of FSA collateral. FSA also has a lien against their property that is valued at more than \$1 million.

### **USDA Food Programs—FNS Oversight of Electronic Benefits Transfer Operations**

In FY 2007, FNS estimates Food Stamp benefits of about \$30 billion will be provided to over 25 million participants. State agencies now deliver Food Stamp Program (FSP) benefits almost entirely through Electronic Benefit Transfer (EBT) systems using EBT benefit cards issued to recipients. OIG has monitored and audited the implementation of EBT by FNS and States since the system's inception in the 1990s. We recently issued a follow-up audit to evaluate corrective actions FNS has taken in response to our prior audits and to ensure adequate agency oversight of EBT systems.

We concluded that FNS oversight of EBT operations was generally effective. However, despite FNS requirements to safeguard EBT systems, inadequate control over State agency access to the system remains a problem. Based on our earlier work, FNS had agreed to strengthen procedures for controlling access to State EBT systems and directed States to conduct semiannual reviews of employee access. However, FNS did not independently confirm that States adequately controlled access.

EBT trafficking through the illegal and unauthorized use of Point of Sale (POS) equipment is another system vulnerability. Unscrupulous retailers have circumvented the EBT security controls by fraudulently obtaining new equipment and/or illegally moving existing machines to unauthorized locations. Our September 2006 report found that in their contract proposals to acquire EBT systems, States were not required to consider equipment functionality and/or technological specifications that could prevent the illegal removal and unauthorized use of existing EBT POS equipment.

Based on our audit, FNS agreed to take steps to ensure that States limit unauthorized access to EBT systems and to require States to implement, via the EBT contract, formal processes during POS equipment replacement to prevent retailers from fraudulently obtaining equipment.

This year, we will conduct further audits regarding FNS oversight of EBT systems. Our work will include reviewing FNS oversight of the largest private EBT processor and two State agencies.

### **Investigations of EBT Trafficking**

OIG devotes extensive resources to investigate unscrupulous retailers who circumvent EBT security controls by fraudulently obtaining new equipment and/or illegally moving existing machines to unauthorized locations. In our Food Stamp Program investigative work, we focus our resources on high impact cases, such as those involving large-scale traffickers, those with potential connections to terrorist activity, and cases involving additional types of criminal activities beyond benefit fraud.<sup>8</sup> Comparing our final FY 2006 investigative statistics to the prior fiscal year, the number of food stamp trafficking investigations we opened increased from 77 to 84; the number we referred to DOJ increased from 21 to 31; and the number of indictments resulting from OIG food stamp investigations increased from 70 to 146.

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<sup>8</sup> Examples would be food safety concerns affecting public health, such as contaminated food or black-market WIC products.



EBT fraud cases are very complex investigations, so OIG worked in 2006 to develop and conduct training focused on improving methods to detect and analyze trends indicating fraud. OIG is creating a database that will capture vital information regarding EBT trafficking investigations to identify large scale fraud networks.

OIG has initiated numerous investigations as a result of our collaborative efforts with multiple Federal and local law enforcement agencies. A major OIG food stamp fraud investigation resulted in a Chicago grocery store owner being sentenced in August 2006 to 51 months in prison and ordered to pay \$1.4 million in restitution. The store owner pled guilty to wire fraud and money laundering. Two months earlier, the store owner pled guilty in Federal court in Florida to conspiracy for providing funding to the Palestinian Islamic Jihad, in violation of the International Emergency Economic Powers Act. The store owner had conspired with other persons and unauthorized stores to conduct thousands of illegal electronic food stamp benefit transactions.

### **Expanding Efforts to Deter WIC Fraud**

WIC is a vital Federal program to provide supplemental foods and nutrition education to lower-income pregnant, breast-feeding, and postpartum women, and infants and children who are at nutritional risk.

