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HEARING TO REVIEW RECENT INVESTIGATIONS AND AUDITS CONDUCTED BY THE USDA INSPECTOR GENERAL

HEARING

BEFORE THE

SUBCOMMITTEE ON DEPARTMENT OPERATIONS, OVERSIGHT, AND CREDIT

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

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HEARING TO REVIEW RECENT INVESTIGATIONS AND AUDITS CONDUCTED BY THE USDA INSPECTOR GENERAL

THURSDAY, JUNE 2, 2011

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON DEPARTMENT OPERATIONS,
OVERSIGHT, AND CREDIT,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 10:05 a.m., in Room 1300 of the Longworth House Office Building, Hon. Jeff Fortenberry [Chairman of the Subcommittee] presiding.

Members present: Representatives Fortenberry, Crawford, Fudge, McGovern, and Peterson (*ex officio*).

Staff present: Tamara Hinton, John Konya, Brandon Lipps, Pam Miller, John Porter, Debbie Smith, Heather Vaughan, Suzanne Watson, Liz Friedlander, Lisa Shelton, and Jamie Mitchell.

OPENING STATEMENT OF HON. JEFF FORTENBERRY, A REPRESENTATIVE IN CONGRESS FROM NEBRASKA

The CHAIRMAN. Good morning. The hearing of the Subcommittee on Department Operations, Oversight, and Credit to review recent investigations and audits conducted by the USDA's Inspector General will now come to order.

Thank you all for coming. I would like to thank Ms. Fong for joining us to discuss the work being done by the Department of Agriculture's Office of the Inspector General. The Office of the Inspector General was established in 1978 to serve as an independent and objective body to audit and investigate departmental programs and operations. Through these audits and investigations, the Office of the Inspector General should ensure that taxpayer funds are being used properly. Further, these audits and investigations help Congress ensure that programs are being delivered as the law intended.

As the Subcommittee tasked with the oversight of the Department's operations, we have responsibility to monitor the activity of the Office of the Inspector General and to examine the results of its audits and investigations. Fundamentally, today's hearing is about good government. We want to be sure that the Agriculture Department's programs are being delivered effectively and efficiently to the citizens of the United States.

To that end, we want to learn more about the recent audits and investigations conducted by you as well as the Department's re-

sponses to your conclusions. In addition to reviewing the recommendations, the hearing is also intended to assess the operations of your office itself, the Office of the Inspector General. We want to ensure that your office is performing the tasks for which it was created and making good use of taxpayer money to determine which programs should be prioritized for auditing.

Ms. Fong, again, I thank you and your staff for being here today. We look forward to learning more about your recent audits and investigations.

[The prepared statement of Mr. Fortenberry follows:]

PREPARED STATEMENT OF HON. JEFF FORTENBERRY, A REPRESENTATIVE IN CONGRESS FROM NEBRASKA

Good morning. I'd like to thank Ms. Fong for joining us today to discuss the work being done by the Department of Agriculture's Office of the Inspector General.

The Office of the Inspector General was established in 1978 to serve as an independent and objective body to audit and investigate departmental programs and operations.

Through these audits and investigations, the Office of the Inspector General should ensure that taxpayer funds are being used properly. Further, these audits and investigations should help Congress ensure that programs are being delivered as intended.

As the Subcommittee tasked with oversight of the Department of Agriculture's operations, we have a responsibility to monitor the activity of the Office of the Inspector General and to examine the results of its audits and investigations.

Today's hearing is about good government. We want to be sure that the Department of Agriculture's programs are being delivered effectively and efficiently to our constituents. To that end, we want to learn more about the recent audits and investigations conducted by the Office of the Inspector General, as well as the Department's responses to your conclusions.

In addition to reviewing your recommendations to the Department, this hearing is also intended to assess the operations of the Office of the Inspector General itself. We want to be sure that the Office of the Inspector General is performing the tasks for which it was created, and making good use of taxpayer money in determining which programs to audit.

Ms. Fong, I thank you and your staff once again for being here today, and I look forward to learning more about your recent audits and investigations.

The CHAIRMAN. With that, I would like to turn to our Ranking Member, Ms. Fudge from Ohio, for her statement.

OPENING STATEMENT OF HON. MARCIA L. FUDGE, A REPRESENTATIVE IN CONGRESS FROM OHIO

Ms. FUDGE. Thank you, Mr. Chairman. Before I begin my remarks, I want to say thank you to our full Committee Ranking Member for joining us today. He is an *ex officio* Member of the Subcommittee and it is a pleasure to see him.

Mr. Chairman, I thank you for holding this hearing on USDA's Office of Inspector General. This is a very important step in my understanding as to how USDA operates, and I look forward to hearing from Inspector General Fong to learn how their office functions, particularly her efforts to eliminate fraud and abuse in the SNAP program and ongoing oversight of civil rights issues.

Ohio's 11th district, like other urban areas, has suffered disproportionately from the recession. As a result, in Cuyahoga County, which I represent, we have seen a 25 percent increase in SNAP recipients in the past few years. This is significant for any county but especially in a state like Ohio, that has seen a sustained high rate of food insecurity.

With all the pressure on Federal funding today, plus the importance of providing a safety net to those in great need in my district, I am committed to making sure that every penny of Federal money is going where it should. There is no room in the budget for abuse, for fraud or wasteful spending. I am interested to learn how the Office of the Inspector General is working toward this very necessary goal and how we in Congress can be helpful to you.

I thank the witness for her testimony. I look forward to learning from you today. Welcome.

Thank you. I yield back.

The CHAIRMAN. Thank you, Ms. Fudge. I would also like to recognize our full Committee Ranking Member, Mr. Peterson from Minnesota, and see if you have an opening statement. Thank you, sir, for joining us today.

The chair would request that Members submit their statements for the record so the witness may begin her testimony and to ensure that there is ample time for questioning.

First I would like to welcome our first panel to the table. The Honorable Phyllis Fong is the Inspector General of the United States Department of Agriculture. She is accompanied by Ms. Karen Ellis, who is an Assistant Inspector General, Mr. Steven Rickrode, who is the Deputy Assistant Inspector General for Audit, and Mr. Robert Young, who is a Special Assistant to the Inspector General on the Recovery Act. Ms. Fong, please begin your testimony.

STATEMENT OF HON. PHYLLIS K. FONG, INSPECTOR GENERAL, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.; ACCOMPANIED BY KAREN ELLIS, ASSISTANT INSPECTOR GENERAL FOR INVESTIGATIONS, OIG, USDA; STEVEN RICKRODE, DEPUTY ASSISTANT INSPECTOR GENERAL FOR AUDIT, OIG, USDA; ROBERT YOUNG, SPECIAL ASSISTANT TO THE INSPECTOR GENERAL ON THE RECOVERY ACT, OIG, USDA

Ms. FONG. Thank you. Good morning, Mr. Chairman, Ranking Member Fudge, and all the Members of the Subcommittee. We really appreciate the opportunity to be here today to talk about our oversight work at USDA and we look forward to working with both of you in your oversight and leadership roles on this Subcommittee, we welcome the chance to address the interests of all the Members of the Subcommittee. You introduced my colleagues, so I just want to tell you that they are experts in their fields of responsibility, and they will handle all the tough questions today.

You have my full written statement for the record, so I want to just offer a few brief comments this morning about the nature of our work and three key areas where we have been focusing a lot of our time over the past year: oversight of the Recovery Act funding within USDA, our work to strengthen food safety, and our work to address improper payments across the board in USDA programs.

So let me start out with a few remarks about our mission and what we do. Simply stated, our job is to help USDA deliver programs as effectively as possible. As you know, we perform audits to see if programs are functioning effectively, if payments are going to the right people, and if funds are achieving their intended pur-

pose, their intended Congressional purpose. When we find problems, we make recommendations to USDA to help the agencies better fulfill their missions, but it is up to the agencies themselves to take actions to correct any issues that we find. We do not have the authority or the role to implement our own recommendations.

We also conduct investigations, as you know, of people who abuse USDA programs, and these investigations can result in criminal prosecutions, fines, imprisonment for those who are convicted, and disciplinary action for USDA employees who may have engaged in misconduct. Over the last 18 months, our audit and investigative work led to potential monetary results of about $256 million. We issued about 89 audit reports and our investigations led to 740+ criminal convictions.

So let me spend a little time talking about our Recovery Act work. As you know, the Department received $28 billion in a range of programs, including nutritional assistance, SNAP, in particular. The Recovery Act also charged our office with overseeing the expenditures of those funds and so to implement our responsibilities, we have looked and are looking and will look at every USDA program that received Recovery money. Currently, we are evaluating program delivery, namely whether USDA programs have given the money to participants who are eligible, whether the funds are being used for their intended purposes. We finished our work on internal controls in the programs. Next year, we will be looking at the effectiveness of the Recovery Act money, whether the program performance measures that USDA agencies established have been met, whether the jobs have been created, and the money has truly gone back into the economy.

Some of our most significant Recovery Act work this year has addressed the Single Family Housing Guaranteed Loan program, in Rural Development, and in some of our initial work, we found that of a sample of 100 loans, 28 were made to ineligible borrowers. We are in the process of finalizing that audit.

In the Supplemental Nutrition Assistance Program, we looked at the quality control process and found that FNS was not effectively reviewing and using state fraud detection units, and that report is out as well.

Let me turn next to our work on food safety. That remains a top priority for us in both audits and investigations, and our goal there is to improve the USDA programs that safeguard the food supply. One example of our work in this area deals with the situation that arose last year with the multi-state egg recall. Because of that situation, we started an audit of USDA's system for detecting *Salmonella* in shell eggs and we are looking at the effectiveness of USDA's coordination with FDA to make sure that the whole process is working as effectively as it should. We have already issued one interim audit report to the Department because we found that over 270,000 of the 288,000 shell eggs that were recalled had been stamped with an official USDA grade mark, even though they had been considered adulterated with *Salmonella.* This happened because the egg producers are not required to notify AMS when there are indications of contamination that might make the eggs unfit for human consumption. We are still working with that audit and we anticipate having a full report on that later this year.

Finally, I want to talk a little bit about our work on improper payments. Our work in this area is intended to save taxpayers money by ensuring that USDA programs deliver the correct benefits in the right amounts to eligible people. We issued a series of reports over the past year looking at improper payments from a variety of perspectives. We audited USDA's suspension and debarment program and basically found that the Department should better protect its programs by debarring individuals and entities that abuse them. Although the Department has the ability to exclude people who commit crimes against these programs, we have found that in many cases convicted program violators were rarely suspended or debarred.

In another area, we have done a lot of work on the Biomass Crop Assistance Program. We have an ongoing audit there. Part of our audit work resulted in an interim audit report that found that BCAP, as it is known, suffers from hasty implementation. The program agency was very concerned with getting the money out quickly and did not take the time, in our opinion, to include management controls adequate to prevent erroneous work and potentially improper payments. We are continuing our work on that program.

