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Midwest Region

Audit Report

Controls Over the Sugar Beet Disaster Program and Production Estimates for the Sugar Price Support Program

Report No. 03601-0011-Ch
JULY 2004



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington D.C. 20250



DATE: July 26, 2004

REPLY TO
ATTN OF: 03601-0011-Ch

SUBJECT: Controls Over the Sugar Beet Disaster Program and Production Estimates for the Sugar Price Support Program

TO: James R. Little
Administrator
Farm Service Agency

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

We have completed our survey of the Farm Service Agency's (FSA) controls over the subject areas. Our objectives for the Sugar Beet Disaster Program were to evaluate controls to ensure producers were eligible; payments were correct; and the sum of the sugar beet crop's value, net crop insurance indemnity, and sugar beet disaster payment did not exceed 100 percent of the value of expected production. In response to a request from agency officials, we also evaluated controls over the accuracy of production estimates provided by sugar beet processors, and assessed the risk that processors provided inaccurate production estimates to FSA for the Sugar Price Support Program. Our survey did not disclose any problems in those areas.

BACKGROUND

The Agricultural Assistance Act of 2003 authorized the Sugar Beet Disaster Program, which provided assistance to producers who had suffered sugar beet losses due to weather-related disasters or other emergency conditions. In 2003, FSA paid over \$48 million to producers for sugar beet losses, including over \$24 million to producers in Minnesota and another \$10 million to producers in North Dakota. FSA disbursed the remaining \$14 million to producers in 9 other States. To receive program payments, producers had to complete a farm operating plan, wetland determination, and gross income certification. FSA also required uninsured producers to provide documentation as to production results. In addition to information submitted by producers, FSA relied on loss data provided by the Risk Management Agency (RMA) to determine producer eligibility and calculate loss percentages for the Sugar Beet Disaster Program. FSA's automated system integrated the RMA information into the disaster payment program.

For the Sugar Price Support Program, FSA collects production data and confidential production estimates monthly from sugar beet processors and forwards this information to the World

Agricultural Outlook Board, which determines U.S. sugar supply and use. FSA uses World Board data to calculate an overall sugar allotment quantity that closely matches estimated U.S. demand. FSA divides this overall quantity into individual allotments for the nine sugar beet processors nationwide based on their historical production. The individual allotments limit the amount of sugar each processor can sell.

SCOPE AND METHODOLOGY

We performed work from January to May 2004 at FSA's National Office, the Minnesota State FSA Office, two FSA county offices in Minnesota, and the Southern Minnesota Beet Sugar Cooperative. For the Sugar Beet Disaster Program, we evaluated FSA's internal controls over producer eligibility and payment amounts. We also evaluated FSA's controls to ensure the sum of producer's sugar beet crop's value, net crop insurance indemnity, and sugar beet disaster payment did not exceed 100 percent of the value of expected production. We judgmentally selected 20 producers who participated in the Sugar Beet Disaster Program. We selected producers who farmed in multiple counties or had high payment amounts. FSA disbursed \$4.6 million in program payments for crop years 2001 and 2002 in our sampled counties. The producers in our sample from those counties received nearly \$570,000 in disaster payments for sugar beet losses. We reviewed FSA, RMA, and processor records for our sampled producers to verify the accuracy of payments and evaluate the adequacy of stated controls. These records included FSA's Reports of Acreage, RMA's policyholder information and production worksheets, and sugar processors' yield reports. We interviewed FSA and processor staff as needed to accomplish our objectives.

For the Sugar Price Support Program, we selected the sugar processor at the request of FSA officials. We reviewed this processor's support for actual and estimated production for the first and last months of fiscal year 2003.

We conducted this audit in accordance with Government Auditing Standards.

SUMMARY OF WORK PERFORMED

For the 20 judgmentally selected producers, we verified that FSA had adequate controls to ensure accurate Sugar Beet Disaster Program payments were made to eligible producers. Our tests disclosed that FSA correctly used RMA data when determining if producers met the 35 percent loss determination. Also, FSA used RMA data to calculate the various payment options and to ensure that sugar beet crop values, net crop insurance indemnities, and sugar beet disaster payments did not exceed 100 percent of the value of expected production. We verified the accuracy of calculated payment amounts. Lastly, we verified that each producer had a signed farm operating plan, wetland determination, and a gross income certification. We found that all producers had properly completed the forms.

For the Sugar Price Support Program, FSA officials were concerned that sugar processors were overstating production estimates to obtain larger sugar allotments. The production records of the processor in our review supported the estimates provided to FSA. We also concluded that processors could not substantially increase sugar allotments by overstating production estimates. We made this conclusion because FSA bases sugar allotments on historical production, and only uses estimates if it needs to reassign a processor's allotment. In our sample year, FSA reassigned less than two percent of the overall allotments.

CONCLUSION

Our examination did not identify any material internal control weaknesses in the review areas. We concluded that FSA had adequate controls to ensure that only eligible producers received accurate Sugar Beet Disaster Program payments. We also concluded that processor overstatements of production estimates for the Sugar Price Support Program would not adversely impact sugar allotments.

We appreciate the assistance and cooperation of your staff. If you have any questions, please have a member of your staff contact Ernest M. Hayashi, Director, Farm and Foreign Agricultural Division, at (202) 720-2887.

/S/

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Assistant Inspector General
for Audit

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