The main product purchased with WIC vouchers is infant formula. Theft rings around the country are stealing, re-labeling, and reselling infant formula. When infant formula is stolen, it is taken out of the regulated retail system, and there can be no guarantee the formula is safe and wholesome. In response to this growing concern, OIG is expanding alliances with State and local law enforcement agencies to better coordinate jurisdictional investigative efforts into broader regional efforts. Our ultimate objective is to develop a national initiative that will enable OIG to track and maintain records of stolen infant formula incidents across the United States.

A recent OIG infant formula investigation involved an Ohio furniture store owner who led a nationwide network that trafficked in stolen merchandise and food stamps through inner-city markets. The stolen merchandise included infant formula, diabetic blood glucose test strips, and over-the-counter medications. The stolen merchandise was transported to wholesalers and warehouses in States including Indiana, Illinois, Wisconsin, New York, Florida, and California. The store owner and 24 other individuals were charged with crimes ranging from food stamp trafficking to transportation of stolen property and money laundering. During 2005-2006, 21 individuals have pled guilty or were found guilty, including the leader of the criminal organization. Sentences imposed on the defendants ranged from 8 months to 11 years, and monetary judgments and restitutions totaled over \$2.7 million. On February 20, 2007, two of the three store owners involved in the scheme in Wisconsin pled guilty to false statements and conspiracy; the third is awaiting trial. This was a joint investigation with the FBI and the Ohio Organized Crime Investigations Commission.

A second OIG infant formula investigation determined that a Pennsylvania convenience store owner was trafficking in food stamps and operating and engaging in an unlicensed money transmitting business. From 2001 to May 2006, the store owner transmitted more than \$7 million dollars without the license required by Federal and State law. The store owner bought and sold stolen goods such as infant formula, drug paraphernalia, and counterfeit cigarettes and music CDs. The store owner pled guilty in Federal court in November 2006 to operating an unlicensed money transmitting business and agreed to forfeit over \$252,000. This investigation was part of a taskforce that included OIG agents and several other Federal and State enforcement agencies (FBI, Immigration and Customs Enforcement, Secret Service, IRS, and the Pennsylvania Department of Revenue).

## **The OIG Response to Hurricanes Katrina and Rita: Audit Oversight and Investigative Support**

During last year's testimony, we discussed USDA's role in the Federal recovery efforts related to Hurricanes Katrina and Rita. OIG continues to work with the President's Council on Integrity and Efficiency (PCIE) and DHS working groups to coordinate related investigative efforts and thereby maximize Federal investigative resources and prevent duplicative efforts. We coordinated efforts with both the Department of Housing and Urban Development's (HUD) OIG and DHS-OIG to develop computer matching agreements with RHS. These agreements facilitate the ability of the participants to identify improper and fraudulent disaster assistance payments. Data matching is a highly effective tool in disaster assistance payment investigations for all of the agencies involved.

OIG special agents are working Hurricane Katrina Fraud Task Force investigations in the Gulf Coast region. We continue to receive referrals throughout the country on individuals who have submitted false claims or provided false statements to obtain Federal benefits for which they were not entitled. At this time, as hurricane reconstruction efforts in the Gulf Coast region continue, OIG has begun receiving investigative referrals from FSA and RD that involve larger monetary amounts of fraud or theft and more complex fraud cases.

A recent example of our hurricane relief investigative work involved an Illinois woman who obtained at least \$23,000 in Hurricane Katrina housing, food stamps, and cash assistance for which she was not entitled. OIG worked with the Postal Service's OIG to determine that the individual never resided in Louisiana or Mississippi and thus would not have been affected by Hurricane Katrina. The individual sought benefits for non-existent family members. She pled guilty in October 2006 to mail fraud and false statements and was sentenced in January 2007 to 48 months in Federal prison, followed by 36 months of supervised release, and was ordered to pay \$23,982 in restitution.

We have also committed significant audit resources to conduct reviews of the Department's hurricane relief efforts. In view of the substantial Federal funds appropriated for hurricane disaster relief, a continuing concern for both program managers and the Congress is the potential for excessive or duplicative payments to individuals in hurricane-affected communities.