Finally, in the SNAP program, which is of course one of USDA's largest programs, we spend a lot of our time looking at and investigating fraud that is committed by retailers. We found that the most prevalent crime in the SNAP program involves benefits trafficking which occurs when a recipient exchanges his or her benefits for less than face value with a retailer, the retailer pays the recipient a certain amount of money which is less than the face value of the benefit, and then the retailer goes back to FNS to claim reimbursement for the full amount of the benefit.

We have a large number of cases in our investigative inventory involving these kinds of frauds. The money can be very significant. For example, in the last year we looked at two Florida stores involving retailers and it resulted in a criminal prosecution for approximately $6.2 million in trafficking by owners of those stores and their co-conspirators. We are actually seeing those kinds of frauds across the country, it is not confined to any one geographical area.

Finally, we are doing work in SNAP and the school lunch program to review FNS's efforts to reduce the level of improper payments. Under the Improper Payment Information Act of 2002, we have to do a number of audits each year, and USDA has reported, as you know, that the level of improper payments in those programs has been going down. Our initial audit work has found that FNS has correctly reported that trend and has been making significant progress in reducing improper payments. We do recommend that FNS work aggressively to continue to reduce the rate of improper payments, which is currently around four percent in the SNAP program, and we think that FNS should continue to be aggressive about this. We are continuing our work as well in this area.

So in conclusion, the Office of Inspector General remains committed to providing effective oversight to the Department and its programs. We are involved in the full range of USDA activities and

we look forward to working with this Subcommittee to answer your questions and to explore areas of mutual interest. So thank you.

[The prepared statement of Ms. Fong follows:]

PREPARED STATEMENT OF HON. PHYLLIS K. FONG, INSPECTOR GENERAL, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.

Good morning, Chairman Fortenberry, Ranking Member Fudge, and Members of the Subcommittee. Thank you for the opportunity to testify about the Office of Inspector General's (OIG) recent oversight activities concerning Department of Agriculture (USDA) programs.

I will begin my testimony with a brief overview of OIG's mission and the work we do. Next, I will summarize our efforts to assess and improve the Department's programs and operations under the American Recovery and Reinvestment Act of 2009 (Recovery Act).[1] Then I will summarize, according to our major strategic goals, a number of the most important oversight projects and investigations we performed in Fiscal Years (FY) 2010 and 2011 to date.

OIG's Mission

As you know, OIG's mission is to promote the efficiency and effectiveness of USDA programs by performing audits and investigations to reduce fraud, waste, and abuse. The Inspector General (IG) Act established a dual reporting responsibility, whereby IGs report both to the head of their respective agencies and to Congress.[2] This unique relationship provides the legislative safety net that protects OIGs' independence and objectivity while carrying out our oversight responsibilities.

We perform audits designed to ascertain if a program is functioning as intended, if program payments are reaching those they are intended to reach, and if funds are achieving the purpose they were intended to accomplish. When we find problems with the programs we oversee, we make recommendations we believe will help the agency better fulfill its mission. The agencies are responsible for implementing the recommended corrective actions. We also conduct investigations of individuals who abuse USDA programs—these investigations can result in fines and imprisonment for those convicted of wrongdoing, or agency disciplinary actions for USDA employees who are found to have engaged in misconduct.

In FY 2010 through June 1, 2011, our audit and investigative work obtained potential monetary results totaling nearly $256 million.[3] We issued 89 audit reports to strengthen the Department's programs and operations, which produced over $46 million in potential results when program officials agreed with our recommendations. During the same period, OIG investigations led to 743 convictions, with potential results totaling almost $210 million.

OIG Oversight of USDA's Recovery Act Work

As part of the Recovery Act, USDA received $28 billion in additional funding for areas including rural development, farm loans, and nutrition assistance. The Recovery Act also provided OIG with $22.5 million over 5 years to oversee programs funded by the Act and administered by USDA.

In response, OIG initiated a number of short- and long-term actions to provide timely and effective oversight of the Department's expenditure of Recovery Act funds. As of June 1, 2011, we have issued 29 audit and 11 investigative Recovery Act reports. Since providing timely information is a priority, we are also issuing short turnaround reports, known as Fast Reports, so USDA program managers can take corrective action as soon as we identify problems. As of June 1, 2011, we have issued 53 Fast Reports covering issues such as loan and grant program administration, conservation work, and Forest Service (FS) capital improvement and maintenance projects. We will incorporate these into formal audit reports once we complete our work.

Our audit division is approaching its review of Recovery Act-funded programs in three phases. In the first phase, which we have nearly completed, we are reviewing USDA agencies' documented internal control procedures relating to Recovery Act programs. In the second phase, which is in progress, we are evaluating program delivery, reviewing participant eligibility, and ensuring that Recovery Act funds are

[1] Pub. L. No. 111–5, 123 Stat. 115.

[2] 5 U.S.C. app. 3, §§ 1–13.

[3] Audit monetary impacts derive from funds put to better use and questioned/unsupported costs as established by Congress in the IG Act, 5 U.S.C. app. 3 § 5. Investigation monetary impacts come from recoveries, court-ordered fines, restitutions, administrative penalties, and asset forfeitures.

being used for their intended purposes. To accomplish this, we are using statistical sampling where possible and cost effective. In the third phase, which will start in FY 2012, we will evaluate program performance measures, and accomplishments and results reporting.

Examples of our findings to date involving Recovery Act-funded programs include:

Eligibility Determinations for Single Family Housing (SFH) Guaranteed Loans

The Recovery Act included $133 million to finance over $10 billion in SFH loan guarantees in rural areas. Our statistical sample of 100 loans identified 28 loans where lenders had not fully complied with Federal regulations or Recovery Act directives in determining borrower eligibility.[4] We found borrowers who were ineligible for a variety of reasons such as having annual incomes that exceeded program limits or being able to secure credit without a government loan guarantee. By guaranteeing loans for ineligible borrowers, other eligible borrowers may not have received guarantees that could have better achieved the goals of the Recovery Act. Based on the interim results of our statistical analysis, we estimate that 27,206 loans were ineligible for the program (over 33 percent of the portfolio)—with a projected total value of $4 billion.[5]

States' Supplemental Nutrition Assistance Program (SNAP) Fraud Detection

USDA's Food and Nutrition Service (FNS) administers SNAP through state agencies, which are primarily responsible for monitoring recipients' compliance with SNAP requirements along with investigating cases of alleged intentional program violation.[6] We evaluated FNS' state-level controls to mitigate SNAP fraud, an area related to FNS' increased Recovery Act funding.[7] We determined that although FNS performed reviews to evaluate how states manage SNAP, the agency's reviews did not target state fraud detection units. FNS indicated that such reviews were unnecessary because state annual activity reports were adequate to oversee state fraud detection; however, we found that these reports contained unreliable and unverified data. We also found that while FNS and state agency officials relied on hotline complaints and outside referrals to identify SNAP fraud, they did not make use of reports from electronic benefit processors that track participant and retailer activity to show potential fraud and misuse. FNS generally agreed with our findings and recommendations for those states we reviewed, but disagreed that they applied nationally. However, the agency did agree to review the electronic benefit reports and to encourage states to use them to identify SNAP fraud.

Our investigation division is also working to ensure the integrity of Recovery Act programs by taking up potential cases of fraud, pursuing prosecution where warranted, and investigating whistleblower allegations. As of June 1, 2011, OIG investigations staff have received 29 referrals relating to USDA Recovery Act contract awards and 54 hotline complaints.

OIG's Major Strategic Goals

Goal 1: Strengthen USDA's Safety and Security Measures for Public Health

One of OIG's most important goals is strengthening USDA's ability to protect public health and provide wholesome food for consumers. To achieve this objective, our audit and investigative work in FYs 2010 and 2011 to date has focused on helping to improve the programs that safeguard our food.

For example, we audited FSIS' Food Emergency Response Network (FERN), which integrates the nation's food-testing laboratories into a network that can respond to food contamination emergencies.[8] We concluded that FSIS has made progress with FERN, including establishing standardized diagnostic protocols, but needs to take more steps to implement the program fully. We recommended that FSIS ensure that there are enough laboratories to handle large-scale emergencies and that the agency use targeted surveillance to improve FERN's readiness to re-

[4] 04703–0002–Ch(1), *Rural Development Guaranteed Single-Family Housing Loans Made by Lenders to Ineligible Borrowers,* Dec. 2010.

[5] We chose a sample size of 100 because we expected a moderate error rate and wanted the ability to report findings with a ±10 percent precision (confidence interval) at a 95 percent confidence level.

[6] SNAP, 7 U.S.C. § 2011 *et seq.,* is still known as the "food stamp program" to many in the public, although it was officially renamed in 2008.

[7] The SNAP Recovery Act work summarized here can be found in: 27703–2–HY(1), *State Fraud Detection Efforts for the Supplemental Nutrition Assistance Program,* Jul. 2010; and 27703–2–HY(2), *State Fraud Detection Efforts for the Supplemental Nutrition Assistance Program—Use of EBT Management Reports,* Sep. 2010.

[8] 24601–6–AT, *Food Emergency Response Network,* Mar. 2011.

spond to threats to the nation's food supply. FSIS agreed with our recommendations.

As a result of the nationwide recall of over 500 million shell eggs in August 2010, we are assessing the controls USDA has in place to inspect them. Officials with the Agricultural Marketing Service (AMS, which shares inspection responsibilities) informed us during our review that over 270,000 adulterated shell eggs included in a November 2010 recall were granted an official USDA grademark by the agency.[9] The producer had mistakenly shipped the eggs to another state's packing plant where an AMS official graded them without knowing they were under recall. In February 2011, we issued a Fast Report which recommended that the agency issue a notice to shell egg producers requiring them to inform AMS grading officials at their establishments when there are indications of contaminated eggs.[10] AMS agreed with our recommendations.

Since knowing where food comes from and what it contains is critical to ensuring its safety, our investigations have addressed cases where companies resorted to a variety of schemes to mislead the public and the government about the origin of marketed food. For example, we determined that one California company falsely claimed its products—chili peppers—were grown in the United States in order to obtain Federal clean health certificates from USDA. In fact, the peppers were imported from India and China, which would have made them subject to more stringent USDA inspections to ensure they did not carry foreign pests or diseases that could harm native species. In July 2010, a court fined the company $50,000 and ordered 3 years' probation for making false statements.

Goal 2: Strengthening Program Integrity and Improving Benefit Delivery

OIG's work in this area is intended to save taxpayers' money by helping USDA programs deliver the correct benefits in the right amounts to eligible participants. Our efforts in achieving this objective range from advocating that USDA take vigorous enforcement action against those who abuse its programs to evaluating how effectively agencies are reducing improper payments.

For example, in our audit of USDA's suspension and debarment program, we determined that the Department should better protect its programs by debarring those individuals and entities that abuse them.[11] Although the Department has authority to exclude those who commit crimes against its programs from doing business with the government, we found that convicted program violators were rarely suspended or debarred. Between FYs 2004 and 2007, only 38 of 1,073 individuals convicted of crimes against USDA programs were debarred—less than four percent. Since debarred individuals or entities are prohibited from participating in Federal programs outside USDA, vigorous and appropriate use of suspension and debarment provides for program integrity government-wide. USDA officials agree that suspension and debarment should be considered for convicted program abusers. Accordingly, we continue to work with the Department and its agencies to reach agreement on the corrective actions needed to employ suspension and debarment more effectively.

