



U.S. Department of Agriculture



Office of Inspector General
Western Region

Audit Report

Farm Service Agency Apple Market Loss Assistance Payment Program

Report No. 03601-12-SF
June 2004



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: June 4, 2004

REPLY TO

ATTN OF: 03601-12-SF

SUBJECT: Apple Market Loss Assistance Payment Program

TO: James R. Little
Administrator
Farm Service Agency

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

This report presents the results of our survey of the Apple Market Loss Assistance Payment (AMLAP) program, which provided \$261.5 million to apple growers who suffered losses due to low market prices. Our objectives were to evaluate the Farm Service Agency's (FSA) administration of the AMLAP program and to determine whether effective controls for the program had been established. During our survey, we focused on program payments made in the Washington State FSA Office because it disbursed over 51 percent (\$133 million) of the total program payments and annually produces over half of the nation's apples. Although FSA generally administered the program correctly, we found 11 out of 20 judgmentally selected growers incorrectly certified their production when applying for the AMLAP program. As a result, four growers were overpaid \$4,710 and seven growers were underpaid \$12,050, totaling \$16,760 in improper payments. In the total scope of this program, we concluded that the small amount of these improper payments was not at a materiality level sufficient to require additional audit work. See exhibit A for a summary of the monetary results. See exhibits B and C for additional information on the overpayment and underpayment calculations, respectively.

BACKGROUND

During the late 1990's, apple growers experienced the lowest prices in a decade for their crops. A combination of economic factors such as increasing world production, stagnant domestic consumption, natural disasters, and low-priced imports resulted in low market prices for apples. In response, Congress enacted the AMLAP program, authorizing FSA to pay over \$268 million to assist apple growers in offsetting losses due to low market prices. FSA provides assistance to growers through a variety of farm programs that are serviced by a network of State and county offices.

The AMLAP program was enacted in three phases, establishing payment rates and maximum eligible production amounts for each phase. Congress enacted the initial phase, AMLAP I¹, on October 28, 2000, to provide payments for crop year 1998 or 1999. The subsequent phases, AMLAP II² and III³, provided payments for crop year 2000.⁴ Growers self-certified their total pounds of apples harvested to receive AMLAP program payments.

FSA made payments to growers or “apple operations”⁵ based on a fixed national payment rate that was calculated for each AMLAP program phase by the FSA National Office. The payment rate was calculated by dividing the total appropriated funds (less a reserve amount) by the total pounds of harvested apples.⁶ Grower payments were calculated by multiplying the self-certified production amount (up to a maximum amount) by the payment rate. See exhibit D for a summary of the AMLAP program phases.

OBJECTIVES

Our objectives were to evaluate FSA’s administration of the AMLAP program and to determine whether effective controls for the program had been established. Specifically, we determined whether (1) growers were eligible to receive AMLAP payments, (2) growers accurately reported their production amounts, and (3) FSA correctly computed payment amounts.

SCOPE

This was a nationwide review of AMLAP I – III program payments made to apple growers for production in crop years 1998 through 2000. We selected Washington State for review because it produced about 53 percent of the nation’s apples and received over 51 percent (\$133 million) of total program payments (\$261.5 million). Also, we collected spot check results from New York State, the second largest apple-producing State, which disbursed \$29 million in AMLAP payments.

For AMLAP II and III, the Yakima County FSA Office in Washington disbursed \$30 million, which was the largest amount of AMLAP payments for any county office in the State. We judgmentally selected 20 growers that were near the maximum payment amount and had not been selected for spot check. In addition, their payments were rounded, which we considered to be an indicator of estimated, not actual, production. Our sampled growers received a total of \$1.3 million from Yakima County.

¹ Public Law (P.L.) 106-387, section 811, dated October 28, 2000.

² P.L. 107-76, section 741, dated November 28, 2001; amended by P.L. 107-117, section 102, dated January 10, 2002.

³ P.L. 107-171, section 10105, dated May 13, 2002.

⁴ The funds available to make payments under AMLAP II were not sufficient to cover all the losses incurred by producers with respect to their 2000 crop of apples. Congress authorized AMLAP III payments to provide additional assistance.

⁵ FSA defines an apple operation as any person or group of persons who, as a single unit, as determined by the Commodity Credit Corporation, produce and market apples and whose production and facilities are located in the United States.

⁶ 7 CFR 1470.9 (March 8, 2001); 7 CFR 1470.109 (September 12, 2002); and 7 CFR 1470.209 (October 11, 2002).

Fieldwork was performed in July through October 2003 at the FSA National Office in Washington, D.C.; Washington State FSA Office in Spokane; Yakima County FSA Office in Yakima, Washington; and New York State FSA Office⁷ in Syracuse. The review was performed in accordance with generally accepted government auditing standards.

METHODOLOGY

To accomplish our objectives, we (1) interviewed FSA officials, and reviewed applicable laws, regulations, policies, and procedures to determine how the AMLAP program was administered at the FSA National, State, and county offices; (2) reviewed the program applications in our sample; (3) obtained production records from packinghouses and warehouses, (4) analyzed grower FSA files; (5) compared production records with self-certified production amounts to identify discrepancies; (6) interviewed growers to determine reasons for the discrepancies; and (7) verified whether spot checks were performed and analyzed for any trends.

