U.S. Department of Agriculture

Office of Inspector General
Great Plains Region

Audit Report

Farm Service Agency
Direct and Counter-Cyclical Program

Report No. 03099-196-KC
April 2006

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250

DATE: April 24, 2006

REPLY TO
ATTN OF: 03099-196-KC

TO: Teresa C. Lasseter
Administrator
Farm Service Agency

ATTN: T. Mike McCann
Director
Operations Review and Analysis Staff

FROM: Robert W. Young /s/
Assistant Inspector General
for Audit

SUBJECT: Direct and Counter-Cyclical Program Yields

This report presents the results of our audit of the yields established for the Direct and Counter-Cyclical Program (DCP). The Farm Service Agency (FSA) makes annual payments to producers through DCP, in part, based on the yields established for the crop years 1998 to 2001. For crop year 2004, FSA made DCP payments totaling about $9 billion. The purpose of our review was to determine if FSA's management controls were adequate to ensure DCP yields were properly calculated. We reviewed production evidence supporting yields established for crops on 239 farms in 6 counties in 2 States ($295,782 in direct and $340,685 in counter-cyclical payments were made to these farms for crop year 2004). We found that while some errors in yield determinations were made, the impact on DCP payments was immaterial. Nothing came to our attention during the audit to cause us to believe that the system of management controls over establishing yields was not adequate. We did note inconsistency between the Iowa and Texas State FSA Offices' requirements for the submission of production evidence to support the establishment of DCP yields. However, we found that this condition did not result in material monetary errors. Accordingly, we are making no recommendations to FSA and plan no further work on DCP program yields.

BACKGROUND:

DCP was authorized under Title I of the Farm Security and Rural Investment Act of 2002 and is administered by the U.S. Department of Agriculture's FSA. For crop years 2002 through 2007, the

Act authorized direct payments and market-based counter-cyclical payments. Producers had a one-time opportunity to update the bases and yields used to calculate program payments. If producers elected to update yields, they reported their production on Form FSA-658P, "Producer's Record of Production," at the time of sign up. Producers were required to list, but not submit, the documents to support their production. However, the documentation would be required at a later date, if subject to spot check, to verify the producer's reported production. FSA procedures required the FSA county committee (COC) or the county office (CO) to perform three levels of spot check of DCP participants based on crop yields.

- Category 1 – Proven and average yields for a crop are from 100.1 to 110 percent of the 4-year National Agricultural Statistics Service (NASS) average yield. COC shall review the lesser of 5 percent of the yields listed or 25 reviews for Category 1.

- Category 2 – Proven and average yields for a crop are from 110.1 to 125 percent of the 4-year NASS average. COC shall review the lesser of 10 percent of the yields listed or 25 reviews for Category 2.

- Category 3 – Proven and average yields for a crop are 125.1 percent or greater than the 4-year NASS average. COC shall review 100 percent of the yields for Category 3.

FSA also required reviews if the producer was an FSA employee, State committee or COC member, or a spouse or minor child of such individual. COCs could also perform a yield review when they had a reason to question any yield.

OBJECTIVE:

The objective of our review was to determine if management controls were adequate to ensure DCP yields were properly calculated. Specifically, we assessed (1) the yield reviews performed by the COC and/or CO, (2) the reliability of production evidence provided by producers, (3) CO actions to ensure that production evidence was acceptable and accurately distributed between farms, (4) the process used by COs to select samples for spot checks, and (5) the State office monitoring of the completion of yield reviews.

SCOPE AND METHODOLOGY:

We selected the DCP yield operations in the States of Iowa and Texas because of the high program participation level and the different program crops grown. These States represented 10 percent and 8 percent, respectively, of the DCP direct payments made in crop year 2003. Our scope included those operations/processes related to the establishment of yields connected with the DCP program and included DCP payments made for crop year 2004. We selected crop year 2004 for payment analysis due to the higher level of counter-cyclical payments made in the selected States for this crop year when compared to previous years. Crop year 2004 payments under DCP totaled about $9 billion in all States; in Iowa and Texas, DCP payments totaled about $1.9 billion. The audit was performed from March 2005 through February 2006 with work completed at the FSA national office in Washington, D.C.; at the FSA State office and four COs in Iowa; and at the FSA State office and two COs in Texas. Those six COs issued about $57 million in DCP payments.

To accomplish our objectives, we (1) reviewed applicable laws, regulations, and FSA guidance concerning establishments of DCP yields; (2) interviewed national, State, and CO officials to determine the DCP activities performed at each level; (3) performed yield verifications for Categories 1, 2, 3, and CO-required spot checks to verify compliance with program procedures; (4) contacted producers to obtain production evidence related to our sample farms to verify the information they reported to FSA; and (5) reviewed documentation from CO files related to the yield calculations or payment information.

This audit was performed in accordance with Government Auditing Standards.