Our ongoing assessment of a recently implemented program, the Biomass Crop Assistance Program (BCAP), indicates that it suffered from hasty implementation that did not include management controls adequate to prevent abuses particular to the program.[12] The 2008 Farm Bill authorized BCAP, administered by the Farm Service Agency (FSA), to support renewable crops that can be used to produce energy.[13] Despite spending over $243 million to implement the handling aspects of the program, such as collecting and transporting biomass, FSA did not institute a suitable system to provide oversight and ensure program integrity.

We found wide-ranging problems with BCAP, including inequitable treatment of program participants and improper payments. These issues occurred largely because FSA, in an effort to implement the program quickly, did not develop tools specific

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[9] USDA and the Food and Drug Administration are responsible for ensuring the wholesomeness of shell eggs and egg products.

[10] 50601–1–23, *Agricultural Marketing Service Needs Stronger Controls To Ensure the Wholesomeness of Shell Eggs Bearing USDA's Grademark,* Feb. 2011.

[11] 50601–14–AT, *Effectiveness and Enforcement of Suspension and Debarment Regulations in the U.S. Department of Agriculture,* Aug. 2010.

[12] 03601–28–KC(1), *Recommendations for Improving Basic CHST Program Administration, Biomass Crop Assistance Program Controls over Collection, Harvest, Storage, and Transportation Matching Payments Program,* Dec. 2010; and 03601–28–KC(2), *Recommendations for Preventing or Detecting Schemes or Devices, Biomass Crop Assistance Program Controls over Collection, Harvest, Storage, and Transportation Matching Payments Program,* Feb. 2011.

[13] The Food, Conservation, and Energy Act of 2008, Pub. L. No. 110–234, 122 Stat. 923; also known as the 2008 Farm Bill.

to the program's needs, such as specialized guidance. Instead, FSA attempted to use guidance and oversight mechanisms designed for other programs, which left BCAP vulnerable. For example, we found three cases where biomass suppliers and conversion facilities circumvented poorly written agreements to obtain payments to which they were not entitled. FSA has taken corrective action in response to our recommendations to develop program-specific guidance and to specify prohibited practices in its BCAP agreements.

Our audit work can also have ramifications outside USDA. For example, we determined that the Animal and Plant Health Inspection Service (APHIS) did not inform the Internal Revenue Service of nearly $291 million in payments it made over several years to producers whose groves were contaminated by citrus canker, a plant disease that infects orange and other citrus trees.[14] As a result, the government lacks assurance that producers reported the payments, which may be taxable. In calculating payments, APHIS also did not fully account for insurance indemnities that producers may have received from the Risk Management Agency (RMA) for the same losses. Instead of verifying the indemnities with RMA, APHIS relied on producers who sometimes supplied incorrect information, which led APHIS to make over $1 million in erroneous citrus-canker payments. APHIS agreed with our findings and recommendations and has begun to take corrective action.

OIG is also working to help USDA respond efficiently to future disasters by reviewing the adequacy of RMA's management controls over indemnity payments made to citrus growers in the wake of Hurricane Wilma. We have focused our work on how insurance providers processed the growers' claims and calculated the indemnity payments. Our work with the agency should offer an opportunity to strengthen how private insurance providers work with USDA to ensure accurate indemnity payments.

Additionally, several noteworthy OIG investigations involving USDA benefit programs resulted in significant sentences in FY 2010. OIG's investigations into fraudulent activities involving RMA and FSA are some of our most complex investigations because they often involve large monetary amounts and voluminous documentation. In FY 2010, for both agencies combined, we opened 76 cases and issued 49 investigative reports, which led to 35 convictions and over $45 million in monetary results. In a particularly complex FSA case, we determined that a woman who owned a grain trucking and marketing company in Missouri defrauded over 180 farmers out of at least $27 million. Between 2002 and 2009, she marketed and sold grain for farmers above market prices. As a result, she quickly became one of the largest grain dealers in her state. However, we uncovered evidence to prove that she was operating what is known as a "Ponzi Scheme"—essentially, she was using the money from later sales to cover her previous above market prices. She eventually ran out of money and left her later customers unpaid. Due to our investigation, she pled guilty to fraud and transporting stolen property across state lines among other crimes. In February 2010, she was sentenced to serve 108 months in Federal prison followed by 36 months' supervised release, and ordered to pay $27.4 million in restitution.

Unfortunately, there are also individuals who seek to defraud USDA programs designed to provide basic nutrition assistance to those most in need, such as the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) and the Child and Adult Care Food Program (CACFP), which are both administered by FNS. In FY 2010, we opened 26 investigations in these areas and issued nine investigative reports. This work led to 28 convictions and almost $3 million in monetary results.

Since these programs work by reimbursing individuals or entities who provide benefits, one common abuse involves submitting inflated claims. For example, one investigation disclosed that an Oklahoma CACFP day care sponsor systematically claimed reimbursement for more meals than were served. The court ordered $1.6 million in restitution and sentenced the sponsor to 41 months' incarceration.

OIG investigations of criminal activity into another food program, FNS' SNAP, resulted in 212 convictions and approximately $36 million in monetary results in FY 2010. SNAP is USDA's largest program, both in terms of the dollars spent and the number of participants. In FY 2010, recipients redeemed close to $65 billion in benefits. The latest available data show that in February 2011 more than 40 million people received almost $6 billion in SNAP benefits. SNAP is also an important part of the food safety net for Americans, especially during times of economic hardship. During the recent recession, SNAP participation increased by about 20,000 persons daily—the program helped feed one in eight Americans and one in four children.

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[14] APHIS made the unreported payments between FYs 2001 and 2007. (50099–45–AT, *USDA Payments for 2005 Citrus Canker Tree Losses,* Mar. 2011.)

Given the considerable participation and funds involved, OIG devoted about 40 percent of its investigative resources in FY 2010 to SNAP-related criminal investigations—this was our largest allocation of investigative resources. Our main focus is on fraud committed by retailers, primarily because FNS directly reimburses retailers while states are responsible for ensuring that recipients are eligible. With few exceptions, our investigations yield tangible and direct benefits to the government, including criminal prosecution, significant fines and penalties, and restitution.

The most prevalent crime against SNAP is benefits trafficking, which involves a recipient exchanging benefits for less than face value with someone who then claims reimbursement for the full amount. The money involved in this type of SNAP fraud can be significant. For example, our analysis of two Florida stores' SNAP transactions identified approximately $6.2 million in trafficking by their owners and other co-conspirators. Between March and May 2010, four defendants pled guilty to wire fraud and SNAP fraud, and were sentenced to prison terms ranging from 8 to 48 months along with restitution orders ranging from about $350,000 to $2.2 million.

In providing oversight to SNAP, OIG audit staff conducts reviews designed to improve FNS' overall management controls for this program and others. For example, after the President issued an executive order in 2009 to reduce improper payments in Federal programs, we evaluated FNS' compliance with reporting requirements as they relate to SNAP and the National School Lunch Program (NSLP).[15] According to the Department, improper payments for these programs in FY 2009 cost taxpayers nearly $2.2 billion for SNAP and $1.5 billion for NSLP.[16] In general, we concluded that FNS reported its improper payments correctly and has made significant progress in reducing them. For example, the agency has improved its controls over eligibility and payments in both programs to better ensure that qualified participants receive the correct benefits. We recommended that FNS continue to set aggressive reduction targets and work to refine the precision of its model for determining NSLP's improper payment rate. The agency agreed with our findings and recommendations for both programs.

Goal 3: OIG Work in Support of Management Improvement Initiatives

OIG continuously monitors risks to USDA programs in order to help the Department address programmatic concerns, and to improve overall Department management. For example, OIG is required to annually audit USDA and some of its agencies' financial statements as well as USDA's information technology system security.

- Pursuant to the Chief Financial Officers Act of 1990[17] and guidance from the Office of Management and Budget, Federal OIGs are responsible for annual audits of Departmental and agency financial statements in order to provide reasonable assurance that the financial statements are free of material misstatements. USDA's FYs 2009 and 2010 consolidated financial statements received an unqualified opinion,[18] as did the financial statements for five of six other USDA entities that are required to undergo a financial statement audit.[19] The sixth lacked sufficient support for transactions and account balances, and so received a disclaimer on its financial statements because an audit opinion could not be given.[20]
- As required by the Federal Information Security Management Act,[21] OIG examined the security of USDA's information technology in FY 2010.[22] We found that improvements have been made, but weaknesses remain. For example, the Department has not established a program to secure remote access to USDA infor-

[15] Exec. Order No. 13,520, 74 *Fed. Reg.* 62101 (Nov. 20, 2009).

[16] USDA's *FY 2010 Performance and Accountability Report.*

[17] Chief Financial Officers Act of 1990, 101 Pub. L. No. 576; 104 Stat. 2838.

[18] 50401–70–FM, *Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2010 and 2009*, Nov. 2010.

[19] We issued the following financial statement audits in November 2010: 85401–18–FM, *Rural Development's Financial Statements for Fiscal Years 2010 and 2009;* 06401–25–FM, *Commodity Credit Corporation's Financial Statements for Fiscal Years 2010 and 2009;* 08401–11–FM, *Forest Service's Financial Statements for Fiscal Years 2010 and 2009;* 27401–35–Hy, *Food and Nutrition Service's Financial Statements for Fiscal Years 2010 and 2009;* and 05401–19–FM, *Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2010 and 2009* (RMA operates and manages the Corporation, so they are included as a single entity for financial statement audits).

[20] 10401–4–FM, *Natural Resources Conservation Service's Financial Statements for Fiscal Year 2010,* Nov. 2010.

[21] 44 U.S.C. § 3541 *et seq*.

[22] 50501–02–IT, *U.S. Department of Agriculture, Office of the Chief Information Officer, Fiscal Year 2010 Federal Information Security Management Act,* Nov. 2010.

mation systems, or to oversee systems operated on USDA's behalf by contractors and other entities. In order to mitigate continuing material weaknesses, we recommended, and USDA agreed, that the Department rethink its policy of attempting to achieve numerous goals at the same time in short timeframes. Instead, USDA and its agencies should accomplish one or two critical objectives before moving on to the next set of priorities.

The Secretary of Agriculture also requested that we examine the Department's civil rights program. Accordingly, we recently initiated an audit of USDA's progress in addressing civil rights complaints related to alleged discrimination in its programs. Specifically, we will assess USDA's decision-making process for settling with complainants who allege discrimination. We will also follow-up on our prior recommendations to improve USDA's civil rights process.

In addition, OIG investigates potential criminal activity and allegations of employee misconduct. In FY 2010, our investigations included the following cases involving USDA employees and entities working with the Department.