FINDING

Eleven out of twenty sampled growers incorrectly certified their production when applying for the AMLAP program. This occurred because the growers either estimated their production or provided inaccurate information to FSA. As a result, four growers were overpaid \$4,710 and seven growers were underpaid \$12,050, totaling \$16,760 in improper payments.

The AMLAP program was a self-certifying program where the growers were not required to show documentation of production amounts to apply for payment. Regulations state that growers must, “certify to the accuracy and truthfulness of the information provided in their application...[which]...is subject to verification...”⁸ AMLAP applications required growers to certify that the total reported pounds of apples produced and harvested were “true and correct.”

We obtained production records for 20 sampled growers, verified their production directly with warehouses and packinghouses, and compared it with the certified production they reported to FSA. We found that four growers were overpaid and seven were underpaid because (1) the packinghouses made errors when recording production, (2) the growers’ personal production records were inaccurate, (3) the growers either over- or underestimated the total number of bins, or (4) the growers used standard bin weights⁹ because they claimed that actual pounds were not yet available. However, since the program phases were administered 2 years after the respective crop years, production records should have been available.

FSA should collect \$4,710 from the four growers who were overpaid. In an August 2, 2001, memorandum to the Washington State FSA Office, the Acting Deputy Administrator for Farm Programs established policy for evaluating requests for additional payments in cases where

⁷ Fieldwork for the New York State FSA Office included conducting interviews with FSA officials and collecting spot check results to determine whether state administrators encountered any unusual situations during the program.

⁸ 7 CFR 1470.4 (March 8, 2001); 7 CFR 1470.104 (September 12, 2002); and 7 CFR 1470.204 (October 11, 2002).

⁹ The standard bin weight used is 875 pounds; the Risk Management Agency also uses this bin weight.

growers were underpaid due to certification errors. The Acting Deputy Administrator determined these errors would not be a basis for issuing additional payments. For the seven growers who were underpaid \$12,050, the Washington State FSA Office should follow this policy. Therefore, we are not making any recommendation on these underpayments.

Recommendation No. 1:

FSA should collect the overpayments of \$4,710 from the four growers who overreported their production.

Agency Response:

FSA concurred with this finding and recommendation. As of April 29, 2004, three of the four overpayments totaling \$4,523 have been collected by administrative offset, and a receivable letter has been sent to grower No. 3 to collect the remaining outstanding overpayment of \$187.

OIG Position:

We accept FSA's management decision on this recommendation. For final action, FSA needs to forward documentation to the Office of the Chief Financial Officer (OCFO) showing collection of the \$187 overpayment from grower No. 3. For the other three growers, FSA has collected by administrative offset the overpayments totaling \$4,523; we are forwarding to OCFO the FSA documents showing collections of these overpayments.

CONCLUSION AND REQUIRED AGENCY ACTION:

Your May 11, 2004, response (excluding enclosures) to the draft report has been included as exhibit E of this report. We have accepted your management decision. See instructions above for taking final action.

Departmental Regulation 1720-1 requires final action to be taken within 1 year of the management decision to preclude being listed in the Secretary's Report on Performance and Accountability. Please follow your internal agency procedures in forwarding final action correspondence to OCFO.

We appreciate the assistance and cooperation of your staff during our review.

/S/

ROBERT W. YOUNG
Assistant Inspector General
for Audit

Exhibit A – Summary of Monetary Results

FINDING NUMBER	RECOMMENDATION NUMBER	DESCRIPTION	AMOUNT	CATEGORY
1	1	Four growers overreported their production amounts when applying for the AMLAP program.	\$ 4,710	Questioned Costs – Recovery Recommended
1	N/A ¹	Seven growers underreported their production amounts when applying for the AMLAP program.	\$ 12,050	Other – Underpayments
TOTAL MONETARY RESULTS			\$ 16,760	
¹ We are not making any recommendation on these underpayments because FSA’s Acting Deputy Administrator for Farm Programs determined these errors would not be a basis for issuing additional payments.				

Exhibit B – Overpayments

Exhibit B – Page 1 of 1

GROWER NO.	PROGRAM PHASE	PAYMENT RATE (Dollars Per Pound)	PRODUCTION AMOUNT CERTIFIED (In Pounds)	OVER-REPORTED PRODUCTION AMOUNT (In Pounds)	AMLAP PAYMENT AMOUNT	OVER-PAYMENT AMOUNT
A	B	C	D	E	C x D	C x E
1	AMLAP II	0.0109149	4,873,750	127,750	\$ 53,196	\$ 1,394
	AMLAP III	0.0134464			\$ 65,534	\$ 1,718
Total Overpayments to Grower No. 1						\$ 3,112
2	AMLAP II	0.0109149	3,326,000	56,905	\$ 36,303	\$ 621
	AMLAP III	0.0134464			\$ 44,723	\$ 765
Total Overpayments to Grower No. 2						\$ 1,386
3	AMLAP II	0.0109149	4,170,250	7,695	\$ 45,518	\$ 84
	AMLAP III	0.0134464			\$ 56,075	\$ 103
Total Overpayments to Grower No. 3						\$ 187
4	AMLAP I	0.0176845	1,584,476	1,431	\$ 28,021	\$ 25
Total Overpayments to Grower No. 4						\$ 25
TOTAL OVERPAYMENTS						\$ 4,710