REVIEW RESULTS:

In Iowa and Texas, we found that DCP yields were generally established in accordance with prescribed regulations and procedures. While some errors in yield determinations were made, the impact on DCP payments was immaterial. Required management controls were also effectively implemented. The COs properly selected at least the minimum number of yields for spot check and second party reviews of yield determinations were performed by the COC and/or CO staff. The production evidence obtained was also acceptable and accurately distributed between farms. The State offices monitored the yield update process through district director reviews and monthly conference calls. We concluded that State office oversight was adequate over CO operations for establishing and verifying DCP yields.

While nothing came to our attention during the audit to cause us to conclude the system of management controls over establishing yields was not adequate, we did find some differences in the processes used to establish yields in the two States reviewed. In Iowa, the State FSA office did not require producers selected for spot check to provide actual production evidence if their established DCP yield was supported by Loan Deficiency Payment (LDP)/loan records on file at the COs. The Texas State FSA office, however, required COs to collect all actual production records from producers who requested to update their yields.[1] The Iowa State FSA office also instructed its COs to exclude from DCP yield verification, those producers who had been previously subject to spot check under the Price Support Program. Although the yield verification processes were different, we did not find a material adverse impact in the reliability of yields established for DCP.

To determine the propriety of yields established and production evidence provided for DCP, we judgmentally selected crop yields for review from the listings for potential spot checks (i.e., Category 1 (22 yields), Category 2 (48 yields), Category 3 (73 yields) and required reviews

[1] FSA Handbook 1-DCP, paragraph 153 provides, in part, that loan deficiency payment (LDP)/loan records are acceptable production evidence if the production evidence had been previously submitted, in conjunction with the price support spot check provisions, or at the time the LDP/loan was requested.

(96 yields)). We selected yield samples with the greatest variance from the 4-year NASS yield, as shown on the spot check listings. Our selections from Categories 1 and 2 (70 yields) were yields that had not been previously selected by CO for spot check. For each yield selected for review, we requested the supporting production evidence from the producers and verified that this evidence supported quantities of claimed production. If differences were identified, we recalculated the yield and program payments.

For the 70 yields selected from Categories 1 and 2, we found 17 (24.29 percent) with errors that resulted in 2004 DCP payment differences totaling $1,492. For the remaining 169 yields selected from other categories, we found 13 errors (7.69 percent) totaling $432. In total, we reviewed yield determinations for a specific crop on 239 farms. We determined that 30 yields[2] were incorrect and resulted in over/under payments. For the 30 yields, we found 22 soybean yields were overstated by an average of 5 bushels per acre,[3] 5 corn yields were overstated by an average of 9 bushels per acre, 1 cotton yield was overstated by 1 pound per acre, and 2 grain sorghum yields were understated by an average of 29 bushels per acre.[4] For the 2004 crop year, we reviewed $295,782 in direct and $340,685 in counter-cyclical payments and identified incorrect payments totaling $1,088 (0.37 percent) and $836 (0.25 percent), respectively.

Although our analyses showed a higher error rate for yields not previously spot checked by FSA than those that had been subject to the FSA spot check procedure, we noted that the resultant improper payments for 2004 were minimal ($88 average versus $33 average per erroneous yield[5] respectively). As far as the number of errors noted between the two States, we found that 27 of the 190 yields (14 percent) in Iowa had errors totaling $1,851, or about $69 each, and 3 of the 49 yields (6 percent) in Texas had errors totaling $73, or about $24 each. We generally attributed the low error rate in Texas to Texas' policy of collecting all actual production records from producers who requested to update their yields.

We determined that further audit work is not warranted at this time because the errors we noted in DCP yields and their impact on DCP payments were immaterial. Also, management controls appeared to be generally functioning as intended. We noted during our review that the FSA county office review program performed a targeted review of DCP operations, dated December 2005. Although this review was not targeted at determining how yields were established, the report did note incorrect yields had occurred at a low rate and were attributed to calculation errors, insufficient supporting documentation, or missing documentation. This review also concluded that these deficiencies were immaterial.

Since we have no findings or recommendations, no further action is required by your office. We

[2] Informational memorandums were provided to the Iowa and Texas State FSA offices detailing the yield variances for their use in taking appropriate corrective action. Eleven of the 30 yields resulted in DCP overpayments of less than $25.

[3] One soybean yield was overstated by 26 bushels.

[4] One grain sorghum yield was understated by 56 bushels.

[5] $1,492 total improper payments divided by 17 errors = $87.76 per yield not previously spot checked by FSA, and $432 divided by 13 = $33.23 per yield previously subject to FSA spot check.

appreciate the courtesies and cooperation extended to us during the audit.

Informational copies of this report have been distributed to:

Administrator, FSA	
Attn: Agency Liaison Officer	(4)
Government Accountability Office	(1)
Office of Management and Budget	(1)
Office of the Chief Financial Officer	
Director, Planning and Accountability Division	(1)