- Our investigations uncovered a scheme by a Nebraska FSA employee to embezzle funds. The employee entered false repayment rates and backdated repayment dates when servicing FSA loans made to her and her husband. In total, she defrauded the agency of more than $44,000, which she agreed to repay as part of a plea agreement. In June 2010, she was sentenced to 8 months of house arrest and 36 months of probation. FSA no longer employs her.
- Working with other Federal investigators, OIG determined that a Massachusetts corporation collected millions of dollars from several government agencies for services it never provided. The corporation offered training on computer software and other information technology. Using a pre-paid voucher system, several USDA agencies paid up front for training that the company never delivered. In April 2010, the corporation agreed in a settlement to return a total of $4.5 million to the government.
- In a joint investigation with other law enforcement units, we disclosed that, since 2001, a major shipping company had been miscoding its reasons for making late deliveries to USDA and several other Federal agencies in order to avoid penalty fees. The company falsely claimed that the delays were due to security measures. In April 2011, the company agreed to pay the United States $8 million to resolve its alleged violations of the Federal False Claims Act.[23]

Goal 4: Improving USDA's Stewardship of Natural Resources

USDA provides leadership to help America's private landowners and managers conserve soil, water, and other natural resources. Our goal in auditing these activities is to increase the efficiency and effectiveness of USDA stewardship over natural resources.

For example, FS is responsible for preventing the introduction of invasive species into the lands it manages and combating those that are already there. Though this affects hundreds of millions of acres, OIG determined that FS' invasive species program lacks many of the internal controls ordinarily associated with the effective stewardship of Federal resources, such as an overall risk assessment.[24] FS agreed with OIG's recommendation to establish a sound internal control structure. In addition, over the last decade, FS has dealt with increasingly severe fire seasons and its firefighting costs have more than doubled, rising over $1 billion in FY 2009. Thus, OIG has conducted a number of reviews intended to help FS better combat these natural disasters. In one audit, OIG assessed FS' succession plans for critical fire management positions, such as fire incident commanders.[25] In 2009, approximately 26 percent of these critical personnel were eligible to retire; in 5 years, 64 percent will be eligible; and in 10 years, 86 percent. We found that FS has not developed an adequate plan and training program to replace these critical personnel. We recommended that FS develop a national workforce plan that would proactively address openings in the agency's firefighting ranks. FS generally concurred.

OIG is also required to investigate the deaths of FS employees resulting from wildfire entrapment or burnover.[26] Our most recent investigation in this area addressed the deaths of five firefighters during the Esperanza Fire in California. Our report—published in December 2009—found no issues related to potential misconduct or unauthorized actions by FS personnel.

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[23] 31 U.S.C. §§ 3729–3733.
[24] 08601–7–AT, *Forest Service Invasive Species Program,* Sep. 2010.
[25] 08601–54–SF, *Forest Service's Firefighting Succession Planning Process,* Mar. 2010.
[26] See 7 U.S.C. § 2270b.

Conclusion

In summary, OIG's work ranges from overseeing Recovery Act funds to helping USDA promote public health and safety, strengthen programs, save taxpayer dollars, improve management, and conserve natural resources. Our audits and investigations illustrate OIG's continuing commitment to work collaboratively with the Department to improve program effectiveness and integrity. We focus our work to meet our mandated mission of promoting economy, efficiency, and effectiveness in USDA by preventing fraud, waste, and abuse.

This concludes my testimony. Thank you again for inviting me to testify before the Subcommittee. We would be pleased to address any questions you may have.

The CHAIRMAN. Thank you again for appearing today and for your testimony. I will begin with questions.

Let us go to the SNAP program and the improper payment issue and in Fiscal Year 2009, I have information that $2.2 billion in improper payments were made. Of course, as you mentioned, this is the largest USDA program approximately last year spent about $65 billion. You have spent a significant amount of resources on looking at this problem of benefits trafficking at the retail end. At the conclusion of your testimony, you were admonishing the Food & Nutrition Service to look at improper payments, I assume you mean to individuals who may not be eligible or who may have some potentially fraudulent claim for eligibility. Why the emphasis primarily on the retailer? Which, don't get me wrong, that is important, but given that the largest areas for potential fraud may be in terms of eligibility requirement, why not focus a significant amount of resources there as well?

Ms. FONG. Well, that is a very good and interesting question, and I am going to ask Karen to comment in a second. Let me just start out by noting that, as you recognized, fraud can occur at two levels, both the retailer level and at the individual recipient level. The way the program is structured is that the states have responsibility primarily for ensuring——

The CHAIRMAN. Let me go back to something you said. You said the FNS is not effectively using state data in terms of its own investigations into fraud, and I assume you mean in regards to eligibility requirements of individuals.

Ms. FONG. Exactly, yes, what our audit concluded was that FNS should be working more effectively and ensuring that states use this data to really make sure that individual recipients are eligible, and that is the safeguard in the system, in the structure.

The CHAIRMAN. Should some of your emphasis in your office shift to that aspect of investigation?

Ms. ELLIS. What we focus on in the criminal investigation side is building a criminal case and working with the Department of Justice to make an impact in the trafficking aspects. In trafficking, we concentrate on the retailers because those are the folks that are authorized by FNS to legally take food stamps and SNAP benefits.

The CHAIRMAN. My intention is not to under-emphasize the importance of that work. I was simply asking how you determine the balance as to where you are applying your efforts in looking at improper expenditures in the entire system. Retail trafficking is an important part of it, and frankly I would like to go there in perhaps a second round of questioning as to how a person actually commits fraud and how we can do a better job ensuring that at the retail level, but to my other question where clearly there is some level

of gap, in your own testimony, by saying that we are not effectively using the state data to determine, perhaps, the ineligibility in these programs, and that is one area of fraud. I just want to understand clearly, that was only a sentence that you had saying we need the Food & Nutrition Service to better use state data.

Ms. FONG. And let me just add something. We have actually this past year initiated our own work to start looking at eligibility of individual recipients, and we have——

The CHAIRMAN. Okay, now this is——I think we are to the point.

Ms. FONG. Yes, and let me see if I can elaborate on this. We have created a unit in our audit group that analyzes data to see if there are perhaps indications at the state level of people who may be getting duplicative payments from more than one state, or who may have erroneous payments. We are in the process right now of looking at four or five different states, comparing their data and trying to find out where the erroneous or improper payments may have occurred.

The CHAIRMAN. What is the reason that you picked those states is another question that I have. Is there a concentration of problems in the system, any particular region or state or is it simply just widespread abuse that is a subset for analysis?

Ms. FONG. We had five states, and I think there is a geographical spread. We can find out why we picked those five, but we have been working with both FNS and the state government entities that oversee the SNAP programs, and we are starting to find some results.

The CHAIRMAN. In the interest of letting other Members speak, I will probably return to this line of questioning after we hear from other Members. I will now turn to our Ranking Member, Ms. Fudge.

Ms. FUDGE. Thank you, Mr. Chairman. I will now yield to our full Committee Ranking Member, Mr. Peterson.

Mr. PETERSON. I thank the gentlelady for yielding. I want to follow up on this.

What I hear about is retailers, as you mentioned in your testimony, and what I want to understand is that some are ringing up the sale and charging it against the card but there is actually not a sale and then they take the cash and they split it between the retailer and the recipient. I hear about it a lot in my district. We just have a problem where we have these stamps where people will sell them outside the grocery store. The question I have is, how do they do this? Do they actually ring up the groceries and then don't give them to the customer, how do they access this money on the card if they don't actually ring up purchases? If they ring up phony purchases, how does that fit within their books? I mean, that can't work. Can you explain to me how they do this?

Ms. ELLIS. Yes, I am happy to explain that to you. It is pretty similar to what happened with the coupons, and what happens is, you have the recipients selling the benefits to store owners at a lower amount. So say the EBT card has $100 of benefits on it. They may sell it to an authorized grocery store for half of that, $50——

Mr. PETERSON. And how can they do that?

Ms. ELLIS. Well, what they do is, they give the card as well as the PIN number to the store owner and then the store owner slides

it through. They slide it through just like a credit card transaction and they get the full amount, the full $100 back, the store owner does.

Mr. PETERSON. So in order to access these benefits, you don't actually have to ring up the groceries?

Ms. ELLIS. No.

Mr. PETERSON. Well, why not? I mean, every one of these stores has electronic capabilities, and records when each item is scanned. Why don't you require that you cannot access this money unless you actually access it like a regular credit card? Why would you allow this if they have a PIN number to access the benefits? I mean, I think you have left a hole in this thing unless it is more complicated than I understand.

Mr. YOUNG. Well, in answer to that question, what happens, the problems aren't with your big supermarkets.

Mr. PETERSON. No, I understand it is with the mom and pops.

Mr. YOUNG. And these small little stores when they ring up things, they don't have the sophisticated computer systems to identify what was sold.

Mr. PETERSON. So the fraud isn't happening in the big stores that are electronically capable?

Mr. YOUNG. Right. So what happens is, you just have a total amount. I mean, they might take an adding machine and add that up of what groceries you have, then they input $50, $75, whatever the sale might be.

Mr. PETERSON. Well, why do we allow that?

Mr. RICKRODE. It is tough to catch. I mean——

Mr. PETERSON. To be honest with you, you go in these convenience stores and buy your groceries, you are getting ripped off. You are paying two or three times as much as you should. I sometimes wonder why we even let people use these in convenience stores. If you eliminated small stores, it may force people to go in the grocery store. I know we have some places that don't have good access to food centers and so forth, but it just seems like we have found another hole in this thing.

Mr. YOUNG. Well, the same question you are asking is the question that we have asked over the years. The problem is that a lot of food stamp recipients or SNAP recipients, they don't have transportation, they don't have any way to get to a big supermarket. Oftentimes in rural areas, there is not a larger supermarket for miles so they go to these small convenience stores to buy their groceries. Then as a result, some of these stores, don't have the sophisticated accounting systems to be able to track purchases. There are many stores like that that are very honest and do a good job, but there are those few that aren't that are causing problems.

Mr. PETERSON. Most convenience stores in my area have the same kind of electronic system that the big grocery stores have. But, it is a problem and I hear about this in my district. I think we ought to look at if there is some way of cutting down on fraud to less than five percent. My understanding it is four percent. Is it climbing back up again?

Ms. FONG. I believe four percent is the latest reported.

Mr. PETERSON. That is the lowest it has ever been?

Ms. FONG. Excuse me?

Mr. PETERSON. That is the lowest it has ever been?

Ms. FONG. It is, I believe.

Mr. PETERSON. Well, we need to zero in on this a little bit and make sure that people are doing the right thing.

The CHAIRMAN. I thank the Ranking Member for his comments. I will turn to the gentleman from Arkansas, Mr. Crawford.

Mr. CRAWFORD. Thank you, Mr. Chairman.

I want to continue along the line that the Ranking Member—down the road he was going. First I would like to clarify how the states administer the benefits. Are they—do you defer to the states to determine eligibility requirements and so on?

Ms. FONG. That is the role that a state plays under any program. That is the way the program is structured. USDA and FNS provide the funding for each state, and the state implements the funding by verifying eligibility of individual applicants, so they run the application and certification process.