In the aftermath of Hurricanes Katrina and Rita, RD-through RHS-placed 11,000 evacuees into 4,100 Rural Rental Housing (RRH) apartment units in 45 States and provided \$2.6 million in emergency rental assistance. OIG evaluated RHS management controls for multifamily housing funds targeted for disaster assistance. We found that most residents placed in RRH apartments needed only adequate housing and not rental assistance because the Federal Emergency Management Agency (FEMA) was already providing financial assistance. As a result, much of the \$2.6 million provided by RHS duplicated FEMA assistance.

Specifically, our review determined that RHS' database system contained generally inaccurate/incomplete information on hurricane victims and the amount of rental assistance they received. Some property owners required tenants to pay rent even though the owner had already received rental assistance directly from RHS. The agency was also not able to identify victims who used the FEMA identifying numbers of other individuals to obtain housing assistance. OIG found that some property owners had reclassified existing tenants as hurricane victims even though the tenants had no change in income or other circumstances. This resulted in unnecessary RRH rental assistance to the tenants.

RHS agreed to improve its information system and related management controls. To better prepare for future disaster situations, the agency is implementing corrective actions regarding coordinating its actions and information with other Federal agencies providing housing assistance.

This year, we will continue our oversight work regarding USDA's response to major hurricanes. OIG currently has 11 audits in process pertaining to the Department's hurricane relief operations, including reviews of FNS' Disaster Food Stamp Program payments in five hurricane-affected States and RMA controls to provide hurricane victims in Florida with timely and accurate indemnity payments.

### **Assessing USDA Trade Programs and Operations**

In 2002, the Farm Bill and the President's Management Agenda (PMA) established a number of new goals and requirements for the Foreign Agricultural Service (FAS), the agency charged with coordinating USDA's international activities. The 2002 Farm Bill's trade section contained 13 provisions affecting FAS programs, including export credit guarantees, market development, export enhancement, food aid development, and technical barriers to trade. OIG initiated a review to determine the status of FAS' efforts to implement the 2002 Farm Bill's trade and food aid programs and to evaluate the agency's efforts to address problems that the PMA identified in food aid programs.

We found that FAS took prompt action to implement 10 out of the 13 Farm Bill trade provisions within one year of enactment. However, FAS has not developed a business process to ensure that the Farm Bill's global market strategy requirements—coordinating USDA resources and programs with other Federal agencies to identify export opportunities and remove trade barriers—are being met on a global basis. FAS managers have followed a strategy of supporting agricultural exporters (referred to as “cooperators”) when implementing their individual country and regional market strategies. In our view, such efforts have not been sufficiently integrated to produce a focused, global strategy that would allow FAS to effectively identify and react to changing trends in global markets. The U.S. share of global agricultural exports declined from 22% to 9.7 % during 1984–2005, yet FAS officials do not believe that a central planning process or formal global marketing strategy is necessary.

The PMA cited several problems in U.S. food aid programs, including program duplication between FAS and the U.S. Agency for International Development (USAID) that wasted donated food supplies and excessive administrative/transportation costs. OIG found that FAS has strengthened its program planning and improved consultation and coordination with USAID, USDA's Economic Research Service, and other organizations to develop better outcome-oriented performance measures and reporting. However, we recommended that FAS develop outcome-based performance measures to more accurately reflect program accomplishments in recipient countries. OIG is currently awaiting the agency response to our draft report.

### **Identifying Barriers to U.S Agricultural Exports**

OIG received a congressional request in 2006 to review certain aspects of FAS market development programs in fostering expanded trade activities for U.S. agricultural exports. We initiated an audit to examine the extent to which FAS conducts outreach to U.S. agricultural interests to identify trade constraints and foreign agricultural business opportunities; determine if the agency is presenting information on identified trade barriers to the U.S. Trade Representative (USTR) and FAS' private sector cooperators; and review whether USDA efforts to promote U.S. agricultural exports are being presented, with measurable benchmarks, in the National Export Strategy. OIG's report will be issued this week. Our review found that FAS does not formally track its efforts to expand trade activities or conduct outreach to U.S. exporters and does not have a formal process for summarizing and presenting trade barriers to the USTR.

