



United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

DEC 10 2007

The Honorable Scott J. Bloch
The Special Counsel
U.S. Office of Special Counsel
1730 M Street, N.W., Suite 300
Washington, D.C. 20036-4505

Subject: OSC File No. DI-07-0926

Dear Mr. Bloch:

Thank you for your June 11, 2007, letter to former Secretary of Agriculture Mike Johanns requesting, an investigation into allegations of a violation of a law, rule, or regulation; gross mismanagement; and a gross waste of funds in Rural Development's Rural Utilities Service office in Albuquerque, New Mexico.

Your letter notified us of allegations that Rural Utilities Service managers had improperly allowed a former Rural Utilities Service employee, Gilbert Gallegos, to sign documents on behalf of the agency for the past 10 years, during which time Mr. Gallegos was a consultant-representative for agency applicants. Further, the complainant alleged that Rural Utilities Service personnel Martha Torrez, Lydia Gurule, Connie McKee, and Gilbert Gallegos were responsible for improperly altering or replacing Federal documents in an effort to conceal improperly prepared Rural Utilities Service loans or grants.

The U.S. Department of Agriculture's (USDA) Office of Inspector General (OIG) has conducted an investigation and audit in regard to this matter. OIG determined that Mr. Gallegos did not sign or approve any loans or grants on behalf of the Agency and that there was no evidence to substantiate an active effort by Rural Utilities Service managers to alter records or fraudulently replace improperly prepared grant or loan documents. The investigation also found no evidence that altered loan or grant documents were placed in files to conceal improperly prepared Rural Utilities Service loans or grants.

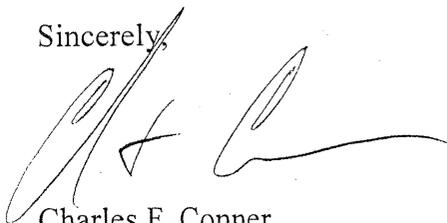
The investigation did determine that Mr. Gallegos had an intimate relationship from 1997 until 2003 with Ms. Sandra Alarcon, a Rural Utilities Service Community Program Specialist (GS-12) in Las Cruces, New Mexico. Ms. Alarcon admitted to expediting loan and grant reviews that involved Mr. Gallegos' projects and to accepting gifts from him.

The Honorable Scott J. Bloch
Page 2

The Inspector General forwarded a copy of the report of the OIG investigation to Rural Development for its review, and Rural Development determined that management action was required as a result of the employee's failure to follow established ethical guidelines in performing official duties. Accordingly, the Rural Development State Director has issued a Letter of Caution to Ms. Alarcon. We have enclosed a copy of the Inspector General's report as well as a copy of the Letter of Caution issued by Rural Development.

Thank you for bringing this matter to our attention. Should you have any questions or wish additional information, you may contact me directly or through Bruce G. Bundick, Director, Office of the Executive Secretariat, at 202-720-7100.

Sincerely,

A handwritten signature in black ink, appearing to read 'C. Conner', with a long horizontal flourish extending to the right.

Charles F. Conner
Acting Secretary

Enclosures: Inspector General's Report of Investigation
Letter of Caution Issued by Rural Development

TO: Charles F. Conner
Acting Secretary

FROM: Phyllis K. Fong
Inspector General

Original Signed By NOV - 1 2007
Phyllis K. Fong

SUBJECT: Marsha Torrez, Community Program Director (GS-13), Rural Utilities Service (RUS); Lydia Gurule, Community Program Specialist (GS-12), RUS; Connie McKee, Community Program Technician (GS-07), RUS; and Gilbert Gallegos, Former Rural Utilities Program Director (GS-13), RUS, Albuquerque, New Mexico—Misconduct/False Statements (Te-0901-0006)

As requested, attached is a copy of our investigative report concerning the above referenced matter, which we are forwarding to your office for remedial action described in 5 U.S.C. 1213 (d) (5) and for reporting to the Office of Special Counsel under 5 U.S.C. 1213 (e) (1).

This investigation was initiated based on an anonymous complainant alleging that RUS managers have improperly allowed a former RUS employee, Mr. Gilbert Gallegos, to sign documents on behalf of the agency for the past ten years. During this time, Mr. Gallegos was a consultant-representative for agency applicants. Further, the complainant alleged that the above named RUS employees are responsible for improperly altering or replacing Federal documents in an effort to conceal improperly prepared RUS loans or grants.

OIG conducted an investigation and audit and determined that Mr. Gallegos did not sign or approve any loans or grants on behalf of the Agency. There was no evidence to substantiate an active effort by RUS managers to alter records or fraudulently replace improperly prepared grant or loan documents. Additionally, the investigation found no evidence that altered loan or grant documents were placed in files to conceal improperly prepared RUS loan or grants. The investigation did determine that Mr. Gallegos had an intimate relationship from 1997 until 2003 with Ms. Sandra Alarcon, Community Program Specialist (GS-12), RUS, Las Cruces, New Mexico. Ms. Alarcon admitted to expediting loan and grant reviews that involved Mr. Gallegos' projects and to accepting gifts from him. As such, we forwarded a copy of our report of investigation to RUS for their use in determining whether administrative action should be taken. RUS has forwarded the attached letter of caution which they have issued to Ms. Alarcon.

Charles F. Conner, Acting Secretary

2

If you have any questions or require additional information, please contact me at (202) 720-8001, or have a member of your staff contact Ms. Karen Ellis, Assistant Inspector General for Investigations, at (202) 720-3306.

2 Attachments



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Southwest Region - Investigations

101 South Main Street, Suite 311

Temple, Texas 76501

TEL: 254-743-6535 FAX: 254-298-1358



DATE: September 17, 2007

REPLY TO

ATTN OF: Te-0901-0006 (PS-0901-0047)

SUBJECT: Martha L. Torrez, Community Program (CP) Director (GS-13), Rural Utility Service (RUS), Albuquerque, NM; Lydia A. Gurule, CP Specialist (GS-12), RUS, Albuquerque, NM; Connie L. McKee, CP Technician (GS-07), RUS, Albuquerque, NM; Sandra Alarcon, CP Specialist (GS-12), RUS, Las Cruces, NM; Gilbert E. Gallegos, Former CP Director (GS-13), RUS, Albuquerque, NM.
- Hotline Complaint/Misconduct/False Statements

TO: Karen Ellis
Assistant Inspector General
for Investigations
Washington, D.C.

Enclosed is a copy of our investigative report concerning the above-captioned subjects. The investigation determined that Gallegos, former Rural Utility Service (RUS) Program Director, did not sign or approve any loans or grants on behalf of the Agency. There was no evidence to substantiate an active effort by RUS managers to alter records or fraudulently replace improperly prepared grant or loan documents. Additionally, the investigation found no evidence that altered loan or grant documents were placed in files to conceal improperly prepared RUS loans or grants. The investigation did determine Gallegos had an intimate relationship from 1997 until 2003 with Sandra Alarcon, community program specialist (GS-12), RUS, Las Cruces, NM. Alarcon admitted to expediting loan and grant reviews that involved Gallegos' projects and to accepting gifts from him.

In the absence of any evidence of criminal wrongdoing, this investigation was terminated.

If you have any questions, please contact Assistant Special Agent-in-Charge Gregory Henderson in Dallas, TX, at (214)767-4604.

ABELINO FARIAS, JR.
Special Agent-in-Charge

Attachment

cc: Director, PID, OIG, Washington
SAC for Investigations, OIG, Temple
RIG for Audit, OIG, Temple



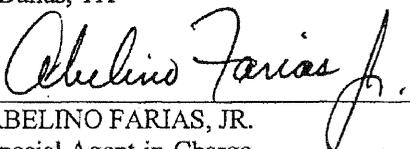
United States Department of Agriculture
OFFICE OF INSPECTOR GENERAL-INVESTIGATIONS
Southwest Region
Temple, TX

REPORT OF INVESTIGATION

FILE NUMBER:	Te-901-6 (PS-901-47)	DATE:	September 17, 2007
TITLE:	Martha L. Torrez , Community Program Director, GS-13 Rural Utility Service Albuquerque, NM		
	Title Continues		
CASE TYPE:	Hotline/Misconduct/False Statements		

SPECIAL AGENT: STEVE ROMERO
Dallas, TX

APPROVED BY:


ABELINO FARIAS, JR.
Special Agent-in-Charge

Distribution

- 1 - AIG for Investigations, OIG, Washington
- 1 - Director, PID, Washington
- 1 - SAC for Investigations, OIG, Temple
- 1 - RIG for Audit, OIG, Temple

This document is FOR OFFICIAL USE ONLY. It and its contents are not to be distributed outside your agency, nor duplicated, without prior clearance from the Office of Inspector General, USDA.