Mr. CRAWFORD. Along the lines of what the Ranking Member was saying, we are issued credit cards for travel purposes that only recognizes purchases for travel. I can buy an airplane ticket, I can buy a train ticket or a bus ticket or whatever. But, it only works for travel. Could there not be a similar measure on these SNAP cards that only recognizes purchases of approved food, number one? Number two, does someone who is eligible for these benefits, do they have to go every month and renew and reapply and restate their eligibility, and would that not be an effective way to help manage some of that potential fraud?

Ms. FONG. Well, I think you have a very good idea there about whether the card system itself could be structured so that it only recognizes certain transactions. That would certainly be an idea worth exploring with FNS. That has some merit to it.

In terms of eligibility, I don't believe that applicants are recertified every month but I think there is a regular process to make sure that the applicants continue to be eligible.

Mr. YOUNG. I think it is every 6 weeks they have to go back, it is less than a year, I am not sure of the exact amount of time. They are approved for SNAP and then after a period of time they have to go back and recertify.

Mr. CRAWFORD. Okay, and as I understand it, they issue a SNAP card. There is a PIN number associated with that card. Is that individual card reloaded every month? Do you have to go back and reload that individual card?

Mr. YOUNG. Yes.

Mr. CRAWFORD. I would suggest that a PIN number is not sufficient for security purposes, and that can be compromised as the Ranking Member indicated. It can be easily compromised and lend itself to fraudulent activity at virtually every level, whether it be on the street or whether it be through the retailer. So I am hoping that we can work on a solution to streamline security measures that are implemented with the SNAP program.

I want to switch gears real quick on to BCAP. The provision was created in the 2008 Farm Bill to encourage producers to establish new dedicated cellulosic and biomass crops by way of President Obama in May 2009, Department of Agriculture began eating into the BCAP program contracts before establishing program rules. As

you noted, this resulted in excessive and improper spending as a result there were no new biomass crops to show for the $¼ billion that was spent first. I understand the Department of Agriculture is taking corrective actions to better administer the Biomass Crop Assistance Program, but there are still many concerns. Will the Office of Inspector General be following up with the administration of BCAP now that the program is operating under new rules.

Mr. RICKRODE. Yes, we will be following up on that, and we have performed audit work on BCAP, as you mentioned. That work is concluding currently. We did issue one report about what we found, and as we go forth, we will complete the work we are doing and then issue a final report.

Mr. CRAWFORD. Okay. Are there any other cases where the Office of Inspector General has found an agency moving forward without program rules?

Ms. FONG. In general?

Mr. CRAWFORD. In general.

Ms. FONG. I am not recalling anything off the bat, but, periodically, as you know, when you pass a law that creates new programs, frequently there are requirements that agencies implement in a certain amount of time. So agencies have to move very, very expeditiously to do that. Sometimes the rulemaking process can take longer than implementation schedules, and so that always creates a challenge for agencies.

Mr. PETERSON. Will the gentleman yield?

Mr. CRAWFORD. Sure.

Mr. PETERSON. You know, I think I am somewhat responsible for this fiasco, and what happened. The timber industry saw an opportunity here. They were in trouble and they needed to make money and so they saw opportunity here to supplement their income, and I was under a lot of pressure to open this up to the timber and pulp industry. So, that is where the money went. These people that added it wrote it, to support the forest economy. The rules were so specific that they didn't have the right rules because it said exactly what they had to do so they implemented it, and then of course, everybody was sitting there waiting for that. Then things got out of control. But, the reason that was given to me by FSA was because the language was so specific that their lawyer said that we need to follow the law. Hopefully they won't do anything like that again. The BCAP program was designed to create new crops, and it hasn't done that at all. It is really worthless, and frankly, at this point, I don't support extending it. I'm not sure it is ever going to work.

Mr. CRAWFORD. I have some issues in my district with the BCAP project where we are running into problems with, so I thank you for your——

The CHAIRMAN. I thank the gentleman from Arkansas, and I want to thank Ranking Member Peterson for his frankness. I don't think these words have ever been uttered in the halls of Congress, "I think I'm responsible for this fiasco." Then he mitigated his culpability by saying the Senate forced it upon me.

Let me turn now to the gentleman from Massachusetts, Mr. McGovern.

Mr. MCGOVERN. Thank you very much.

When you talk about a four percent error rate in the SNAP program, does that also include underpayments or is that just fraud?

Ms. FONG. I believe the four percent rate is for any kind of improper payment including under, and over——

Mr. MCGOVERN. So an improper payment could be somebody who is eligible for a particular amount and is paid less?

Ms. FONG. Exactly.

Mr. MCGOVERN. Just doesn't get what he or she deserves.

Ms. FONG. Exactly.

Mr. MCGOVERN. So it is not just somebody taking advantage of the system. Based on your oversight, would it be accurate to say that the SNAP program is in general run well and effective, or would you have a different characterization?

Ms. FONG. My sense, and we have been doing oversight for many years, is that overall the program is a well-run program.

Mr. MCGOVERN. Do you have any idea of how many people who are eligible for SNAP currently but are not taking advantage of it?

Ms. FONG. I don't believe we have done any work in that area.

Mr. MCGOVERN. My understanding is that there are a considerable number of people who are eligible for the benefits but don't know they are eligible for the benefits, don't know they can take advantage of it, including a lot of working families who are struggling in this economy, who are trying to get by. You know, I have to put this in a little bit of perspective. I agree with what everybody said here in terms of cracking down on fraud, and I believe in finding more effective ways to do it and you said it is related to small stores. I mean, I am not sure how practical it is to require all the small stores to put in the storewide electronic equipment to be able to—so that we could do better oversight—that is a cost in and of itself. But what happens if you found out a small store abuses the system? Do they lose their ability to serve people with food stamps, or what happens?

Ms. ELLIS. What happens is, when we are finished with our criminal investigation, we refer them back to the agency to FNS and have them take administrative action, and what we generally find is that FNS does disqualify the store.

Mr. MCGOVERN. I will go back to what was mentioned before. For a lot of people, food deserts are a reality, they don't have a choice to go to big supermarkets. They have their choice of small stores because they are limited by transportation or because of—where they happen to be, unfortunately they rely on convenience stores as opposed to the supermarket. I am new on this Committee, so how do you determine what to prioritize and what to investigate? How do you determine what to look at?

Ms. FONG. Well, as you know, we do both audits and investigations so we have a priority-setting process on each side of the house. On the audit side, first of all, we look at our mandatory work, and that is the work that Congress has required us to perform. That includes things like the annual financial statement audits, IT security audits, some other statutorily required audits in the farm bill, for example. Then after that, we start looking based on our experience, where we believe the vulnerabilities exist and we look at high dollar amounts that could be a risk. We ask agency program managers, the Secretary, and Members on the Hill for

input as to where you think we should be focusing our priorities. We put all that into the hopper and we look at our past work where we believe that there are areas that need further follow-up. Then we develop a list of planned audits, which we publish on our website.

Mr. MCGOVERN. Last question here. The reason why I asked that is because one of the things I am very concerned about is the increasing hunger in the United States, and to be able to deal with that issue effectively obviously relies on the effectiveness of programs like SNAP but a whole bunch of other programs, many of which are within the USDA. The President has now said he wants to eliminate child hunger in America by 2015. I am not convinced we are going to get there, based on what we are doing right now. But I think it would be helpful to me, for example, to know the overall effectiveness of some of our anti-hunger programs. I worry that during this time of difficult budgets that it is convenient to look at the SNAP program as a way to save money because we point to examples of abuse, yet the bigger problem is hunger and food insecurity. In some cases we may need to expand some of these programs as to the effectiveness of the food nutrition programs within the Department of Agriculture to see whether or not we are making progress on the President's goal of eliminating childhood hunger by 2015.

Ms. FONG. Okay. We will factor that into our planning process.

Mr. MCGOVERN. Thank you very much.

The CHAIRMAN. I thank the gentleman. I will turn now to our Ranking Member, Ms. Fudge.

Ms. FUDGE. Thank you, Mr. Chairman. I just want to make a couple comments. I mean, certainly, the problem is not just in the SNAP program. In neighborhoods like mine, we talk about earned income tax credit. I know people who take other kids' Social Security Numbers, and others who take farm subsidies. I am trying to track down this one farmer who literally called my office, and indicated that his family had a farm and it went belly-up. Shortly after that he started receiving farm subsidies from the Federal Government and then shortly after that he heard from his state saying we want you to grow this crop. Of course, he is scared to death. He doesn't know what to do. So I am trying to get him to calm down. But I mean, it is everywhere. It is everywhere. We have to continue to try to catch as many of those as we can, and I think punish them more than we have in some instances because I think that becomes a real deterrent. If you are in a neighborhood and you go into these stores and the store owner goes to jail for 5 years, the next store owner that comes behind him might not be willing to take that same risk.

Under the Inspector General Act, Ms. Fong, you clearly do have statutory authority to initiate investigations independent of the Secretary asking you to do it. So with this in mind, could you please explain to me why the Secretary had to request your office to conduct an investigation of the operation of civil rights procedures and why you didn't take the initiative on your own?

Ms. FONG. Okay. Let me just talk a little bit about our work in civil rights programs over the last 5 or 10 years. We have always viewed the civil rights programs as a priority within USDA, and

we have done a wide range of audits in both Title VI and Title VII arenas. I believe we issued the baseline set of audits 10 years ago. Since then, we have been keeping very close track of the Department's progress. We issued another report about 3 or 4 years ago, and then the new Administration came in and took office with a new Assistant Secretary for Civil Rights. At that time the Assistant Secretary and the Secretary both announced initiatives to address some of the longstanding issues that we had been finding in terms of the long amount of time it takes to address complaints in both Title VI and Title VII areas. We had initially considered starting work in 2009 and 2010 but after evaluating that, evaluating the need for the agency to have enough time to implement some of those initiatives, we decided to hold some of our work until this year.

Now, you mentioned that the Secretary made a request to us to initiate that. He did, and we are very supportive of that. If he had not asked us to initiate it, we had planned to initiate it, and so it was a situation where both of us were recognizing the need for that work. As you also know, we have responsibilities under the *Pigford* provisions of the Claims Resolution Act of 2010 and we will be carrying out those responsibilities. Under the last farm bill, we had a mandate to do a review of socially disadvantaged farmers and whether the loan programs were being delivered effectively and we issued that report a year or so ago. I found that there was no statistically significant issue or problem there, that the USDA actually treated those farmers in a fair way and so we——

Ms. FUDGE. I don't want to interrupt, but I think I got my answer.

I want to ask you one other question before my time is up. The 2005 audit clearly reports some very disturbing findings; chief among them was that the audit liaison at the Office of the Assistant Secretary for Civil Rights, "was not responsible for monitoring corrective actions or reporting [the status of those actions.]" Currently, the OIG is performing another audit of the Office of the Assistant Secretary for Civil Rights. Has there been any appreciable improvement from the last audit both in terms of employment discrimination and administration of Federal programs that you are aware of?

Ms. FONG. We are in the beginning stages of our current audit and so I don't believe we have reached any conclusions yet, and I am looking to my colleagues just to verify that.