### **Ensuring Accountability in Foreign Food Aid Programs**

FAS administers foreign food aid programs, largely through grants to intermediaries known as private voluntary organizations (PVOs), the charitable, non-profit organizations responsible for implementing program objectives abroad. FAS expended approximately \$400 million for its food aid programs in FY 2006. In March 2006, we issued a report assessing FAS' progress in addressing management control weaknesses

regarding the Food for Progress program identified in an earlier OIG audit. Our latest report also reviewed eight judgmentally selected PVOs, three of which were the subjects of a hotline complaint. The audit evaluated issues such as internal agency controls/processes for evaluating grant proposals and awarding grant agreements, monitoring compliance with grant terms and conditions, and determining program results.

OIG found that many of the recommendations from our prior audit report had not been implemented, and therefore FAS could not provide reasonable assurance that PVOs were meeting their program objectives or spending funds appropriately. FAS lacked procedures to confirm that PVOs were recognized by their host governments and were able to operate effectively in-country. FAS did not pursue grant funds lost due to PVO mismanagement. Due to these internal control weaknesses, we concluded that FAS did not adequately follow up and determine whether there was mismanagement of \$2.2 million in grant funds.

We recommended that FAS strengthen its ability to monitor food aid agreements by implementing procedures to review PVOs' semiannual reports, conduct onsite reviews, and complete closeout reviews of food aid agreements. The agency should confirm that PVOs are viable agents in their host countries before shipping donated commodities to these private groups and aggressively seek recovery of grant funds lost due to PVO mismanagement. Generally, FAS agreed with our recommendations and stated that agency efforts were underway to implement several of them.

### **Oversight of Farm, Conservation, and Research Programs in 2007**

OIG has initiated or plans to conduct several audits to review USDA farm and conservation programs. Work is underway to examine RMA's effectiveness in monitoring private insurance providers and determine if its compliance activities are adequate to improve the crop insurance program and reduce fraud, waste, and abuse. We are planning to review FSA's management controls in 2007 to assess their effectiveness

to prevent farm program payments being made to producers who have been disqualified due to civil, criminal, or administrative actions.

There is considerable congressional interest in expanding USDA's role in our nation's efforts to develop a viable renewable energy program. The Department's activities include financial incentives (loans, loan guarantees, grants for capital equipment) for farmers to grow crops that can produce renewable energy products such as ethanol. USDA research agencies are engaged in developing and improving methods to produce renewable energy. In 2007, OIG will evaluate the Department's efforts to foster renewable energy technologies as well as the coordination between USDA agencies and other Federal agencies. These audits are currently underway.

NRCS' Wetlands Reserve Program (WRP) is a voluntary program offering landowners the opportunity to protect, restore, and enhance wetlands on their property. NRCS provides technical and financial support to help landowners with their wetland restoration efforts. We are reviewing the legitimacy of restoration costs and the agency's ability to monitor restoration efforts. A related voluntary agency program is the Conservation Security Program (CSP), in which payments are provided to landowners to maintain and enhance natural resources. CSP identifies and rewards those farmers and ranchers who are meeting the highest standards of conservation and environmental management on their operations. The Government Accountability Office reported that NRCS lacked adequate controls to prevent participants from receiving financial assistance from multiple programs for the same conservation practice. OIG has initiated an audit to determine whether NRCS has adequately implemented provisions of CSP. We are focusing on whether the agency has properly handled key issues such as program eligibility, the calculation of program payments, and the detection of improper payments.