TITLE CONTINUED

Lydia A. Gurule
CP Specialist (GS-12)
USDA, RUS
Albuquerque, NM

Connie L. McKee
CP Technician (GS-07)
USDA, RUS
Albuquerque, NM

Sandra Alarcon
CP Specialist (GS-12)
USDA- RUS
Las Cruces, NM

Gilbert E. Gallegos
Former CP Director (GS-13)
USDA, RUS
Albuquerque, NM

SYNOPSIS

This investigation was conducted to determine if U.S. Department of Agriculture (USDA), Rural Development (RD), Rural Utility Service (RUS), managers improperly allowed former RUS employee GILBERT GALLEGOS to sign documents on behalf of the Agency for the past 10 years; if RUS employees were responsible for improperly altering or replacing documents in an effort to conceal improperly prepared RUS loans or grants; if there was an active effort by RUS managers to alter records and fraudulently replace improperly prepared grant and loan forms; and if loan and grant files were moved from the Albuquerque, NM, RUS Office to the Las Cruces, NM, RUS Office in order to conceal or alter the files.

This investigation determined that GALLEGOS did not sign or approve any loans or grants on behalf of the Agency. No evidence that altered or replaced grant or loan documents was placed in the files to conceal improperly prepared RUS loans or grants.

The RUS employees were interviewed from two separate New Mexico offices, and none provided testimony that substantiated the allegation that RUS managers improperly allowed GALLEGOS to sign documents on behalf of the Agency. GALLEGOS was also interviewed, and he stated he was not allowed or given the authority by any RUS manager to sign or approve any loans or grants on behalf of the Agency. Furthermore, RUS employees interviewed did not provide testimony that substantiated the allegation that an active effort by RUS managers to alter records and fraudulently replace improperly prepared grant and loan forms occurred. Additionally, the employees interviewed provided no testimony that substantiated the allegation that loan and grant files were moved to another location to conceal the existence of the files, or so the files could be altered. In conclusion, the investigation determined SANDRA ALARCON (ALARCON), loan specialist, RUS, Las Cruces, NM, and GALLEGOS had an intimate relationship from 1997 until 2003. ALARCON was the recommending official on grants and loans on which GALLEGOS was the project manager. She admitted she expedited the review of loan and grant documents that involved GALLEGOS' projects and accepted gifts from him.

BACKGROUND

The RD, through RUS, provides infrastructure assistance to rural communities. One of the purposes of the RUS program is to provide clean, healthy water to rural communities. As a Federal credit agency within the USDA, RUS provides a leadership role in lending and technical guidance for rural utilities industries. The public/private partnership between RUS and industries results in billions of dollars in rural infrastructure development and creates thousands of jobs for the economy.

FALSE STATEMENTS

TITLE 18 U.S.C., SECTION 1001

MARTHA LOUISE TORREZ, community programs director, RUS, provided a signed, sworn statement (Exhibit 1) and stated the following:

She has been at her current position as community programs director since March 2006. Previously, she was a loan specialist with RUS, now known as Water and Environmental Programs (WEP) from 1995 until March 2006.

She did not approve any loans or grants related to GALLEGOS, project manager, for GANNETT FLEMING WEST INC. (GANNETT FLEMING), as a loan specialist or as a program director. The only involvement she had with GALLEGOS was as a loan specialist when she processed a loan and grant for the Rutherford Mutual Domestic Water Association. She made a recommendation for funding for this project based on approval of the engineering report, environmental report, budget documents, and other pertinent loan or grant requirements. The recommendations were made to CLYDE F. HUDSON, program director, the approving official for this project, and he subsequently approved the project sometime in 2004.

She did not allow or authorize GALLEGOS to approve or sign any RUS loan or grant documents after he retired from the Agency. Furthermore, she is not aware of any other USDA employees that authorized GALLEGOS to sign or approve any loan or grant on behalf of RUS.

She did not manipulate or alter any documents or direct any employee to retype, re-sign and/or backdate any documents related to loans or grants that involved GALLEGOS. Nor has she directed any RD employee to send any documents to another location that were related to any loans or grants involving GALLEGOS.

She is not aware of any improperly prepared loans and grants submitted for approval that involved GALLEGOS. Nor did she replace improperly prepared loan or grant documents on behalf of GALLEGOS. Furthermore, she was not aware of any effort by any RD employees to fraudulently replace improperly prepared grant and loan documents.

She never received any monetary payments or gifts from GALLEGOS for approving any loan or grant. She did not give GALLEGOS preferential treatment on any project he or GANNETT FLEMING were affiliated with, involving any grants or loans.

In either 1998 or 1999, she brought a concern related to the relationship between SANDRA ALARCON, loan specialist, Las Cruces, NM, and GALLEGOS to HUDSON'S attention. At the time, HUDSON was her direct supervisor. She felt the relationship was improper and posed a conflict of interest for the Agency because ALARCON was processing grants and loans associated with GALLEGOS. HUDSON confirmed to her in 2004 or 2005 that ALARCON and GALLEGOS were involved in a romantic relationship. She was informed by HUDSON and other managers that the ALARCON and GALLEGOS relationship did not pose a conflict of interest because RUS projects were required to solicit requests for proposal for engineering services. Furthermore, the entity, and not RD, was required to solicit engineering services and to make decisions on choosing engineers.

LYDIA ANITA GURULE, community programs loan specialist, RUS, provided a signed, sworn statement (Exhibit 2) and stated the following:

She has been in her current position since August 1998 and is assigned to the Albuquerque, NM, RD Office. TORREZ is her direct supervisor.

She has never been the recommending official or the approving official for any loans or grants that involved GALLEGOS. Her only involvement with loans or grants that involved GALLEGOS were files she reviewed that were submitted by entities and subsequently sent to the Office of General Counsel for loan and grant closing instructions.

She did not alter or manipulate any documents related to loans and/or grants that involved GALLEGOS. She has no knowledge of any employees altering or manipulating any documents related to loans or grants involving GALLEGOS.

She was not aware of TORREZ ever permitting or authorizing GALLEGOS to sign or approve any loans or grants on behalf of USDA. She also was not aware any other employee permitting GALLEGOS to sign or approve any loans or grants on behalf of USDA.

She has not been directed by any RD manager to replace improperly prepared grant or loan documents. Nor did she have any knowledge of RD managers or employees fraudulently replacing improperly completed grant or loan forms specifically related to or involving GALLEGOS. She is not aware of TORREZ or any other RD manager sending loan or grant documents to another location to conceal their existence or to manipulate or alter the documents at a later time.

She did not receive any monetary payments or gifts from GALLEGOS. She became aware from other employees that GALLEGOS had an intimate relationship with ALARCON from approximately 1995 to 2005. In her view, the relationship constituted a conflict of interest because ALARCON was the loan specialist on loans or grants that involved GALLEGOS. ALARCON was in a position to manipulate the process and unfairly recommend grants or loans that benefited the entities associated with GALLEGOS. HUDSON was the program director from 1999 to 2006 and was ALARCON'S direct supervisor. HUDSON was the approving official for loans and grants ALARCON recommended for approval that involved GALLEGOS.

CONNIE LOUSIE MCKEE, community program loan technician, RUS, provided a signed, sworn statement (Exhibit 3) and stated the following:

She began employment on February 14, 2000, with USDA and since 2003, TORREZ has been her direct supervisor. TORREZ is currently the community programs director, formerly RUS. GALLEGOS was the director of RUS until his resignation in 1999. She did not have any knowledge of GALLEGOS approving any grants or loans related to RUS since his retirement from the Agency. She has no knowledge of TORREZ ever authorizing GALLEGOS to approve any grants or loans related to RUS programs. Furthermore, she is not aware of TORREZ ever altering or manipulating any grant or loan documents or directing employees to alter or manipulate any grant or loan documents.

TORREZ did not allow or accept improperly prepared grant or loan documents involving projects related to GALLEGOS. Nor did TORREZ direct any loan or grant documents be moved to any other location.

She did not receive any gifts from GALLEGOS, nor is she aware of any employee receiving any gifts from GALLEGOS in order to influence the loan or grant approval process.

She was only aware of two projects, the Mesquite Mutual Domestic Water Association Water Project and the Mesquite Wastewater Project, on which GALLEGOS was the engineer of record. The records pertaining to both projects were maintained in the New Mexico RD State Office, Albuquerque.

She was aware ALARCON had an intimate relationship GALLEGOS for approximately 10 years. She added that the relationship ended in negative manner sometime in 2006, and ALARCON was unable to deal on a professional level with GALLEGOS, so all of the applications and files (on which GALLEGOS was the engineer of record) were sent to the State office to be processed.