Ms. FUDGE. Certainly, tell me how the Assistant Secretary for Civil Rights cannot be held responsible for monitoring corrective actions you suggested. I don't understand that.

Ms. FONG. Well, I think we probably need to discuss what happens when we issue an audit recommendation. The program manager looks at that recommendation, to either agree or disagree, and in this case, I believe the Civil Rights Office did agree with our recommendations. At this point, it is up to them to implement the action to correct the problem. The reason we are going in now is because we want to see whether or not they actually implemented their actions, and whether or not it has been effective, so that is the issue we are looking at.

Ms. FUDGE. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Ms. Fudge.

Let me turn to the second round of questions now but let me make a brief comment. I don't want this to appear to be an inordinate focus on the poor among us or those with reduced capacities who are receiving SNAP benefits. This is an important social safety net program in the United States. We made a decision to help people who may have difficulty for a variety of reasons with one of the most basic human needs, and that is food supply. The reason we are starting out with a focus on the SNAP program in terms of improper payment and retail store trafficking is, it is our biggest area of expenditure in the USDA and in tight budgetary times, when we are looking at potential savings or opportunities to shift monies properly to those who are eligible, but are potentially being robbed by those who may be getting them improperly, I think it is important to focus here. Fraud is fraud, improper payments are improper payments whether that is the SNAP program or to a grain farmer with thousand of acres. I just wanted to get that on the record.

Going back to the SNAP program, to the question that we didn't get a full answer to earlier, you said we are not effectively using the state fraud data, Food & Nutrition Service is not effectively using that data. Then you said we are opening up a new investigative arm to look into that issue. Would you unpack your statement a little further please?

Ms. FONG. Thank you. My staff has given me some additional information here. As I mentioned, we are starting to test the databases in 11 states, actually 11, not five, to see whether there are potentially improper payments being made. We are looking to see, for example, if people who are dead are receiving payments—there has been that issue—whether people are receiving payments from more than one state, whether there are invalid Social Security Numbers, or perhaps the date of birth may not be the correct date of birth. Now, we selected those 11 states—I will just run through that for you. We started out looking at Florida and Texas because of a large amount of SNAP dollars in those programs, and then we added the surrounding States of Louisiana, Mississippi, and Alabama because we were looking at potential dual payments for participants who may cross state lines.

The CHAIRMAN. So that is not necessarily an indicator of a higher level of fraud there, it is just——

Ms. FONG. Yes.

The CHAIRMAN.—a subset.

Ms. FONG. It is just the proximity, the geographical proximity. Then after we started doing those tests we decided to look at New York, New Jersey, Pennsylvania and Connecticut. Again, those states have large dollar amounts in that program. Depending on what we find out, we may go to other states.

The CHAIRMAN. When do you anticipate some data back from this investigation?

Ms. FONG. I would say early fall. We are really making good progress on this.

The CHAIRMAN. Why don't you think about following up on that and maybe at the same time, Mr. Peterson, as well as the gentleman from Arkansas, raised some important points about why don't you think about some policy recommendations to ensure that

this retail trafficking issue or retail fraud issue, how difficult that may be to enforce on stores that don't have electronic accounting system. I think we should think about that and look forward to any recommendations you could provide there as well.

Ms. FONG. We will give some thought to that, and also discuss that with FNS.

The CHAIRMAN. I would appreciate that. I think it is important to point out that the improper payment rate in the SNAP program has fallen significantly. Now, four percent of $65 billion is still a lot of money and the more we can do to ensure that there isn't fraud, underpayment, overpayment, make it as tight as possible. That saves a lot of taxpayer money and it also takes pressures off of programs that—if you want to create a public relations problem—if there is a large pool of dead people who are receiving SNAP payments, that creates a real nightmare for USDA, for you and for us. We want to ensure that audit mechanisms are in place and are as tight as possible to maintain the integrity of the program, we should point out that this has fallen dramatically, significantly, let me put it that way, particularly since the implementation of the electronic benefit card. It got rid of basically a black market in the trading of food stamps. This retail issue is important to focus on—but in terms of potential savings also shifting some of the emphasis, which appears that you are already doing to the improper payment issue and ensuring the Food & Nutrition Service is actively engaged in that process, I think would be very helpful.

Ms. FONG. Thank you.

The CHAIRMAN. Mr. Peterson.

Mr. PETERSON. Thank you, Mr. Chairman.

I have a couple of questions. This Eastern Livestock situation, have you done any investigation of that or do you intend to? Do you have any authority to do that?

Ms. ELLIS. I am happy to brief you when it is done but right after that became public my agents were involved. We are working very closely with the United States Attorney's Office, the FBI and U.S. Postal Inspection Service and it is a very active investigation.

Mr. PETERSON. As I understand it—this might not be appropriate—but apparently there is no requirement for these kind of outfits to have bonding, or the Department doesn't have the authority to require that they have bonding, so that if something goes wrong that the people that do business with them will get their money? Are you looking into that, or not?

Ms. ELLIS. I am sure that will be part of what we look at, but right now we just want to build the criminal case, and I couldn't answer with regard to the bonding as I don't know.

Mr. PETERSON. Well, I guess I would be interested as you go through this process. We get so focused on criminalizing everything, sometimes we miss the policy changes that need to be made. What got us into this in the first place? If you have recommendations, I would appreciate it. And when is this going to get done?

Ms. ELLIS. We don't have a time frame. We just started the investigations. We initiated it right away but where we are right now is going through a lot of records review. We are going through a number of bank records and other documents.

Mr. PETERSON. I understand it, you were able to give an audit opinion on all the USDA components with the exception of NRCS, that you weren't able to give a clean opinion on NRCS. What is the problem there? They don't have adequate records?

Ms. FONG. You are talking about the financial statement audit?

Mr. PETERSON. Yes.

Ms. FONG. We were able to issue a clean opinion on all of the agencies that we looked at with the exception of NRCS, which we had to disclaim because the records were not in a shape that we could even render an audit opinion.

Mr. PETERSON. And what do you mean? What kind of shape were they in? What was the problem? I am a CPA so I am interested.

Ms. FONG. Oh, we have a list.

Mr. PETERSON. Is it because they were all on paper or they are not computerized, or what is the problem?

Mr. RICKRODE. I think the key problem was the level of documentation and the state of those records.

Mr. PETERSON. What?

Mr. RICKRODE. The key problem was the state of those records and the amount of preparation done for those reconciliations. Making sure that information was pulled together in a correct and a supportable process to meet the intent of creating the financial statements, and having the records for us to review them in proper format.

Mr. PETERSON. Is part of the problem that we made these conservation programs so complicated that there is no way to pull them together so you can actually audit them?

Mr. RICKRODE. No, I——

Mr. PETERSON. Like the CSP program. They have 30 different practices and you view three of them different on every farm. Is that what the problem is?

Mr. RICKRODE. I wouldn't say that is the problem because we have other entities who receive a financial audit who have conservation programs along those lines. A lot of the situation too is NRCS was required in the past few years to have a financial statement audit; and just to come in and do the audit and for the agency to go through the rigor and discipline of creating financial statements takes a period of time. Most of the Federal agencies did not come out their first year and have a clean opinion, and that is the same with this entity. It is going to take a little while. But also too, there has been turnover in key management positions, and that inconsistency will also not facilitate getting financial statements that we can render a clean opinion on.

Mr. PETERSON. Do you do those audits here in USDA or are you actually going out in the field and auditing NRCS county or district offices?

Mr. RICKRODE. It is both. They are full scope audits, and we look at the required areas. We have to consider materiality and that will include looking at operations at the department level, as well as the actual programs as they are working in the state agencies and the field offices.

Mr. PETERSON. But you do go out to county offices?

Mr. RICKRODE. Yes.

Mr. PETERSON. How many do you do?

Mr. RICKRODE. How many offices do we go out to?

Mr. PETERSON. Yes, how many offices do you audit?

Mr. RICKRODE. For the past audit and what we have been working on this year, it is about a dozen.

Mr. PETERSON. A dozen? Out of what? Thousands?

Mr. RICKRODE. We have been testing controls and what is going on in the accounting records, and we select based an adequate amount that gives us a cross-section to be able to say these are how many controls have been applied, and from there, the individual transactions that support the amounts provided to us with the financial statements. That is a process based on different risk factors and characteristics in our selection.

Mr. PETERSON. So you go into a county office, you check their internal controls and depending on that, do you do sample tests of different transactions based on those internal controls and so forth?

Mr. RICKRODE. Yes, based on internal controls and based on materiality of that dollar amount to the total financial statements.

Mr. PETERSON. But, it is only twelve.

Mr. RICKRODE. There is only——

Mr. PETERSON. You only go to twelve county offices.

Mr. RICKRODE. Much more——

Mr. PETERSON. So it seems pretty thin.

Ms. FONG. Well, we also sample from the headquarters perspective and we make sure that the sample that we take is indicative of the full scale of the statement.

Mr. PETERSON. So when do you think you will be able to give an opinion, will the have things in order to give an opinion next year?

Mr. RICKRODE. Well, a lot of this depends on NRCS. It depends——

Mr. PETERSON. I think the Chief is focused on trying to get this in order but I am just trying to get an understanding of the magnitude of the job we have to get this straightened out.

Ms. FONG. I think if you compare it to the Forest Service, we believe that NRCS is where the Forest Service was about 5 or 6 years ago. It took a concentrated effort by both the Department CFO and the Forest Service; a lot of resources and the hiring of the right staff with the right skills, and a CFO who would remain in place for a length of time. That took the Forest Service about 5 years to get from where they were to a clean opinion, and we see the same process for NRCS.

Mr. PETERSON. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Ms. Fudge is recognized.

Ms. FUDGE. Thank you, Mr. Chairman.

Ms. Fong, your testimony refers to potential monetary results of about $256 million over the past year. Help me just get a sense of where that—those resources, where that money comes from looking at whether it is a result of SNAP, or if it is commodity programs or conservation programs. Give us some idea of what that $256 million encompasses.

Ms. FONG. That is a good question. As you mentioned $256 million. Forty-six million dollars was the result of audits and $210 million is the result of criminal investigations, and I would say that generally speaking, both sides of the house, that would be from a range of programs in USDA. It is not in one program.

In our testimony, if you look through it, are examples that you might see on the audit side, we issued a report on the citrus canker program in Florida when we found that APHIS made a million dollars in payments that perhaps were erroneous because they didn't take into account the fact that RMA had already made payments. That would be an example of a million dollars of that $46 million on the audit side.

On the investigation side, there are a couple of examples in our testimony. There is a case of a Missouri woman in the Farm Services Administration program area who had a Ponzi scheme and a criminal conviction led to $27 million in ordered restitution. Then there are of course the SNAP cases, which involve trafficking. So that gives you a sense of the spread and range of our work.

Ms. FUDGE. Is it possible for someone on your staff send to me at some point a breakdown just in general categories? Because I think there is some belief that most of the fraud does in fact come from SNAP. I would like to show what those broad categories show.

Ms. FONG. I would be happy to do that.

[The information referred to is located on p. 27.]