OIG also has an audit underway to review the agency's procedures to assess and prioritize the rehabilitation of dams constructed with NRCS funding. Many of these dams are nearing the end of their 50-year design life. A recent survey of known rehabilitation needs in 22 States revealed that more than 2,200 dams need rehabilitation at



an estimated cost of more than \$540 million. The cost of rehabilitation will only increase with time as deterioration increases, construction costs rise, and more rehabilitation needs are identified. The Watershed Rehabilitation Program budget reported in the USDA FY 2008 Budget Summary and Annual Performance Plan is \$6 million. Our primary objective is to review the adequacy of NRCS program controls for the rehabilitation of flood control dams to mitigate potential threat or danger to life and property.

Congress has provided substantial resources to support Agricultural Research Service (ARS) research regarding a wide array of food quality and safety issues, nutritional needs, and our environment's natural resource base. ARS spends approximately \$1.1 billion annually on 1,200 research projects organized into 22 national program areas at 100 locations and 4 overseas laboratories. We are currently evaluating the efficacy of ARS management controls over its intramural and extramural research agreements to ensure they are properly implemented. Our audit is examining ARS procedures to ensure that research funding is used for its intended purposes, research projects are adequately monitored, and project milestones are properly managed.

### **III. The Management of USDA's Public Resources**

#### **Information Technology Security in USDA**

In recent years, USDA's Office of the Chief Information Officer (OCIO) and OIG have placed a major emphasis on the need to plan and implement effective information technology (IT) security for the Department. OIG continues to conduct various audits and reviews of the Department's IT security systems to assess and improve their performance.

Based on our reviews in 2006, the National Information Technology Center (NITC) in Kansas City, Missouri, sustained its unqualified opinion on its general control structure, and OCFO's National Finance Center (NFC) in New Orleans, Louisiana, received its first unqualified opinion on its design of its general control structure. However, we issued a

qualified opinion on the effectiveness of NFC's controls because the controls were not operating during the entire year. This effectiveness qualification was primarily attributed to the disruptive effects of Hurricane Katrina on NFC's normal operating procedures. When our review determined that certain controls were not adequately designed, OCFO NFC updated its procedures to address our concerns.

As required by the Federal Information Security Management Act of 2002, our annual audit of the Department's IT security program continued to find significant weaknesses. These included needed improvement in contingency planning and testing, annual risk assessments, and configuration management. Due to the significance of the issues identified in our reviews, we continue to classify IT security as a material internal control weakness for USDA.

USDA's Universal Telecommunications Network (UTN) is the critical general support system serving the Department's data network backbone for telecommunications and network support services. We identified weaknesses in OCIO's ability to effectively manage and secure the UTN. OCIO had not completed required system testing, security control testing, and certification/accreditation of the UTN network prior to implementation. OCIO concurred with our recommendations and has taken significant actions to address identified weaknesses.

### **Reducing Risks From Stolen USDA Computer Equipment**

In light of the disclosure or theft of Privacy Act/sensitive information from several Federal agencies in 2006 and OMB's recent mandates on securing such information, OIG is assessing potential risks at USDA. We are issuing a report this week from our review of stolen equipment within USDA.

To the extent possible, we identified the information maintained on the stolen computers as well as sensitive information currently maintained on computers within the Department. OIG found that controls over stolen computer equipment were lacking in

the four USDA agencies reviewed.<sup>9</sup> Specifically, we found Privacy Act/sensitive information was stored on computers that were stolen and the agencies did not notify the individuals whose information may have been compromised. Additionally, these agencies lacked policies and procedures to adequately notify proper authorities and affected parties when thefts of computer equipment occurred. The agencies agreed with OIG's recommendations.

To date, OCIO has provided agencies with limited guidance on what actions to take if computers are lost or stolen. OIG recommended that OCIO implement Departmentwide guidance regarding tracking and reporting requirements for lost/stolen computer equipment. This should include procedures for determining whether the subject equipment may have contained Privacy Act or sensitive information.