ALARCON, loan specialist, was in a position to make recommendations for the approval of loans or grants for projects on which GALLEGOS was the engineer of record. It was her opinion that due to the relationship, it was a conflict of interest for ALARCON to process or recommend the approval of projects on which GALLEGOS was the engineer of record. HUDSON was the approving official for the grants and loans that were recommended for ALARCON'S approval.

GILBERT E. GALLEGOS, former program director, RUS stated (Exhibit 4):

He was employed at RD, RUS, as program director from 1992 until his retirement in August 1998. He obtained employment with GANNET FLEMING in September 1998. Upon leaving, he was informed by RUS that he was prohibited from engaging in any work related to two projects (the Upper Hollman Water Association and the Agua Suna Water Association) he had worked on during his tenure as RUS director. He added that beyond those two projects, he was free to work on any project.

He worked on the following projects as a project manager for GANNETT FLEMING: Quemado, Winterhaven, Village of Tularosa, La Luz, Mesquite, and Rutheron. All of the projects were Colonias, and the RUS loan specialist assigned was ALARCON, with the exception of the Rutheron project which was handled by TORREZ. The approving official for these projects was HUDSON, who was the program director at the time.

He has not approved any grant or loan documents on behalf of USDA since his retirement. Neither HUDSON, nor any other employee ever gave him authorization or signature authority to approve any grant or loan documents on behalf of USDA since his retirement, and all projects went through HUDSON. His relationship with HUDSON was work-related only. He felt HUDSON was stricter with him than with others. The Mesquite project took 5 years to fund, which is an example that he had not received any

preferential treatment. Only 3 weeks ago, he found out that HUDSON treated everyone the same way.

As a project manager for GANNETT FLEMING, he would fill out documents, obtain funding for clients, and request the engineering and environmental reports. He advised that the client signed the majority of the documents submitted to RUS, except for the engineering reports which the company engineer signed. The president of GANNETT FLEMING signed the engineering contract. He worked as a salary employee and received no incentives or bonuses regardless of whether the projects were approved or not approved. The RD set the agency fee, and GANNETT FLEMING received the set fee for all of their projects.

He was hired by GANNETT FLEMING because of his expertise and experience in dealing with all of the agencies. He never told this company that he could influence the process of obtaining project funding because of relationships he had with RD employees. Nor did anyone at GANNETT FLEMING ever ask him to use any influence to obtain funding for projects.

The process to obtain project funding through RD would begin with a client selecting and hiring an engineering firm who would conduct environmental and engineering studies. The report generated from the studies would be submitted to the RD engineer, JOHN THOMAS, for review. Based on the RD engineer's assessment, the project would either be approved or disapproved before being submitted to the approving official for review. He submitted proposals to HUDSON on behalf of clients that hired his firm, and he (HUDSON) assigned the projects to a loan specialist.

He had an intimate relationship with ALARCON from 1999 until 2002. ALARCON handled projects he was associated with as a project manager for GANNETT FLEMING. She (ALARCON) performed preliminary and made grant determinations on his projects. Recommendations to fund his projects were referred to HUDSON as the approving official. Loan specialists were in a position to manipulate the funding process; however, his personal relationship with ALARCON did not pose a conflict of interest because the system would not have allowed it. A loan specialist made a recommendation after the RD engineer reviewed the environmental studies and engineering reports and approval was granted. He was never given preferential treatment by ALARCON, nor were his projects expedited.

Neither ALARCON nor his company gave any gifts, money, or jewelry in order to get funding for his projects. HUDSON knew about his relationship with ALARCON because HUDSON had mentioned it to ALARCON in 2001. The problem he identified in obtaining funding for projects was not with the loan specialist, but with obtaining approval by the RD engineer on environmental and engineering reports.

As a project manager at GANNETT FLEMING, he was not given signature authority and the forms submitted to RD were signed by the client. The only form he signed was the lobbying form.

He did not submit a false or fraudulent document to RD. Furthermore, he has not altered, manipulated, or changed any document submitted to RD relating to any grant or loan for the purpose of hiding the fact a grant or loan was obtained fraudulently.

SANDRA ALARCON, RUS, community programs loan specialist, provided a signed, sworn statement (Exhibit 5) and stated the following:

She has been employed with RD for approximately 16 years and has currently been assigned as a loan specialist in community programs since 1998. Her direct supervisor is HUDSON.

She is not aware of HUDSON, TORREZ, or any other USDA employee ever authorizing GALLEGOS to sign or approve any loan or grant document on behalf of USDA since his retirement.

She did not alter or manipulate any grant or loan document related to any of GALLEGOS' projects. Nor does she have any knowledge of any other employee altering or manipulating any grant or loan documents involving GALLEGOS.

She did not move any loan or grant documents in order to conceal improper or fraudulent documents involving GALLEGOS. Nor does she have any knowledge of any loan or grant documents being moved in order to conceal improper or fraudulent documents related to any grants or loans.

She was never instructed by any RD manager or employee to move any loan or grant documents in order to conceal improper or fraudulent documents related to any grants or loans.

She is not aware of any effort, past or present, to replace or manipulate any fraudulent documentation in any grant or loan documents involving GALLEGOS. No RD manager has ever instructed her to replace or manipulate any fraudulent documentation in any grant or loan documents involving GALLEGOS.

From approximately 1997 to 2003, she had an intimate relationship with GALLEGOS. At the onset of the relationship, GALLEGOS was employed by RD and held the position of program director. She continued to have a relationship with GALLEGOS even after he retired in 1998. As a loan specialist, she was in the position to review the application documentation and make recommendations for funding to the approving official. The only improper action she engaged in was that she expedited loan or grant document reviews that involved GALLEGOS' projects.

She did not accept falsified or fraudulent documentation from GALLEGOS. Nor did she falsify, complete, or replace any documents that involved any loan or grant relating to GALLEGOS.

She accepted gifts from GALLEGOS during the relationship but did not perceive the gifts as payments in order to influence her duties of processing grants or loans pertaining to his projects.

In 1998, HUDSON, her supervisor, informed her he was aware of her relationship with GALLEGOS and warned her that the appearance of the relationship was unfavorable. She continued with the relationship until it ended in 2003.

She felt her relationship with GALLEGOS may have given the appearance of a conflict of interest, but since she handled her duties professionally, it was not necessary for her to recuse herself from projects that involved GALLEGOS. The only grants or loans GALLEGOS submitted were on behalf of GANNETT FLEMING. She was the loan specialist and recommended the following GALLEGOS/GANNETT FLEMING projects for approval; Quemado, Winterhaven, Pecan Park, La Luz, Tularosa, and Mesquite. HUDSON was the approving official on the projects. Except for the Mesquite files, all of the loan and grant documents were maintained in the Las Cruces, NM, office.

In approximately 2002 or 2003, her relationship with GALLEGOS ended negatively, and she requested she be removed from the Mesquite project due to GALLEGOS' irrational behavior. HUDSON made the decision the Mesquite project would be handled by the State office in Albuquerque, and the remaining outstanding projects with GANNETT FLEMING would be handled by HUDSON.

CLYDE F. HUDSON, community programs area director, RUS, provided a signed, sworn statement (Exhibit 6) and stated the following:

He has been employed with USDA since 1984, and has been the RD Area Director in Las Cruces, NM, since February 2006. He is responsible for all RD programs in the southern portion of New Mexico and oversees the operations in the Las Cruces RD Office.

He has not maintained any of kind of friendship with GALLEGOS since he (GALLEGOS) retired from USDA in 1998. He was aware GALLEGOS was employed by GANNETT FLEMING as a project manager, and his firm had been hired by several entities to obtain funding through RD. During his tenure as program director from 1998 until 2004, he was the loan and grant approving official on projects submitted by GALLEGOS' firm. These projects included Winterhaven, Mesquite, La Luz, Quemado, Tularosa, and Pecan Park.

Since GALLEGOS' departure from USDA, he has not authorized or allowed GALLEGOS to approve or sign any loan or grant documents on behalf of USDA. He is not aware of TORREZ, the program director since 2006, or any other employees authorizing GALLEGOS to approve or sign any loan or grant documents on behalf of USDA.

He did not manipulate, alter, change, or modify any grant or loan documents involving GALLEGOS. Nor does he have any knowledge of any RD employee manipulating, altering, changing, or modifying any grants or loan documents involving GALLEGOS.

He did not direct any RD employee to send any loan or grant documents to another location in order to hide improper or fraudulent documents related to any grants or loans involving GALLEGOS. Nor does he have any knowledge of an RD employee directing

other employees to send loan or grant documents to another location in order to hide improper or fraudulent documents related to any grants or loans involving GALLEGOS. He did not move any loan or grant documents in order to hide improper or fraudulent documents relating to GALLEGOS. Nor does he have any knowledge of any RD employee moving loan or grant documents in order to hide improper or fraudulent documents relating to GALLEGOS.