Ms. FUDGE. To go back to when you find whether it be at a grocery store or a convenience store or a farm or whatever it is, if you find someone who you bring criminal prosecutions against and those persons are convicted, are those persons forever barred from doing business with the Federal Government again? Not just in that particular program, but, so often in the government, the right hand doesn't know what the left hand is doing, so you may get convicted of fraud for being a mom-and-pop store, then get millions of dollars to do something else. How does that work?

Mr. RICKRODE. That is a good question, and the specific answer is based on work that we did on suspension or debarment. It varies. Basically, some agencies at USDA are real proficient with suspension debarment. They use it as a deterrence tool as well as a tool to restrict other recipients from getting entitlements or benefits or whatever the action is. Whereas other parts of USDA are not. From our perspective, we have done prior work in this area and our prior work found that at the time USDA did not implement an adequate system of suspension or debarment. We have come back and done more work, and at this point we have found that they still have not fully implemented a suspension or debarment program for the full Department. The other issue we found is that some agencies had reasons for certain programs not being subject to suspension or debarment and some of those reasons were maybe not as justified as they need to be. We asked for additional justification. So it kind of depends on the agency.

Ms. FUDGE. So the answer to my question is no?

Mr. RICKRODE. No.

Ms. FUDGE. Okay. Thank you.

Ms. Fong, just looking at your background, I know that you were Inspector General for the SBA as well, so you know why agencies in general, why do agencies not communicate these kinds of things? I don't understand.

Ms. FONG. Communicate in terms of suspension or debarment?

Ms. FUDGE. Yes.

Ms. FONG. This is an issue that the whole IG community is involved in. It is an issue that cuts across many departments, and what we frequently hear from the IG perspective is that if somebody is convicted, say, a bank or a retailer, the agency depends on that bank or retailer to deliver its programs. Agencies really don't want to lose those entities because they worked hard to develop a relationship. They feel that those entities understand how to deliver the programs so there is a real reluctance to push them out of the program. We are, in many different departments, having this challenge of trying to work with the agencies to say, yes, we understand that that is a challenge for program delivery but you also need to take into consideration the integrity of the programs. It is a tough one.

Ms. FUDGE. Thank you, Mr. Chairman. Thank you, Ms. Fong.

The CHAIRMAN. Thank you.

Let me turn briefly as well to another area regarding the implementation of information technology. We spent a significant amount of money and had oversight hearings on the Department's efforts to implement new information technologies. Can you comment on their efforts to update information technology, and if it has resulted in better delivery of programs to the citizens of the country?

Ms. FONG. Well, I think IT poses a lot of challenges for all of us. Every agency is so dependent on good IT systems to deliver benefits, and as you know from your work, there have been challenges at USDA, particularly in the farm program arena. There have been situations in the past few years where that whole system had gone down for a month or so and benefits were not getting out as they needed to get out. In response, Congress appropriated some funds to FSA to address that. We are currently in the middle of auditing that situation to see if the funds that were provided have been used effectively. I don't think we have any preliminary findings but based on my briefings from staff, we understand that the Department has invested the money. The question is whether that investment has been effective, and that is what we are looking at.

The CHAIRMAN. When will you have that information?

Ms. FONG. We are looking at the fall of this year for a final report.

The CHAIRMAN. I think we are going to have you back in, in fall. You talked about the fall as we were talking, so——

Ms. FONG. I look forward to that.

The CHAIRMAN. The other issue I would like to raise with you is, I would like for you to give an honest assessment of your own efforts. A question was raised earlier about how you go about prioritizing what you audit and what you investigate if you could elaborate on that a little further. I assume this type of hearing is helpful to you in terms of feedback as to what policymakers believe is a priority. Clearly, you have your own limitations in terms of staff and you have to prioritize, so I would like to hear an assessment of your own internal office workings.

Ms. FONG. Well, I think you have made some very good points in your question. We do very much appreciate hearing from Members as to what programs and issues are on your minds because it helps us to look at a bigger context and find out where we believe

the risks are. We also do our own risk assessment every year, and we depend on staff who are very expert in a lot of the programs to say we have done recommendations on this program, we need to really go back and see if that is working.

My sense is that we do a good job. We could always do better, which is why this hearing has been so useful to me. I think you raised some very interesting issues about how we can better target our SNAP work. We are facing a potential decrease in our resources in the coming years, as is every other USDA program, and so we are going to have to get even better at prioritizing and trying to figure out ways to carry out our mandatory work so it doesn't take over our efforts. We were just talking yesterday about the mandatory portfolio: financial statement audits, IT security, and some of the other requirements we have. Currently, that uses up about 20 percent of our resources, which is a fairly significant portion, and so we have to ask ourselves if we continue to do this work, can we do it in a better way or streamline.

The CHAIRMAN. You can also communicate with us and the mandatory requirements are decades old and no longer fit particular dynamics of administering new public policies that recommended changes to us could also be helpful so that you could better prioritize your limited resources.

Ms. FONG. Thank you. The other thought that occurs to me is that as we do some of the work in SNAP and we are looking at whether improper payments are being made, we need to work with state governments, perhaps with other Federal agencies, to match up databases so we can use technology more effectively and be more efficient. I think a tool that would be very useful to us would be to see if IGs as a whole can get that authority to match databases without going through a months-long process to get that. There are some legislative proposals pending on the Hill, and to the extent that you are interested in hearing about those, we would be happy to share those with you.

The CHAIRMAN. Well, I think we are under very tight constraints. We want to assure every dollar is well used, and also that you don't exclude persons who are actually in need of particular assistance because the dollars are limited and maybe are going to people who are receiving them improperly. There are two sides to this. So that would be helpful if you could forward that information.

Ms. FONG. I would be happy to.

[The information referred to is located on p. 31.]

The CHAIRMAN. I would like to thank you all for coming today. This concludes our hearing.

Under the rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplementary written responses from the witness to any questions posed by a Member.

This hearing of the Subcommittee on Department Operations, Oversight, and Credit is adjourned.

[Whereupon, at 11:15 a.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUPPLEMENTARY MATERIAL SUBMITTED BY HON. PHYLLIS K. FONG, INSPECTOR GENERAL, U.S. DEPARTMENT OF AGRICULTURE

During the June 2, 2011 hearing entitled, *Hearing To Review Recent Investigations and Audits Conducted by the USDA Inspector General,* requests for information were made to the USDA OIG. The following are their information submissions for the record.

Insert 1

Ms. FUDGE. Thank you, Mr. Chairman.

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Ms. FUDGE. Is it possible for someone on your staff send to me at some point a breakdown just in general categories? Because I think there is some belief that most of the fraud does in fact come from SNAP. I would like to show what those broad categories show.

Ms. FONG. I would be happy to do that.

The table immediately below summarizes the $46.4 million in potential monetary results agreed to by auditee agencies at the time of management decision for the period of October 1, 2010 through June 1, 2011. A detailed breakout of the 16 audits that contained monetary results follows.

Summary of Audit Activities—October 1, 2010–June 1, 2011

Management Decisions Made:	
Number of Reports including both monetary findings and program improvements	63
Number of Reports with reportable monetary findings	16
Number of Recommendations including both monetary findings and program improvements	452
Number of Recommendations with reportable monetary findings	113
Dollar Impact (Millions) of Management-Decided Reports:	
Questioned Costs/Recommended for Recovery (1)	* $11.8
Questioned Costs/Recovery Waived (2)	* $0.6
Funds To Be Put to Better Use (3)	$34.0
Total Dollar Impact (Millions) of Management-Decided Reports	**$46.4**

* Auditees agreed to the amount at the time of management decision. The recoveries realized could change as the auditees implement the agreed upon corrective action plan and seek recovery of amounts recorded as debts due the Department.

(1) **Questioned Costs—**Included in this category are questioned cost amounts that the auditee has expended when OIG recommends recovery and expects a claim to be established. This also includes questioned loan amounts or guaranteed amounts that the auditee has disbursed or guaranteed for which OIG recommends recovery.

(2) **Recovery Waived—**Included in this category are monetary amounts that the auditee has expended when a recommendation to recover the funds is not feasible and/or appropriate. For example, amounts questioned due to improper agency action may, in some cases, be unrecoverable.

(3) **Funds to be Put to Better Use—**Included in this category are recommendations by OIG that funds could be used more efficiently if the auditee took actions to implement and complete the recommendation. Monetary amounts recorded represent future savings from cost reductions, revenue increases, improved receivable collections, or more efficient fund usage.

Audits Issued with Monetary Management Decisions (FY 2010–2011) through June 1, 2011

Audit Number	Audit Title	Program Name	Total No. of Recs	Mgmt. Decision Date	Questioned Costs/Recovery Recommended (1)	Questioned Costs/Recovery Waived (2)	Funds to be Put to Better Use (3)
106010001AT	Rehabilitation of Flood Control Dams	Watershed Rehabilitation Program	13	12/16/09			$15,208,002
036010013SF	Emergency Loan Reductions Emergency Loan Program Noninsured Crop Disaster Assistance Program	Crop Disaster Program	2	12/15/09	[a] $29,092		
046010020CH	Rural Rental Housing Program—Midwest Management Company	Rural Rental Housing Program	5	05/19/11	$152,970		
046010019CH	Controls Over Rural Housing Service Disaster Assistance Payments	Single Family Housing and Rural Rental Housing Programs	5	02/07/11			$452,449
106010006KC	Natural Resources Conservation Service—Emergency Disaster Assistance: Emergency Watershed Protection Program	Emergency Watershed Protection Program	2	03/30/11			$29,777
506010015AT	Hurricane Indemnity Program—Integrity of Data Provided by the Risk Management Agency (RMA)	Farm Service Agency's Hurricane Indemnity Program	7	03/23/11	$774,325	$41,287	
130110003AT	Tribal Land Grant Institutions	Tribal College Endowment Fund Program Tribal College Educational Equity Grant Program Tribal College Research Grant Program Tribal College Extension Service Grant Program Grant Program Tribal College Extension Service Grant Program	8	10/15/09	[b] $76,359		$619,354
037020001TE	Emergency Disaster Assistance for the 2008 Natural Disasters: Emergency Conservation Program	Emergency Conservation Program	4	11/23/10		$22,578	$264,524
340990011TE	Review of Lender with Business and Industry (B&I) Guaranteed Loan in Louisiana	Business and Industry Guaranteed Program	2	03/04/11	$4,019,657		

340990009TE	Review of Lender with B&I Guaranteed Loan in Maryland	Business and Industry Guaranteed Program	1	06/24/10		$544,000	
086010054SF	Forest Service Firefighting Succession Plans	Wildland Fire Management	20	08/03/10			$11,800,000
330020004SF	Animal and Plant Health Inspection Service, Animal Care Program—Inspections of Problematic Dealers	Animal Care Program	14	06/30/10			$177,980
090990002SF	Rural Utilities Service (RUS) Rural or Native Alaskan Village Grants	Water and Waste Disposal Grants	8	03/31/11	$84,730		$4,593,991
040990211TE	Request Audit of Colorado Rural Rental Housing Management Company	Rural Rental Housing Program	15	11/19/09			$83,373
050990027AT	Evaluation of RMA Indemnity Payments for 2004 Florida Hurricanes	Citrus Crop Insurance Program	1	05/10/10	$6,667,707		
096010001AT	RUS Controls over Water and Waste Disposal Loan and Grant Program	Water and Waste Disposal Direct and Guaranteed Loans Program	6	02/24/11			$800,000
			113		$11,804,840	$607,865	$34,029,450
	Total Monetary Results				$46,442,155		

(1) **Questioned Costs—**Included in this category are questioned cost amounts that the auditee has expended when OIG recommends recovery and expects a claim to be established. This also includes questioned loan amounts or guaranteed amounts that the auditee has disbursed or guaranteed for which OIG recommends recovery.