Exhibit C – Underpayments

Exhibit C – Page 1 of 1

GROWER NO. ¹	PROGRAM PHASE	PAYMENT RATE (Dollars Per Pound)	PRODUCTION AMOUNT CERTIFIED (In Pounds)	UNDER-REPORTED PRODUCTION AMOUNT (In Pounds)	AMLAP PAYMENT AMOUNT	UNDER-PAYMENT AMOUNT
A	B	C	D	E	C x D	C x E
5	AMLAP II	0.0109149	4,584,117	415,883	\$ 50,035	\$ 4,539
	AMLAP III	0.0134464			\$ 61,640	\$ 5,592
Total Underpayments to Grower No. 5						\$ 10,131
6	AMLAP I	0.0176845	1,500,000	34,848	\$ 26,527	\$ 616
Total Underpayments to Grower No. 6						\$ 616
7	AMLAP II	0.0109149	4,568,375	17,500	\$ 49,863	\$ 191
	AMLAP III	0.0134464			\$ 61,428	\$ 235
Total Underpayments to Grower No. 7						\$ 426
8	AMLAP I	0.0176845	1,540,000	21,777	\$ 27,234	\$ 385
Total Underpayments to Grower No. 8						\$ 385
9	AMLAP I	0.0176845	1,578,373	21,627	\$ 27,913	\$ 382
Total Underpayments to Grower No. 9						\$ 382
10	AMLAP II	0.0109149	3,801,000	2,625	\$ 41,488	\$ 29
	AMLAP III	0.0134464			\$ 51,110	\$ 35
Total Underpayments to Grower No. 10						\$ 64
11	AMLAP I	0.0176845	1,594,250	2,625	\$ 28,194	\$ 46
Total Underpayments to Grower No. 11						\$ 46
TOTAL UNDERPAYMENTS						\$ 12,050

¹ Based on an August 2, 2001, memo from FSA's Acting Deputy Administrator for Farm Programs, these growers are not entitled to additional payments.

Exhibit D – AMLAP Program Summary

Exhibit D – Page 1 of 1

PROGRAM PHASE	CROP YEARS	MAXIMUM ELIGIBLE PRODUCTION AMOUNT² (Millions lbs.)	PAYMENT RATE PER POUND (Dollars)	TOTAL PAYMENTS³ (Millions)
AMLAP I	1998 or 1999 ¹	1.6	0.0176845	\$ 95.1
AMLAP II	2000	5	0.0109149	\$ 74.3
AMLAP III	2000	5	0.0134464	\$ 92.1
TOTAL				\$ 261.5

¹ Growers were paid for the larger of their 1998 or 1999 crop during AMLAP I.

² Eligible production means apples that were produced and harvested in the United States anytime during the program's applicable crop year(s) up to a specific maximum amount per apple operation.

³ Even though Congress authorized AMLAP program payments in excess of \$268 million, portions were allocated to reserve amounts before payments were made.

Exhibit E – FSA Response to the Draft Report



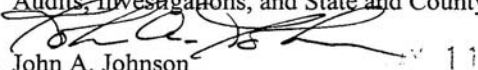
United States
Department of
Agriculture

Farm and Foreign
Agricultural
Services

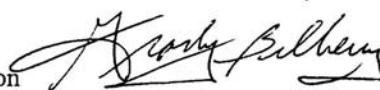
Farm Service
Agency

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TO: Philip Sharp, Chief
Audits, Investigations, and State and County Review Branch

THROUGH:  11
John A. Johnson
Deputy Administrator for Farm Programs

FROM: Grady Bilberry
Director
Price Support Division



MAY 10 2004

SUBJECT: Response to Official Draft of OIG Report 03601-12-SF
Apple Market Loss Assistance Payment Program

We have reviewed the official draft report prepared by OIG regarding the survey results of the Apple Market Loss Assistance Payment (AMLAP) Programs. The survey findings revealed that four growers in Washington State were overpaid as a result of incorrect production certifications when applying for the programs. OIG has recommended that FSA collect the overpayments of \$4,710 from the four growers who over-reported their production.

We agree with the OIG survey findings and recommendation. The Yakima County FSA Office in Washington has been instructed to take action to collect the four overpayments discovered by OIG during their AMLAP audit investigation. As of April 29, 2004, three of the overpayments have been collected by administrative offset in the total amount of \$4,523. A receivable letter has been sent to the fourth grower to collect the remaining outstanding overpayment of \$187.

We have enclosed evidence to support the actions taken by FSA to collect the overpayments. If you have any questions regarding this case, please contact Danielle Cooke in PSD at (202) 720-1919.

Enclosure