He is not aware of any effort by any RD manager or employee, past or present, to replace any fraudulent documentation or improperly manipulate any documentation in any grant or loan documents. He did not order employees to replace or manipulate any fraudulent documentation in any grant or loan documents involving GALLEGOS' projects. Nor has he been instructed to replace or manipulate any improper or fraudulent documentation in any grant or loan. He is not aware of any improper or fraudulent documents that have been provided to RD to obtain any loan or grant.

In 1999 or 2000, he suspected ALARCON was having a romantic relationship with GALLEGOS. Sometime in 2004, he spoke with ALARCON and informed her that he suspected she was romantically involved with GALLEGOS. ALARCON denied having an intimate relationship with GALLEGOS. He warned ALARCON that she had better not give GANNETT FLEMING any preferential treatment due to her relationship with GALLEGOS. He was certain ALARCON did not manipulate the process in order to benefit GALLEGOS or GANNETT FLEMING because the system of checks and balances in the loan and grant processing regulations. She did not have loan approval authority, and all projects had to be submitted to an approving official for review and approval.

He informed several State directors of his suspicion that ALARCON was having a romantic relationship with GALLEGOS but was given no direction on how to handle the situation. In 2005, he removed ALARCON from all projects related to GALLEGOS and GANNETT FLEMING because ALARCON had informed him her romantic relationship with GALLEGOS had ended negatively, and he was harassing her. He made the decision to reassign the projects to another loan specialist for actual processing.

He never gave GALLEGOS or GANNETT FLEMING preferential treatment on any of their projects. To the contrary, he stated the Mesquite and Tularosa projects' files provided several instances where the State engineer and he disagreed with GALLEGOS on project elements. He was aware that GALLEGOS complained to the National office regarding his (GALLEGOS) firm's unfair treatment by the New Mexico RD.

He never received any monetary payments or gifts from GALLEGOS. Nor is he aware of any RD employee receiving any monetary payments or gifts from GALLEGOS except ALARCON. He was aware ALARCON had received several small gifts that were minimal in value from GALLEGOS.

The Reporting Agent and USDA-OIG, Auditor ZEBULON POMERENKE obtained seven RD-RUS Water and Waste Disposal Loans and Grants in which GALLEGOS or GANNETT FLEMING were involved in from 2002 to 2007 from RD-RUS Offices in Las Cruces and Albuquerque, NM, for an independent analysis and review.

POMERENKE, completed an audit review of the seven files obtained from RD-RUS on July 23, 2007 (Exhibit 7), and determined there were no instances where GALLEGOS signed or approved grant or loan documents on behalf of the Agency or the applicant. Furthermore, the review did not find any grant or loan documents that appeared to be altered or manipulated in an attempt to replace incorrect or fraudulent information.

In the absence of any evidence of criminal wrongdoing on behalf of the subjects as shown above, the investigation was terminated, and the loan files returned to RD-RUS.

* * * * *

LIST OF EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>	<u>Page Introduced</u>
1	Statement of MARTHA L. TORREZ	2
2	Statement of LYDIA A. GURULE	4
3	Statement of CONNIE L. MCKEE	4
4	Memorandum of Interview with GILBERT E. GALLEGOS	5
5	Statement of SANDRA ALARCON	7
6	Statement of CLYDE F. HUDSON	8
7	USDA, OIG Audit Review of RUS Files	10

Date of Statement: July 10, 2007
Location: Albuquerque, New Mexico

I, Martha Louise Torrez, being first duly sworn on oath, make the following statement freely and voluntarily to Steve Romero, who has identified himself to me as a Senior Special Agent of the Office of Inspector General, United States Department of Agriculture, knowing that this statement may be used in evidence. I understand that this statement is not confidential and may be shown to any party who has an official interest.

My full name is Martha Louise Torrez^{MLT 7/10/07} and I reside at 2319 Rozinante Drive NW, Albuquerque, New Mexico, 87104. I have been employed with USDA, Rural Development since 1984. My current position is Director, Community Programs which I have held since March 2006.

Previously, I was a loan specialist with USDA, Rural Utilities Service, now known as Water and Environmental Programs (WEP). I held this position from 1995 until March 2006.

I have never approved any loan or grants that relate to Mr. Gallegos in my position as a loan specialist or as a Program Director. The only involvement I had with Mr. Gallegos was as a loan specialist when I processed a loan and grant for the Rutheron Mutual Domestic Water Association. This involvement was as a loan specialist and not as the approving official. I made the recommendation for funding this project based on approval of the engineering report, environmental report, budget documents and other pertinent loan/grant requirements. After review of documents, I provided my recommendations to Clyde F. Hudson, Program Director for approval. This project was approved sometime in 2004.

I have never allowed or authorized Mr. Gallegos to approve or sign any USDA Rural Development loan or grant documents, nor do I know of any other USDA Official that allowed Mr. Gallegos the authority to sign and approve any loan and or grant on behalf of USDA, Rural Development.

I have never manipulated or altered any documents or directed any employee to re-type, re-sign and/or back date any documents related to loans and/or grants that involved Mr. Gallegos.

I have never sent or directed any employee to send any documents related to any loans and/or grants that involved Mr. Gallegos to another location.

I am not aware of any improperly prepared loans and grants submitted for approval that involved Mr. Gallegos. I have not replaced improperly prepared loan and/or grant documents on behalf of Mr. Gallegos, Project Manger for Gannett Fleming West, Inc. Nor am I aware of any effort by any USDA, Rural Development employees to fraudulently replace improperly prepared grant and loan documents.

I have never received any monetary payments or gifts from Mr. Gallegos for approving any loan and/or grant.

MLT 7/10/07
Initial and Date

EXHIBIT 1
PAGE 1 OF 3

Statement of Martha Torrez
Page 2

MCT 7/10/07
I have only maintained a professional relationship with Mr. Gallegos. I have been diligent and scrutinized all documents related to any loans or grants for my approval. I have always been fair and impartial regarding the process of approving or recommending approval of any loan and or grant. I have never given Mr. Gallegos preferential treatment related to any grants and/or loans which he has been involved in.

Sometime in 2004 or 2005, I was told by Mr. Hudson that Ms. Alarcon, Loan Specialist, and Mr. Gallegos, former Program Director, Rural Utilities Service, were involved in a romantic relationship. Subsequently, Mr. Gallegos became employed by Gannett Fleming West, Inc. At that time, I held the position of Loan Specialist and was informed that I would be overseeing a project in the letter of conditions stage because the project had already been approved. The project involved a Gannett Fleming West, Inc water project which Mr. Gallegos was the project manager. This project had been processed in the Las Cruces' Office. At that time, I was informed that the relationship had ended negatively between Mr. Gallegos and Ms. Alarcon the office project was re-assigned to me. Furthermore, a meeting took place with Paul Guitierrez, former State Director, Clyde F. Hudson, Joe Hostletter, Administrative Officer -by telephone and myself in which a discussion ensued regarding the breakup which showed all individuals mentioned had knowledge of the relationship. During the meeting, Mr. Hostletter stated that the relationship between Mr. Gallegos and Ms. Alarcon was not a conflict of interest because all of the USDA, Rural Utilities Service projects must go out for Request for Proposal for Engineering Services. Mr. Hostletter advised since the entity was required to go out to bid for engineering services they were ultimately the decision maker on the choice of the engineer and not USDA, Rural Development. When I became the Program Director, I did not re-examine or question validity of the grants or loans that Ms. Alarcon had recommended for approval and which were subsequently approved by Mr. Hudson because management and personnel had concluded that the relationship did not constitute a conflict of interest.

I learned of the relationship between Mr. Gallegos and Ms. Alarcon sometime between 1998 or 1999, I was a loan specialist and had no managerial input or approval authority related to loans or grants. During the same time period, I brought my concern of the relationship between Mr. Gallegos and Ms. Alarcon to Mr. Hudson's attention who at that time was my direct supervisor.

Ms. Alarcon as a loan specialist submitted several grants and/or loans with the recommendation for approval for projects that Mr. Gallegos was the project manager. Since Mr. Gallegos' departure from the agency, Mr. Gallegos had been submitting projects to Ms. Alarcon until sometime in 2005. I felt that the relationship between Mr. Gallegos and Ms. Alarcon was improper and was a conflict of interest for the agency.

MCT 7/10/07
Initial and Date

EXHIBIT 1
PAGE 2 OF 3

Statement of Martha Torrez
Page 3

At Rural Development, it was customary 99% of the time for grants and/or loans with a recommendation for approval by Loan Specialists for them to be approved for funding by the approving official.

I have read this typed statement, consisting of 3 pages, and it is true and correct. I have signed each page and have been given an opportunity to make any corrections or additions.