### **USDA Procedures to Assess Employee Civil Rights Complaints**

We have previously presented testimony to the Subcommittee about our audit work focusing on the Department's processes and performance in handling allegations of discrimination against USDA employees or in USDA programs. Our most recent civil rights audit<sup>10</sup> assessed the Office of the Assistant Secretary for Civil Rights (ASCR) implementation of prior OIG recommendations that focused on the agency's management and oversight of program and employment complaints. In response to a 2006 congressional request, we initiated an audit to evaluate the Department's progress in addressing employee civil rights complaints and employee accountability for acts of discrimination. OIG will identify and evaluate the adequacy of the Department's controls to properly process employee civil rights complaints and its processes to hold employees accountable for discrimination towards employees or in USDA programs. We anticipate issuing this report by the end of March 2007.

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<sup>9</sup> FSA, NRCS, RD, and OCIO.

<sup>10</sup> "Follow-up on Prior Recommendations for Civil Rights Program and Employee Complaints," issued September 2005.

## **The National Computer Forensic Division: Advanced Investigative and Evidentiary Support**

As an authoritative resource in the investigation and analysis of network intrusions and attacks on USDA networks, OIG's National Computer Forensic Division (NCFD) conducts thorough and accurate analyses of any IT network compromise by analyzing compromised servers, firewall logs, Intrusion Detection System logs, and Internet Protocol traffic logs. The NCFD continues to provide support, training, and advice on evidence collection and analysis to USDA agencies. During the past year, the NCFD provided onsite search warrant assistance for 12 warrants and analysis for 38 cases involving criminal activity, employee misconduct, and network intrusions.

An example of NCFD's work includes an investigation that was requested by the Department relating to a network intrusion and two servers that were compromised. NCFD determined that while two computer servers had been compromised multiple times by hackers in June 2006, the database containing personal identity information for 26,000 USDA employees had not been compromised or transferred from USDA computers. OIG is working with OCIO to ensure that all USDA networks and employee personal information are secure.

Another recent investigation involved a woman employed as a Geographic Information Systems (GIS) technician with FSA. The woman reproduced and sold 41 pirated copies of USDA-licensed software on two Internet auction websites. The woman received \$7,120 from the sales of the pirated software although its retail value exceeded \$326,000. In June 2006, the woman pled guilty in a Federal court in Indiana to copyright infringement and was sentenced to 5 years of probation, restitution of \$7,120 to the company owning the software copyright, and forfeiture of all computer-related equipment seized at her residence. This case resulted in the first Federal criminal conviction in Indiana involving the illegal sale of copyrighted materials over the Internet.

NCFD forensically imaged and analyzed the hard drives of eight computers in the GIS lab of FSA's Indiana State office for evidence that the software was copied utilizing one of the FSA computers. The forensic analysis produced evidence that was utilized in negotiating a guilty plea.

### **USDA Financial Management**

As defined by the Government Accountability Office (GAO), success in Federal financial management is an unqualified audit opinion with no reportable conditions and no instances of noncompliance with laws and regulations. In 2006, the Department's financial statements received unqualified audit opinions, as did six USDA entities.<sup>11</sup> This is an improvement from previous years. However, the Department and three agencies had material weaknesses and reportable conditions. The Department and four agencies also had instances of noncompliance with laws and regulations.

Specifically, the Department's material weaknesses related to improvements needed in overall financial management across USDA and IT security and controls. A reportable condition existed related to improvements needed in certain financial management practices and processes. Three instances of noncompliance were identified relating to the Federal Financial Management Improvement Act, the Improper Payments Information Act, and Managerial Cost Accounting practices. OIG continues to work with OCFO to ensure effective financial management throughout USDA.

### **The Role of USDA and Agriculture in Protecting the Chesapeake Bay Watershed**

The Chesapeake Bay Program, which is administered by the U.S. Environmental Protection Agency (EPA), is mandated to direct restoration of the Chesapeake Bay through a regional partnership of Federal, State, and local agencies, academic institutions, and non-government organizations. OIG participated in a joint review of the

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<sup>11</sup> Federal Crop Insurance Corporation, Commodity Credit Corporation, FS, Rural Telephone Bank, FNS, and RD.

program with EPA's OIG that concentrated on the agricultural best management practices used to address non-point nutrient and sediment loading to the Chesapeake Bay watershed.