(2) **Recovery Waived—**Included in this category are monetary amounts that the auditee has expended when a recommendation to recover the funds is not feasible and/or appropriate. For example, amounts questioned due to improper agency action may, in some cases, be unrecoverable.

(3) **Funds to be Put to Better Use—**Included in this category are recommendations by OIG that funds could be used more efficiently if the auditee took actions to implement and complete the recommendation. Monetary amounts recorded represent future savings from cost reductions, revenue increases, improved receivable collections, or more efficient fund usage.

[a] Questioned funds were from the Emergency Loan Program.

[b] Questioned funds were from the Tribal College Educational Equity Grant Program.

The table below summarizes the monetary impact of USDA OIG investigative activities, by program/activity, from October 1, 2010 through June 1, 2011.

Summary of Monetary Impact of Investigative Activities
October 1, 2010–June 1, 2011

USDA Agency	Program/Activity Investigated	Total Monetary Results
Agricultural Marketing Service	Employee Misconduct	$17,000
	Marketing Orders	$5,125
	Other*	$525,892
Agricultural Research Service	Employee Misconduct	$260
	Other	$4,534,231
Farm Service Agency	Employee Misconduct	$3,130,274
	Exceeding Maximum Payment Limits	$3,695,816
	Commodity Credit Corporation Loan & Purchase Programs	$1,435,115
	Farm-Stored Commodity Loan Program	$29,739,114
	Emergency & Disaster Programs	$345,316
	Indemnity Payment Program	$376,783
	Farmer Program Borrower	$3,977,530
	Other	$3,389,252
Rural Housing Service	Employee Misconduct	$1,025
	Workplace Violence	$350
	Single Family Housing Loans	$5,496,788
	Rural Rental Housing Project Manager	$101,133
	Other	$18,389
Risk Management Agency	Reinsurance Program	$21,901,294
Foreign Agricultural Service	Other Foreign Commodity Donation Program	$136,073
Forest Service	Employee Misconduct**	$44,647,057
	Assaults	$520
	Other	$69,075
Rural Utilities Service	Rural Telephone and Community Antenna Television Programs	$2,916,342
Natural Resources Conservation Service	Employee Misconduct	$960
	Soil Conservation Programs	$8,025
	Soil Water Conservation Program	$254,760
	Other	$837,604
National Food and Agriculture Institute	Other	$100,500
Food Safety and Inspection	Employee Misconduct	$3,938
	Assaults	$1,200
	Anti-Tampering	$64,431
	Federal Meat Inspection Program	$652,525
	Meat & Poultry Import Inspection Program	$1,100
	Other	$135,181
Food and Nutrition Service	Employee Misconduct	$2,633
	Supplemental Nutrition Assistance Program (SNAP)	$47,132,957
	National School Lunch Program	$1,419,995
	Child Care Food Program	$4,587,051
	Special Supplemental Food Program for Women, Infants & Children	$699,004
	Summer Food Service Program	$79,484
	Other Child Nutrition Programs	$195,815
	Other	$271,471
Grain Inspection Packers and Stockyards Administration	Other	$1,110
Animal and Plant Health Inspection Service (APHIS)	Employee Misconduct	$24,121
	Assaults	$235
	Animal Welfare Act	$851,571
	Dog and Cock Fighting	$539,779
	Quarantine Programs—Animals	$38,385
	Quarantine Programs—Plants	$101,900
	Other	$17,372,899
Office of Inspector General	Assaults	$300
Multi Agency	Procurement Fraud	$8,000,000

Summary of Monetary Impact of Investigative Activities—Continued
October 1, 2010–June 1, 2011

USDA Agency	Program/Activity Investigated	Total Monetary Results
Total Monetary Results		$209,838,688

*Due to the numerous programs within USDA which provide assistance to the public, OIG created program categories for tracking our investigative work in the larger programs such as SNAP. To ensure that all of our investigative work is captured we created a code called "Other." The "Other" category encompasses all investigations that involve fraud against a USDA agency that is not associated with a specific program operated by the agency, or for which a separate investigative program category has not been identified or established at the time the investigation is initiated. Typically they involve false claims or false statements made to obtain monies from USDA agencies (*e.g.,* one APHIS "other" investigation that resulted in approximately $15 million in monetary results involved false exportation certificates for the shipment of food out of the United States.)

**Note: The monetary results listed for the Forest Service reflect the court-ordered restitution awarded in an investigation involving a former Forest Service employee who was convicted of arson several years ago. The amount of restitution had been under appeal in the court system for several years and a final decision was issued on this matter in 2010.

Insert 2

The CHAIRMAN. You can also communicate with us and the mandatory requirements are decades old and no longer fit particular dynamics of administering new public policies that recommended changes to us could also be helpful so that you could better prioritize your limited resources.

Ms. FONG. Thank you. The other thought that occurs to me is that as we do some of the work in SNAP and we are looking at whether improper payments are being made, we need to work with state governments, perhaps with other Federal agencies, to match up databases so we can use technology more effectively and be more efficient. I think a tool that would be very useful to us would be to see if IGs as a whole can get that authority to match databases without going through a months-long process to get that. There are some legislative proposals pending on the Hill, and to the extent that you are interested in hearing about those, we would be happy to share those with you.

The CHAIRMAN. Well, I think we are under very tight constraints. We want to assure every dollar is well used, and also that you don't exclude persons who are actually in need of particular assistance because the dollars are limited and maybe are going to people who are receiving them improperly. There are two sides to this. So that would be helpful if you could forward that information.

Ms. FONG. I would be happy to.

Proposed Legislation for Enhanced IG Authority for Computer Matching

Proposed Language

Section 6(a) of the Inspector General Act of 1978 (5 U.S.C. App.) is amended—

(1) in paragraph (8), by striking "and";
(2) by redesignating paragraph (9) as paragraph (10); and
(3) by inserting after paragraph (8) the following new paragraph:

"(9) notwithstanding subsections (o), (p), (q), (r), and (u) of section 552a of title 5, United States Code, to compare, through a matching program (as defined in such section), any Federal records with other Federal or non-Federal records, while conducting an audit, investigation, inspection, evaluation, or other review authorized under this Act to identify weaknesses that may lead to fraud, waste, or abuse and to detect improper payments and fraud; and".

On June 13, 2011, Chairman Issa submitted the proposed language in H.R. 2146, the "Digital Accountability and Transparency Act of 2011." There are currently 8 cosponsors of the legislation. The proposed language is based on an earlier version submitted by the Council of Inspectors General for Integrity and Efficiency to the House Oversight and Government Reform Committee during the 111th Congress. The IG community is strongly supportive of this proposal and has sought enhanced IG authority for computer matching for many years.

Explanation/Justification:

The Computer Matching and Privacy Protection Act of 1988 (P.L. 100-503) (Computer Matching Act), as amended, revised the Privacy Act to add procedural require-

ments that agencies must follow when matching electronic databases, including those of non-Federal agencies (*i.e.,* State and local governments, as defined by the Computer Matching Act). The requirements include formal matching agreements between agencies, notice in the *Federal Register* of the agreement before matching may occur, and review of the agreements by Data Integrity Boards at both agencies. While the Computer Matching Act provides an exemption for law enforcement investigative matches from these administrative requirements, the exemption applies only when a specific target of an investigation has been identified. Moreover, the Government Accountability Office, as an arm of the Legislative Branch, is not subject to the Computer Matching Act.

The legislative history of the Computer Matching Act identifies Inspectors General as among the earliest users of computer matching as an audit tool to detect fraud, error, or abuse in Federal benefit programs. Interagency sharing of information about individuals can be an important tool in improving the integrity and efficiency of government programs. By sharing data, agencies can often reduce errors, improve program efficiency, identify and prevent fraud and improper payments, evaluate program performance, and reduce the information collection burden on the public by using information already within government databases. Because many federally funded programs are administered at the State and local level, such as unemployment compensation, food and nutrition assistance, and public housing, the ability to match data with State and local governments is as important as the ability to match with other Federal agencies. Computer matching between Federal agencies and State or local governments is governed by the Computer Matching Act.

The work of the Inspectors General in identifying control weaknesses within agency programs, identifying and preventing improper payments, and detecting and preventing fraud would be facilitated by expanding the current law enforcement exemption to permit an Inspector General, as part of audits or inspections, not only targeted investigations, to match computer databases of Federal and non-Federal records. Because the Inspector General rarely controls the databases to be matched, much effort and time is involved now in encouraging the agency system managers to understand that matching is appropriate and necessary and to cooperate with the Office of Inspector General (OIG) to fulfill the Computer Matching Act administrative requirements. This allows agencies to delay, and even obstruct, legitimate OIG oversight because the OIG is dependent on the cooperation of the agencies to meet the Computer Matching Act requirements.

Even though the Inspectors General at the Department of Homeland Security, Department of Agriculture, Department of Housing and Urban Development (HUD), and the Small Business Administration pursued computer matching agreements in the aftermath of Hurricane Katrina to facilitate audits and investigations, there were long delays before agreements could be finalized. For example, the first computer matching agreement to be executed was between HUD and the Federal Emergency Management Administration and it was not finalized until June 2006, almost 10 months after Hurricane Katrina struck. The absence of computer matching agreements forced the Hurricane Katrina Fraud Task Force to rely on manual record comparisons to detect improper payments and fraud. The authority to conduct data matching would have greatly enhanced the ability of the Inspectors General to quickly begin review of hurricane victim assistance programs to detect internal control weaknesses and fraud before benefits were issued.

This change would not authorize greater access to records than Inspectors General have under existing law. It would, instead, allow computerized comparison of records, which would be less time consuming than manual analysis and impose fewer administrative burdens. For example, section 6103 of the Internal Revenue Code provides that tax returns and return information are confidential and not subject to access or disclosure, except in limited circumstances delineated in the Internal Revenue Code. This change to the Computer Matching Act would not provide Inspectors General with greater access to tax returns or return information, but would, if the Inspectors General are authorized to have access to such records, allow Inspectors General to perform computerized matches of the data.

Lastly, the requested authority would not diminish any of the due process rights accorded recipients of Federal benefits. The Computer Matching Act presently provides that government agencies will not take adverse action against any citizen based on a computer match without independent verification of the information, and giving the individual involved an opportunity to contest an adverse finding. *See* 5 U.S.C. § 552a(p).

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