Martha Torrez
Signature

July 10, 2007
Date

Subscribed and sworn before me this
10 day of July, 2007.

Steve Romero

Steve Romero, Senior Special Agent
Office of Inspector General,
Investigations
U. S. Dept. of Agriculture
Dallas, Texas

WITNESSED BY:

Jeb Romerick

MIT 7/10/07
Initial and Date

EXHIBIT 1
PAGE 3 OF 3

Date of Statement: July 10, 2007
Location: Albuquerque, New Mexico

I, Lydia Anita Gurule, being first duly sworn on oath, make the following statement freely and voluntarily to Steve Romero, who has identified himself to me as a Senior Special Agent of the Office of Inspector General, United States Department of Agriculture, knowing that this statement may be used in evidence. I understand that this statement is not confidential and may be shown to any party who has an official interest.

My full name is Lydia Anita Gurule and I reside at 16 Bloom-n-shine, Los Lunas, NM, 87031. I am currently employed with USDA, Rural Development as a loan specialist in Community Programs. I have been in my current position since August 1998. My direct supervisor is Martha Torrez, Director of Community Programs for Rural Development.

I have never been the recommending official or the approving official for any loan or grants that involved Gilbert Gallegos as the project manager or in another capacity.

My only involvement with loans and/or grants that involved Gilbert Gallegos were the files I reviewed that were submitted by entities for loans and/or grants and that were subsequently sent to the Office of General Counsel for loan/grant closing instructions.

I have never altered or manipulated any documents related to loans and/or grants. Nor do I have any knowledge of any employee altering or manipulating any documents related to loans and/or grants.

I am not aware of Ms. Torrez permitting or authorizing Mr. Gallegos to sign and/or approve any loans or grants on behalf of USDA. Furthermore, I have any knowledge of any other employee permitting Mr. Gallegos to sign and/or approve any loans and/or grants on behalf of the USDA.

I have not been directed by any USDA Rural Development managers to replace improperly prepared grant/loan documents. I have no knowledge that RD managers or employees fraudulently replaced improperly completed grant and/or loan forms specifically related to any grants and/or loans involving Gilbert Gallegos.

I am not aware of Ms. Torrez or any other manager sending loan and/or grant documents to another location to conceal their existence or to manipulate or alter the documents at a later time.

I have never received any monetary payments and/or gifts from Mr. Gallegos. The only employee that may have received gifts is Sandra Alarcon an employee of Rural Development in Las Cruces, NM. I believe she may have received jewelry from Mr. Gallegos. I am aware that Mr. Gallegos had an intimate relationship with Ms. Alarcon from approximately 1995 to 2005. I am of the opinion that Mr. Gallegos and Ms. Alarcon's relationship constituted a conflict of interest because Mr. Gallegos was the project manager or involved in some capacity on several loans and/or grants of which Ms. Alarcon was the loan specialist. Ms. Alarcon as a loan

Ly 7-10-07
Initial and Date

EXHIBIT 2
PAGE 1 OF 2

Statement of Lydia Gurule
Page 2

specialist may have manipulated the process and unfairly recommended grants/loans that benefited the entities Mr. Gallegos was involved with.

18
7-10-07
Prior to Ms. Torrez' tenure, Mr. Clyde Hudson was the program director from 1999 to 2006 and was Ms. Alarcon direct supervisor. Mr. Hudson would have been the approval official for loans and/or grants that Ms. Alarcon would have made the recommendation for approval related to loans and/or grants Mr. Gallegos had involvement. Mr. Hudson, in my opinion may have turned may have turned a blind eye in order to protect Ms. Alarcon from any inquiry or investigation. It was routine during Mr. Hudson's tenure as Program Director for loan specialists recommendations for approval for loans and/or grants were guaranteed to be approved by Mr. Hudson.

I have read this typed statement, consisting of 2 pages, and it is true and correct. I have signed each page and have been given an opportunity to make any corrections or additions.

Lydia Gurule
Signature

7-10-07
Date

Subscribed and sworn before me this
10 day of July, 2007.

Steve Romero

Steve Romero, Senior Special Agent
Office of Inspector General,
Investigations
U. S. Dept. of Agriculture
Dallas, Texas

WITNESSED BY:

Jeb Romereau

Jg 7-10-07
Initial and Date

EXHIBIT 2
PAGE 2 OF 2

Date of Statement: July 10, 2007
Location: Albuquerque, New Mexico

I, Connie Louise McKee, being first duly sworn on oath, make the following statement freely and voluntarily to Steve Romero, who has identified himself to me as a Senior Special Agent of the Office of Inspector General, United States Department of Agriculture, knowing that this statement may be used in evidence. I understand that this statement is not confidential and may be shown to any party who has an official interest.

My full name is Connie Louise McKee and I reside at 1829 Chicoma Road, NE, Rio Rancho, New Mexico, 87144. I began employment on February 14, 2000 and I am currently employed as a Loan Technician, with Rural Development Community Development.

Mr. Gallegos was the Director of Rural Utility Service until his resignation in 1999. I do not have any knowledge of Gilbert Gallegos approving any grants and or loans related to Rural Utility Service programs.

Martha Torrez is the Director of Community Programs, formerly Rural Utility Service and has been my direct supervisor since approximately 2003. To my knowledge, Ms. Torrez has not allowed Mr. Gallegos to approve any grants or loans related to Rural Utility Service programs. Ms. Torrez has not changed or directed any employees to alter or manipulate any grant and/or loan documents in any way. Ms. Torrez has not allowed or accepted improperly prepared grant or loan documents involving Mr. Gallegos. Ms. Torrez has not directed the loan and/or grant documents to be moved to any other location.

I have not received any gifts, monetary or otherwise from Mr. Gallegos and furthermore, to the best of my knowledge, I do not know of any type of gifts, whether monetary or otherwise, being accepted from Mr. Gallegos to any employee of Rural Development in order to influence loan or grant approval.

The only Loan and Grant I know of at this time that Mr. Gallegos is involved in is Mesquite Mutual Domestic Water Association, Water Project and the Mesquite Wastewater Project. He is the Engineer of Record for both projects. I am aware that Mr. Gallegos has been the Engineer of Record on other projects, but I am not certain of which other projects he is part of. The records pertaining to both Mesquite projects are currently maintained in the New Mexico State Office.

I have been made aware by other employees, that Ms. Sandra Alarcon, who is a Loan Specialist in the Las Cruces office, had an intimate relationship with Mr. Gallegos for approximately 10 years. The relationship ended sometime in the early part of 2006. As a Loan Specialist, Ms. Alarcon would have been in a position to recommend the approval of loans and/or grants for projects of which Mr. Gallegos was the Engineer of Record. I believe that Ms. Alarcon would have accepted improperly prepared grant and/or loan documents and furthermore, could have manipulated the process in which other grants or loans could have not been funded. Based on Ms. Alarcon's position, it was a clear conflict of interest for her to process and/or to recommend

CLM 7-10-07
Initial and Date

EXHIBIT 3
PAGE 1 OF 2

Statement of Connie L. McKee
Page 2

approval on projects that Mr. Gallegos was involved in. The final approving official for the grants and or loans that were recommended for approval by Ms. Alarcon was Clyde F. Hudson the former Director of Rural Utility Service. Sometime in 2006, Mr. Hudson vacated the position and Ms. Torrez became the Director.

Due to the personal relationship ending between Ms. Alarcon and Mr. Gallegos, all of the applications and files that had Mr. Gallegos as the Engineer of Record had to be sent to the State Office to be processed because Ms. Alarcon was not able to deal on a professional level with Mr. Gallegos.

I have read this typed statement, consisting of 2 pages, and it is true and correct. I have signed each page and have been given an opportunity to make any corrections or additions.

Connie L. McKee
Signature

7-10-2007
Date

Subscribed and sworn before me this
10 day of July, 2007.

Steve Romero
Steve Romero, Senior Special Agent
Office of Inspector General,
Investigations
U. S. Dept. of Agriculture
Dallas, Texas

WITNESSED BY:

Zjb Romerendu

CLM 7-10-07
Initial and Date

EXHIBIT 3
PAGE 2 OF 2

reports which were signed by a Gannett Fleming engineer. The president of Gannett Fleming would sign the engineering contract. GALLEGOS stated he worked as a salary employee and received no incentives or bonuses regardless if the projects were approved or not approved. The agency fee is set by the RD and Gannett Fleming received the set fee for all the projects they worked on.

GALLEGOS stated he had been hired by Gannett Fleming because of his expertise and experience dealing with all the agencies required to complete projects. GALLEGOS indicated Gannett Fleming hired retirees from various agencies. GALLEGOS declared he never told Gannett Fleming he could influence the process of obtaining project funding because of relationships he had with employees at RD. GALLEGOS stated that Gannett Fleming never asked to him to use any influence to obtain funding for projects.