Despite significant efforts to improve water quality in the Chesapeake Bay watershed, excess nutrients and sediment continue to impair the Bay's water quality. Our joint review found that few of the agricultural practices in the State tributary strategies have been implemented because the agricultural community considers many of these practices to be either unprofitable or to require significant changes in farming techniques. We found that EPA must improve its collaboration with its Bay partners and the agricultural community to reduce the agricultural nutrients and sediments entering the Chesapeake Bay watershed. Members of the agricultural community have been reluctant to participate in this endeavor with EPA because of its regulatory enforcement role.

We recommended that the Secretary or Deputy Secretary assign a senior-level official with commensurate authority to coordinate relevant USDA goals and programs with EPA and the Chesapeake Bay Program. USDA should consider the feasibility of targeting USDA funds on a regional and/or geographical basis to assist the Bay's environmental restoration. The Department should also direct USDA agencies to expedite the establishment of outcome-based performance measurements to properly evaluate their conservation activities. USDA generally agreed with our recommendations.

### **Evaluating Forest Service Use of Private Wildland Firefighting Crews**

As wildfire activity on National Forests (NF) has become more intense, FS has made increasing use of contract suppression crews to supplement agency resources. FS incident management personnel had previously noted numerous performance problems with poorly trained and inexperienced crews. Other reports (GAO, incident management

personnel) have indicated similar problems. We evaluated FS' administration of these contracts and its coordination with other parties<sup>12</sup> that also use these contracts.

We determined that FS needed to improve its contract oversight to ensure that contract employees had met both the training and experience requirements for the positions they held on fire fighting crews. Our review found that a significant number of contract firefighters may not have been qualified to perform the duties required under the contract. FS needed to address control weaknesses with wildfire suppression associations<sup>13</sup> that provide training to contract employees. Language proficiency assessments should be improved to ensure contract crew personnel can communicate adequately with FS incident management personnel. Finally, we recommended that FS coordinate with other Federal agencies to identify undocumented workers on contracted crews. FS officials agreed with all of OIG's recommendations and established timeframes for corrective actions.

### **Reducing Forest Service's Large Fire Suppression Costs: Shared Responsibilities**

FS' wildfire suppression costs have exceeded \$1 billion in 4 of the past 7 years. Our audit focused on the most significant "cost drivers" that were impacting fire suppression costs. We determined that the majority of FS' large fire suppression costs are directly linked to protecting private property—as opposed to National Forest System land—in the wildland urban interface (WUI). FS managers need to evaluate their agreements with State and local governments to ensure the costs of protecting the WUI are appropriately apportioned. A significant portion of these costs can be avoided and the safety of firefighters improved if the Federal Government can proactively work with State and local governments regarding prudent "Firewise" zoning and building codes.

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<sup>12</sup> Primarily State and local governments. The crews at issue in this report were obtained from the Oregon Department of Forestry's list.

<sup>13</sup> Private organizations that represent wildfire suppression contractors and provide training to their employees.

In another report focusing on wildland fire issues and the Healthy Forest Initiative, we determined that FS needs to change some policies regarding wildland fire use (WFU). Hazardous fuels such as dead vegetation and undergrowth in our national forests are increasing the size and complexity of wildland fires. FS needs to reduce these fuels, increase the number of qualified personnel, and expand WFU to help control the costs of future fires. OIG further recommended that the agency implement improved processes to more effectively hold managers accountable for the financial impact of their decisions.

FS agreed with our findings and recommendations and initiated corrective actions. These include working with OIG to jointly develop training for FS personnel conducting reviews of large fire operations. FS and OIG will jointly conduct the training prior to the 2007 fire season.

