



U.S. OFFICE OF SPECIAL COUNSEL

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The Special Counsel

July 18, 2012

The President
The White House
Washington, D.C. 20500

Re: OSC File No. DI-11-3709

Dear Mr. President:

Pursuant to 5 U.S.C. § 1213(e)(3), enclosed please find an agency report based on a disclosure from an employee of the U.S. Department of Agriculture (USDA), Rural Development (RD), Minot, North Dakota. The whistleblower, who requested anonymity, disclosed that Alisa Dahl, Area Director for RD, engaged in conduct that may constitute gross mismanagement by failing to require an audit of a borrower that engaged in highly questionable transactions.

The whistleblower's allegations were referred on September 30, 2011, to the Honorable Thomas J. Vilsack, Secretary, USDA, to conduct an investigation pursuant to 5 U.S.C. § 1213(c) and (d). On January 5, 2012, Secretary Vilsack submitted the agency's report based on the results of an investigation conducted by a USDA Forest Service certified personnel misconduct investigator. The whistleblower was given the opportunity to review the report but declined to comment. As required by 5 U.S.C. § 1213(e)(3), I am now transmitting the report to you.

Specifically, the whistleblower disclosed that Ms. Dahl failed to audit and fully investigate indications of misuse of borrowed funds by Section 515 Multiple Family Housing Rural Rental Housing Project borrower, Renville-Bottineau Senior Citizens Home, Inc. (RBSCH), and permitted it to continue to receive RD loans and grants. Reports from a certified public accounting firm, which reviewed only a fraction of RBSCH's transactions, indicated that RBSCH's former project manager engaged in related-party transactions and did not accurately record other transactions in the company's ledger. The whistleblower alleged that Ms. Dahl failed to require an audit of the unexamined transactions and mischaracterized the reports from the accounting firm as an audit, thereby permitting RBSCH to receive additional loans and grants from RD.

The agency's report did not substantiate the whistleblower's allegations. The investigator did learn, however, that RD employees had already identified several discrepancies in RBSCH's financial information for fiscal year 2009, and that this finding had prompted a broader review by RD of RBSCH's financial information for fiscal years 2007 through 2010. This RD review, according to the report, uncovered several additional discrepancies in fiscal year 2010 which were traced to one specific individual. This individual, a project manager, resigned and repaid

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the funds which the report characterized as improperly "removed" from the project's account. According to the report, a complete audit was not pursued because RD regulations do not require a full audit of borrowers whose holdings consist of fewer than 16 housing units and because the expense of such an audit, which would have been borne by the borrower, may have jeopardized the financial feasibility of the project and, ultimately, the borrower's ability to repay the loan to RD.

Additionally, the report noted that a limited audit of fiscal year 2010 was conducted by Lervick & Johnson, a certified public accounting firm retained by the borrower, and forwarded to RD in October 2011. By this time, however, the borrower's 2010 records had been reviewed by RD and corrective action, including identification of the previously mentioned project manager as the responsible party, the property manager's resignation, and repayment of the funds, had already occurred. Finally, the report noted that because the financial discrepancies were found to be attributable to the actions of one individual no longer employed by the borrower, there is no need for heightened monitoring of this project.

I have reviewed the original disclosure and the agency's report. Based on my review, I have determined that the agency's report contains all of the information required by statute and that the findings appear to be reasonable.

As required by 5 U.S.C. § 1213(e)(3), I have sent copies of the agency report to the Chairwoman and Ranking Member of the Senate Committee on Agriculture, Nutrition, and Forestry and the Chairman and Ranking Member of the House Committee on Agriculture. I have also filed a copy of the report in our public file, which is now available online at www.osc.gov, and closed the matter.

Respectfully,



Carolyn N. Lerner

Enclosure