GALLEGOS described the process to obtain project funding through RD. He stated the client would select and hire an engineering firm who would conduct environmental and engineering studies. The report generated from the studies would be submitted to the RD Engineer, JOHN THOMAS, for review. Based on the RD engineer's assessment the project would either be approved or disapproved before being submitted to the approving official for review. GALLEGOS advised he would submit proposals to HUDSON who would assign the projects to a loan specialist.

GALLEGOS disclosed that he had an intimate relationship with Sandra ALARCON; a Loan Specialist assigned to the Las Cruces, New Mexico, RD office from 1999 until 2002. He stated he had hired ALARCON in 1994/1995 timeframe and had become close friends.

GALLEGOS reported that ALARCON handled projects he was associated with as a project manager for Gannett Fleming. GALLEGOS divulged that ALARCON performed preliminary work on his projects and would make a grant determination. If the recommendation was made to fund the project, she would refer it to HUDSON for review as the approving official. GALLEGOS related he was aware that loan specialists are in a position to manipulate the funding process. GALLEGOS maintained his personal relationship with ALARCON did not pose a conflict of interest. According to GALLEGOS, ALARCON was not a position that could have caused a conflict of interest because the system would not have allowed it. GALLEGOS contended that a loan specialist's recommendation is done after the RD engineer reviews the environmental studies and engineering reports and approval is granted. He stated he was never given preferential treatment nor was his projects expedited before other projects.

GALLEGOS asserted that he has never given ALARCON any gifts, money, or jewelry nor has his company. GALLEGOS added he worked for professional company that was ethical and it is not customary at Gannett Fleming to attempt to influence or obtain favors to get funding for projects. GALLEGOS recounted that he has taken RD employees out for lunch on quarterly basis for various reasons such as birthdays, after meetings, and etc. GALLEGOS revealed HUDSON may have known about his relationship with ALARCON because HUDSON had mentioned it to ALARCON in 2001. GALLEGOS added that he has never influenced or attempted to influence any RD employee by giving them gifts of any type. GALLEGOS

reiterated the problem associated with obtaining funding for projects was obtaining approval by the RD engineer on environmental and engineering reports, not the loan specialist.

GALLEGOS explained that project managers at Gannett Fleming are not given signature authority and the forms submitted to RD are signed by the client. The only form he has signed is the lobbying form.

GALLEGOS stated he has never submitted a false and/or fraudulent document to RD. Furthermore, he advised that he has never altered, manipulated, or changed any document submitted to RD relating to any grant and or loan for purpose of hiding the fact a grant and or loan was obtained fraudulently. GALLEGOS affirmed he has not received any favor or gift from any client and/or contractor.

Date of Statement: July 11, 2007
Location: Albuquerque, New Mexico

I, Sandra Alarcon, being first duly sworn on oath, make the following statement freely and voluntarily to Steve Romero, who has identified himself to me as a Senior Special Agent of the Office of Inspector General, United States Department of Agriculture, knowing that this statement may be used in evidence. I understand that this statement is not confidential and may be shown to any party who has an official interest.

My full name is Sandra Alarcon and I reside at 3354 Wesley drive, Las Cruces, New Mexico, 88012. I have been employed with USDA, Rural Development for approximately 16 years. I am currently employed as a loan specialist in Community Programs. I have been in my current position since 1998. My direct supervisor is Clyde Hudson, Area Director for Rural Development.

As a Loan Specialist, I educate applicants as to the Community Programs application process, which includes the eligibility of funding, request for professional services (engineering), application documentation, such as the Preliminary Engineering Report and Environmental Reports, financial statements, etc. I also advise applicants regarding the regulations and make recommendations for funding for projects to the approval official. In addition, I oversee the progress of the projects during construction, as well conduct fund requests for project expenses.

I am not aware of Gilbert Gallegos since his departure from USDA ever being authorized to sign and/or approve any loan and/or grant documents on behalf of the USDA. I am also not aware of Clyde Hudson the Program Director in 1999 until 2006 or Martha Torrez the Program Director since 2006 or any other manager ever authorizing Mr. Gallegos to sign and/or approve any loan and/or grant documents on behalf of the USDA.

I have never altered or manipulated any grant and/or loan documents. Nor have I ever altered or manipulated any grant and/or loan documents related any of Mr. Gallegos projects. I also do not have any knowledge of any other employee altering or manipulating any grant and/or loan documents.

I have not moved nor do I have any knowledge of any loan and or grant documents being moved in order to conceal improper and/or fraudulent documents related to any grants and/or loans. I have never been instructed by any USDA Rural Development manager to move any loan and grant documents in order to conceal improper and/or fraudulent documents related to any grants and/or loans.

7/11/07
I am not aware of any effort, past or present, to replace or manipulate any fraudulent documentation in any grant and/or loan documents. No USDA Rural Development managers have ever instructed me to replace or manipulate any fraudulent documentation in any grant and/or loan documents.

JA 7/11/07
Initial and Date

EXHIBIT 5
PAGE 1 OF 3

Statement of Sandra Alarcon
Page 2

From approximately 1997 to 2003, I had an intimate relationship with Mr. Gallegos. At the onset of the relationship, Mr. Gallegos was the program director. I continued to have a relationship Mr. Gallegos after his retirement which occurred sometime in 1998. As a loan specialist, I was in the position to review the application documentation and make recommendations for funding to the approving official. The only improper action I conducted during my relationship with Mr. Gallegos was that I expedited the review of loan and/or grant documents which involved Mr. Gallegos. Mr. Gallegos was the project manager for Gannett Fleming. Gannett Fleming was the consulting Engineering firm which represented several entities that had submitted loan and/or grant applications to Rural Development. I never ^{FA 2/11/07} accepted falsified or fraudulent documentation from Mr. Gallegos. I have never falsified, completed, or replaced any documents that involved any loan and/or grant.

In 1998 or 1999, during our relationship I received gifts from Mr. Gallegos which included jewelry consisting of a necklace and ring that were valued at \$200. In 2000 I also received a microwave from Mr. Gallegos that was valued at \$250. Sometime in 2000 or 2001, Mr. Gallegos worked on my landscape at my residence and also paid for a portion of landscaping materials that were used at my residence which cost approximately \$400. I did not accept the gifts as payment to influence me or as a payoff. I did not perceived Mr. Gallegos gifts as a way to influence my official duties over the processing of the grant and/or loan documents pertaining to his projects.

In approximately 1998, Mr. Hudson, my supervisor, informed me that he was aware of my relationship with Mr. Gallegos and that the appearance of the relationship was not be good. I continued to have the relationship with Mr. Gallegos until either 2002 or 2003. In 1998 or 1999, I did feel that the relationship with Mr. Gallegos may have appeared to have posed a conflict of interest. I did not feel it was necessary for me to recused myself from the projects that involved Mr. Gallegos because I handled my duties professionally. The only grants and/or loans that Mr. Gallegos submitted were on behalf of Gannett Fleming firm. I was the loan specialist and recommended the following projects for approval, Quemado, Winterhaven, Pecan Park, La Luz, Tularosa, and Mesquite that involved Mr. Gallegos. Mr. Hudson was the approving official on these projects. All of the loan and/or grants documents are maintained in the Las Cruces, NM office except for the Mesquite files.

In approximately 2002 or 2003, my relationship with Mr. Gallegos ended very negatively. I approached Mr. Hudson and asked that I be removed from the Mesquite project because Mr. Gallegos had become irrational and hard to deal with. Mr. Hudson informed me that he would take care of it. Subsequently, it was decided that the Mesquite project would be handled by the State Office in Albuquerque. Mr. Hudson would handle the remaining outstanding projects with Gannett Fleming.

SA 2/11/07
Initial and Date

EXHIBIT 5
PAGE 2 OF 3

Statement of Sandra Alarcon
Page 3

I have read this typed statement, consisting of 3 pages, and it is true and correct. I have signed each page and have been given an opportunity to make any corrections or additions.

Sandra Alarcon
Signature

7/11/07
Date

Subscribed and sworn before me this
11 day of July, 2007.

Steve Romero

Steve Romero, Senior Special Agent
Office of Inspector General,
Investigations
U. S. Dept. of Agriculture
Dallas, Texas

WITNESSED BY:

Steve Romero

SA 7/11/07
Initial and Date

EXHIBIT 5
PAGE 3 OF 3

Date of Statement: July 12, 2007
Location: Las Cruces, New Mexico

I, Clyde F. Hudson, being first duly sworn on oath, make the following statement freely and voluntarily to Steve Romero, who has identified himself to me as a Senior Special Agent of the Office of Inspector General, United States Department of Agriculture, knowing that this statement may be used in evidence. I understand that this statement is not confidential and may be shown to any party who has an official interest.