#### **IV. OIG's FY 2008 Budget Request**

Before concluding, I would like to briefly comment on OIG's FY 2008 Budget Request. With your assistance and support, we are pleased to have built a solid record of constructive audit oversight and investigative accomplishment. Over the last 4 years we have produced a return on investment of \$5.34 for each dollar of appropriated funds you have provided. During that period, our work has produced over \$1.65 billion in actual monetary recoveries and cost avoidances, 1,449 indictments and 1,358 convictions. In addition to our monetary results, we have made numerous recommendations that resulted in substantive management and program improvements. For example, in FY 2006 we issued 425 program improvement recommendations and USDA managers agreed to implement 384 of them. These recommendations involved issues of congressional and public concern such as improving surveillance and monitoring of AI in domestic poultry, strengthening USDA's food inspection operations, and improving the collection of unauthorized farm program payments.

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In addition to the statistical accomplishments mentioned above, FY 2006 and the first few months of FY 2007 have been a particularly productive time for OIG in other ways as well. The following activities may be of particular interest to the Subcommittee.

- OIG has devoted over \$2 million dollars and several staff years to providing oversight to USDA programs supporting the Gulf Coast region devastated during the 2005 hurricane season in order to increase accountability in these programs and avoid waste and fraud in the distribution of benefits. The \$445,000 Congress authorized in the FY 2006 emergency supplemental to support these efforts was of great assistance. Currently, we have 11 audits and 11 investigations underway pertaining to USDA hurricane recovery assistance programs.
- We also directed resources to review Departmental plans to deal with the threatened avian influenza pandemic, by advising the Department on how it could improve its plans and programs.
- OIG took prompt and comprehensive action to evaluate the implementation of the Department's IT security system. Through a coordinated program of audits, investigations, and other reviews, USDA OIG is addressing the areas of highest risk and providing insight and support to USDA program agencies.
- We formed an Office of Inspections and Research (OIR) to address emerging issues that may require scientific, legal, statistical, or other expert competencies. Generally, OIR will conduct short-term, focused reviews and inspections of USDA's programs and operations. OIR projects completed in the last year and currently underway include:
  - A review of the Federal crop insurance program that, in collaboration with FSA and RMA, identified a number of fraud indicators or conditions that are often associated with fraud, waste, and mismanagement.

- An inspection regarding the coordination of the Department's international activities and agreements.
- An inspection of the security practices at a USDA laboratory that found the laboratory had made many improvements, both physical and through extensive training of personnel.
- We were able, with the support of our congressional appropriators, particularly the members of this Subcommittee, to strengthen our ability to support USDA programs through effective audits and investigations. Five years ago our information technology systems were inadequate to support our audit and investigative program. Thanks to your continued support, our IT environment is current and able to support sophisticated audit and investigative techniques. From FY 1996 to FY 2006, OIG's staff level fell a total of 21%—which directly translates into a commensurate reduction in our audit and investigative capacity. With your support, we were able to arrest that trend in FY2006 and have begun—in a very small way—to strengthen our capacity.

We are asking today for your support in continuing our efforts to maintain, and in some areas even improve, OIG effectiveness in FY 2008. The President's request asks for the minimum necessary to support our staffing level and advance our ability to safely and effectively respond to emerging public health and agriculture security threats.

Specifically, the President's FY 2008 request of \$84 million for OIG provides for:

- \$1.9 million for 2008 mandatory pay costs.
- \$994,000 for 2007 pay costs.
- \$340,000 to fund five staff to reinforce our audit, investigation, and inspection programs focusing on the approximately \$20 billion spent annually on USDA farm programs.

- \$757,000 for necessary equipment and training updates to the Computer Forensics Unit and the Emergency Response Team, and implementation of an automated audit workpaper system that will improve the timeliness of our audits and ensure that audit evidence is kept in accordance with Department of Justice standards.

This concludes my testimony. I again want to thank the Members of the Subcommittee for the opportunity to discuss OIG's activities with you today. My senior management team and I will be pleased to address any questions you may have.