My full name is Clyde Frederick Hudson and I reside at 2505 Janet Ann Lane, Las Cruces, New Mexico, 88007. I have been employed with USDA since 1984. I am currently employed as an Area Director in ~~the~~ Las Cruces, New Mexico with the USDA Rural Development. I have been in my current position since February 2006.

In November 1998, I became the Program Director and was responsible for the administration of Rural Development's Community Programs in New Mexico. These include but are not limited to water and wastewater loans and grants, community facilities loans and grants, technical assistant grants, etc. I was responsible for the administration of allocated funds under these programs and served as the State Community Programs approval official. I directly supervised a staff of three loan specialists and two loan technicians. One loan specialist and one loan technician were located at the Las Cruces, NM Area Office with the remainder of the staff located at the State Office in Albuquerque, NM. I approved loans and grants within my delegated authority and recommended those outside to the National Office. My loan approval authority was \$5,000,000 with unlimited grant approval authority which was restricted by regulatory rules and availability. I was responsible for administering technical assistance grants to New Mexico Rural Water Association and Rural Community Assistance Corporation.

As Area Director, I have administrative responsibility for all RD programs in the southern portion of the State. I am the supervisor of the RD managers who supervise the local RD offices. I provide review and oversight of their work/operations. I am the direct supervisor of the staff located in the Las Cruces, NM local RD office.

I initially met Gilbert Gallegos sometime in 1991 or 1992. During this time, I served as an Assistant District Director with our predecessor agency, Farmers Home Administration. At that time, the district office was responsible for processing Community Program applications. Mr. Gallegos served as the state engineer in our Community Programs section in the RD State Office. In the course of processing these applications I met and worked with him.

I have not maintained any of kind of friendship with Mr. Gallegos since he retired from the USDA sometime in 1998. I was aware that Mr. Gallegos was employed by Gannett Fleming as a project manager and his firm had been hired by several entities to obtain funding through the USDA RD. During my tenure as program director from 1998 until 2004, I was the approving official on loan and/or grants submitted by his firm which included Winterhaven, Mesquite, La Luz, Quemado, Tulerosa, and Pecan Park. I treated all loan and grant applications submitted by

CFH 7/12/07
Initial and Date

EXHIBIT 6
PAGE 1 OF 4

Statement of Clyde F Hudson
Page 2

his firm as I would other firms. I was meticulous and prudent when reviewing loan and/or grant applications and/or documents that involved Mr. Gallegos to insure all requirements were met and followed.

I have not authorized or allowed Gilbert Gallegos, since his departure from USDA, to approve and/or sign off on any loan and/or grant documents on behalf of the USDA. I am not aware of Martha Torrez the Program Director since 2006 or any other employees authorizing Mr. Gallegos to approve and/or sign off on any loan and/or grant documents on behalf of the USDA.

I have never manipulated, altered, changed, or modified any grant and/or loan documents. I do not have any knowledge of any USDA employee that may have manipulated, altered, changed, or modified any grant and/or loan documents.

I have not directed or instructed any USDA RD ^{CFH 7/12/07} employee to send any loan and/or grant documents to another location in order to hide improper or fraudulent documents related to any grants and/or loans. I have not moved or do I have any knowledge of any loan and/or grant documents being moved in order to hide improper or fraudulent documents related to any grants and/or loans.

I am not aware of any effort by any USDA RD manager or employee, past or present, to replace or manipulate any improper and/or fraudulent documentation in any grant and/or loan documents. I have not ordered any employees to replace or manipulate any fraudulent documentation in any grant and/or loan documents, including any of Mr. Gallegos projects. I have never been instructed to replace or manipulate any improper and/or fraudulent documentation in any grant and/or loan. I am not aware of any improper and/or fraudulent documents that have been provided to USDA RD to obtain any loan and/or grant.

In either 1999 or early 2000, I originally suspected that Sandra Alarcon, a loan specialist in the Las Cruces, NM office was having a romantic relationship with Mr. Gallegos. However, I was not certain that the relationship was occurring and did not proceed further with any action because it was only my suspicion. I was the program director and supervised Ms. Alarcon. Around 2004, I spoke with Ms. Alarcon and informed her that I suspected what was going on with her and Mr. Gallegos. Ms. Alarcon did not admit that she was having an intimate relationship with Mr. Gallegos. I told Ms. Alarcon that she better not be giving Gannett Fleming any preferential treatment due to her relationship with Mr. Gallegos. I made the statement to her to protect the agency and her of an appearance of a conflict of interest if the relationship was occurring. I am confident that Ms. Alarcon did not manipulate the process in order to benefit Mr. Gallegos or Gannett Fleming.

I informed former State Directors Stephanie Gonzales, Jeff Condrey, and Paul Gutierrez that I had suspected Ms. Alarcon was having a romantic relationship with Mr. Gallegos. I advised Mr.

CFH 7/12/07
Initial and Date

EXHIBIT 6
PAGE 2 OF 4

Gutierrez that the relationship between Ms. Alarcon and Mr. Gallegos had ended and the break up had strained the agency's working relationships with Gannett Fleming and Mr. Gallegos. By the time, I spoke with Paul Gutierrez, I have removed Ms. Alarcon from all Gannett Fleming projects. Directors Ms. Gonzales or Mr. Condrey did not provide any direction on the handling of the situation. In 2005, I was informed by Ms. Alarcon that she had a romantic relationship with Mr. Gallegos and that it had ended and she did not want anything to do with him. She advised that he would not let it go and was harassing her. Based on my observations of the interactions between Ms. Alarcon and projects involving Mr. Gallegos I made the decision to remove her from all Gannett Fleming projects in order to protect her from harassment and the agency from a conflict of interest situation. I took on the construction monitoring duties and re-assigned these projects to another loan specialist for actual processing. The funding had already been obligated for these projects and projects were either in the construction stage or meeting the conditions in the RD Letter of Conditions.

I am certain that Ms. Alarcon could not have manipulated the process to benefit Mr. Gallegos firm. There is a system of checks and balances in the loan/grant processing regulations. She did not have any loan approval authority. All projects had to be submitted to the loan approval official for review/approval. The applicant was required to submit a preliminary engineering report (PER) and environmental report (EA) with the application. The PER was prepared by the project consulting engineer, in this case Gannett Fleming. The PER is reviewed by the RD State Engineer who makes recommendations to the program director regarding the project's compliance with RD regulations, need, health issues and if the project as proposed is modest in size, design, and cost, serving existing needs and reasonable growth. This is often a difficult process as many of the PER's recommend projects that appear excessive to the applicant's needs requiring the consulting engineer to reduce or amend the project scope. The loan specialist does not process the application further until he/she has been notified by the program director and state engineer that they concur in the final project scope. The loan specialist completes the financial analysis and makes recommendations to the program director concerning the proposed funding. The program director reviews the analysis and if found to be in agreement and compliance with RD regulations approves the funding. During the time I served as program director, I never delegated Ms. Alarcon loan approval authority. Once I approved a loan, I instructed loan specialist Martha Torrez to obligate the funds. Ms. Alarcon did not have the password authorization to obligate any funds. As stated above, all projects were reviewed by the state engineer and me prior to processing and again by me prior to approval. Ms. Alarcon did have authority to approve construction pay requests and other project invoices (engineering, legal, etc.) after the project was funded and went into the construction phase. No new money above that already approved would be involved. Rural Development regulations and the state procurement code require all of our applicants to go through a formal "request for proposal process" to hire the project consulting engineer. They advertise for the engineer and analyze the proposals submitted by the various engineering firms. The applicant's governing body selects an engineer and requests our concurrence. At the time, engineering agreements were approved by

CFH 7/2/07
Initial and Date

EXHIBIT 6
PAGE 3 OF 4

Statement of Clyde F Hudson
Page 4

RD using a price guide established by myself and our state engineer through analysis of the fees engineers received from non-RD funded projects. Ms. Alarcon was not given authority to deviate from this guide nor have any of my reviews found any non-compliance.

I did not grant any favoritism to Mr. Gallegos or Gannett Fleming on any of their projects. The Mesquite and Tularosa files will provide several instances where the State Engineer and I disagreed with Mr. Gallegos on project elements. I am aware that Mr. Gallegos complained to the National Office regarding his firm's unfair treatment by RD in New Mexico.

I have never received any monetary payments or gifts from Mr. Gallegos. Nor am I aware of any USDA RD employee receiving any monetary payments or gifts from Mr. Gallegos except for Ms. Alarcon. I am aware that Ms. Alarcon received several small gifts that were minimal in value.

I have made available for inspection all pertinent records and information regarding this investigation.

I have read this typed statement, consisting of 4 pages, and it is true and correct. I have signed each page and have been given an opportunity to make any corrections or additions.

Clyde F Hudson
Signature

July 12, 2007
Date

Subscribed and sworn before me this
12 day of July, 2007.

Steve Romero
Steve Romero, Senior Special Agent
Office of Inspector General,
Investigations
U. S. Dept. of Agriculture
Dallas, Texas

WITNESSED BY:

Steve Romero

CFH 7/12/07
Initial and Date

EXHIBIT 6
PAGE 4 OF 4

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
INVESTIGATION OF RUS EMPLOYEE MISCONDUCT

Reviewed by SCW 25-Jul-2007

Title: Review of Rural Development-Rural Utility Service (RUS) files

Purpose: Determine whether or not Mr. Gilbert Gallegos had been allowed to sign and approve loan and/or grant documents on behalf of the agency

Source: RUS loan and grant files

**Scope/
Methodology:** RUS Water and Waste Disposal Loans and Grant files for the seven projects on which Mr. Gilbert Gallegos would have worked on, identified to us by current RUS employees from 2002 to 2007.

Conclusions: We did not discover any instances where Mr. Gallegos was allowed to sign and/or approve grant and/or loan documents on behalf of the agency or the applicant. During the review we did not notice any grant and/or loan forms that appeared to have been retyped, re-signed, or back-dated in an attempt to replace incorrect or fraudulent documents.

Recommendations: None.

Details:

During the course of the investigation OIG determined that Mr. Gallegos worked for the engineering firm, Gannett Fleming West and would have worked solely on projects where they were the engineering firm. RUS employees identified seven RUS projects that were awarded to Gannett Fleming West. [44] {note: The seventh project Rutheran is not on the list but was identified by the Director of Community Projects as a project on which Gilbert Gallegos was currently working on for Gannett Fleming West.}

OIG obtained files for six of the seven projects. The files were shipped to OIG's Southwest Regional Office in Temple, TX for review. The files were reviewed during the week of July 16, 2007 by auditors Zeb Pomerence and Amy Hilton. The files for the seventh project, Rutheran, were reviewed on July 11, 2007 in the Rural Development State Office in Albuquerque, NM. Ms. Martha Torrez, current RUS Director of Community Programs, Special Agent Steve Romero and Auditor Zeb Pomerence were present during the review.

We reviewed the files for each project to determine whether or not Mr. Gilbert Gallegos had been allowed by Ms. Martha Torrez or any other RUS manager to sign and approve loan and/or grant documents on behalf of the agency. After interviews with RUS staff and research on federal grants and loans we determined that there are three key documents for each project. We established that the SF-424 "Application for Federal Assistance", RD 1940-1 "Request for Obligation of Funds" and RD 1942-45 "Project summary - Water and

Audit No: RUS Investigation
Initials: ZP Date: 7/23/07
WP: N/A Page:1/2

EXHIBIT 7
PAGE 1 OF 2

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
INVESTIGATION OF RUS EMPLOYEE MISCONDUCT

Waste Disposal and other Utility-Type Projects” or a Project Information sheet were the three key documents and that they were located in the file folder labeled Position 1-8 for each project. [45] Several of the projects have multiple copies of some of the key documents. This indicates that there were multiple or subsequent grant and/or loan disbursements on the project.

Project Name	SF-424	RD 1940-1	Project Information
Quemado MW & SWA	28 29	25 26 27	24
La Luz MDWCA	21	17 18 19 20	16
Winterhaven MDWC & SWA	13	10 11 12	09
Pecan Park MDWCA	43	07	42
Village of Tularosa	06	02 03 04	01
Mesquite MDWC & MSWA	37	34 35 36	33

The types of documents that we found signed by Mr. Gallegos were signed in his official capacity with engineering firm Gannet Fleming West, Inc. and not on behalf of the agency or applicant. [08, 14, 15, 22, 23, 30, 31, 32, 38, 39]

We did not discover any instances where Mr. Gallegos was allowed, by Ms. Martha Torrez or any other RUS manager, to sign and/or approve key grant and/or loan documents on behalf of the agency or the applicant. During the review we did not notice any grant and/or loan forms that appeared to have been retyped, re-signed, or back-dated in an attempt to replace incorrect or fraudulent documents.

According to the allegations the whistleblower reported that many of the FY2005 and FY2006 projects, particularly ones involving Mr. Gallegos, were wrongly awarded. However, RUS provided documentation that indicates that Mr. Gallegos would have been involved with only one project, Winterhaven MDWC & SWA in both FY2005 and FY2006. [44] The original funding for the Winterhaven MDWC & SWA project was approved in 2003. [44]

*Note: Blue, underlined numbers are electronic hyperlinks to documents obtained during our review.

Audit No: RUS Investigation
Initials: ZP Date: 7/23/07
WP: N/A Page: 2/2

EXHIBIT 7
PAGE 2 OF 2



United States Department of Agriculture
Rural Development
State of New Mexico

October 15, 2007

Sandra Alarcon
Rural Development Specialist
USDA - Rural Development
2507 Telshor, Suite 3C
Las Cruces, NM 88011

Dear Ms. Alarcon:

This is a Letter of Caution concerning the Appearance of a Conflict of Interest.

It was recently brought to my attention that, as part of an investigation performed by the Office of Inspector General, you admitted to having a long-term relationship with Gilbert Gallegos when he was employed by Rural Development as the Program Director, Rural Utilities Services (RUS). In this capacity, Mr. Gallegos was your supervisor. Upon his retirement, the relationship continued and Mr. Gallegos became the Project Engineer of Record on several RUS projects. You were the Loan Specialist responsible for recommending and servicing the loans for entities Mr. Gallegos was representing. You also admitted to receiving gifts and expediting his loan funding during this time. The relationship ended in 2002 or 2003 and you have not received any additional gifts or worked on projects for which Mr. Gallegos is the Project Engineer.

It is improper for an employee of Rural Development to actively service loans or projects if you have other than a business relationship with any of the personnel associated with the entity. Although you believe you never really acted improperly, it is inappropriate to receive gifts of value outside of the allowable limits or to put yourself in a position which might create the appearance of providing preferential treatment. Doing so creates the appearance of a conflict of interest.

I need to be clear, you must refuse yourself from any loan processing or servicing involving a family member, a personal friend, or anyone with whom you have other than a business relationship. The agency is put in an awkward position if it becomes known that an entity is receiving preferential treatment based on a personal relationship. I cannot condone your failure to separate personal relationships and business relationships. The Standards of Ethical Conduct for Employees of the Executive Branch discusses gifts from outside

6200 Jefferson NE • Suite 266 • Albuquerque, NM 87109
805-761-4950 • Fax - 805-761-4976 • TDD - 805-761-4938

Committed to the future of rural communities

"USDA is an equal opportunity provider, employer and lender."
To file a complaint of discrimination write USDA, Director, Office of Civil Rights, 1400 Independence Avenue, S.W.,
Washington, DC 20268-0010 or call 800-795-3273 (voice) or 202-720-6392 (TDD)

sources and impartiality in performing official duties. Your failure to follow established ethical guidelines impacts the office and your reputation as a Senior Loan Specialist.

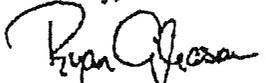
I have chosen to issue this Letter of Caution as a means to emphasize the seriousness of your failure to follow ethics guidelines and to relay to you how seriously I take this failure. Again, you must recuse yourself from any situation in which you believe there may be an appearance of conflict of interest.

A copy of this Letter of Caution will not be filed in your Official Personnel File (OPF). However, any future incidents of failure to follow procedures may result in formal disciplinary action.

Work related problems can be the result of personal situations. It may be helpful to consider all of the factors contributing to your conduct and take appropriate action to deal with them. The Employee Assistance Program (EAP) is available if you wish to seek assistance. Information on EAP is available from the Human Resources Staff, Sarah Belt can be reached at (720) 544-2922. You may also call the national EAP Helpline at (800) 272-7252. Trained counselors at that number are available to help you. All information you provide is strictly confidential. I encourage you to consider seeking such assistance.

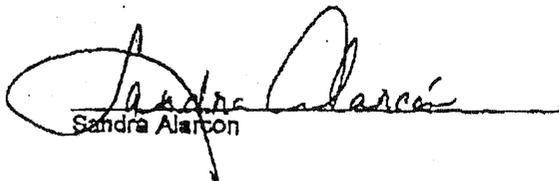
If you have questions regarding this letter, you may contact Laurie Batcheller, Human Resources Manager at (720) 544-2908.

Sincerely,



RYAN GLEASON
State Director

I acknowledge receipt of this Letter of Caution


Sandra Alarcon

10/15/07
Date