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Southeast Region

Audit Report

Farm Service Agency Tobacco Transition Payment Program – Quota Holder Payments and Flue-Cured Tobacco Quotas

Report No. 03601-12-At
September 2007



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



September 26, 2007

REPLY TO

ATTN OF: 03601-12-At

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: Tobacco Transition Payment Program (TTPP) – Quota Holder Payments
and Flue-Cured Tobacco Quotas

This report represents the results of our audit of the Farm Service Agency's management of the TTPP quota holder payments and flue-cured tobacco quota. Your August 9, 2007, written response to the official draft report is included as exhibit F with excerpts and the Office of Inspector General's (OIG) position incorporated into the relevant sections of the report.

Based on the information in your written response, we accept management decision for Recommendation 1. Please follow your internal agency procedure in forwarding final action correspondence to the Office of the Chief Financial Officer. Management decisions have not yet been reached on Recommendations 2, 3, 4, 5, 6, and 7, to include the monetary results associated with those recommendations as presented in exhibit A of the report. The information needed to achieve management decision for each of the open recommendations is described in the OIG Position section of the report following the respective recommendation.

In accordance with Department Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned and the timeframes for implementation for those recommendations for which a management decision has not yet been reached. Please note that the regulation requires a management decision to be reached on all

findings and recommendations within a maximum of 6 months from report issuance, and final action to be taken within 1 year of each management decision.

We appreciate your timely response and the cooperation and assistance provided our staff throughout the audit.

Executive Summary

Farm Service Agency - Tobacco Transition Payment Program (03601-12-At)

Results in Brief

Prior to 2004, the U.S. Government supported tobacco producers through a system of planting restrictions and price support loans. On October 22, 2004, President Bush signed into law the Tobacco Transition Payment Program (TTPP). TTPP ended the older system and replaced it with annual transitional payments for 10 years to eligible tobacco quota holders¹ and producers. Marketing quotas, which specified the maximum quantity of tobacco that could be sold, were assigned by the U.S. Department of Agriculture each year to farms that had a history of tobacco production. The purpose of the quotas was to limit the quantity of tobacco farmers were allowed to grow and bring to market. TTPP payments are funded through \$10.14 billion in assessments on tobacco companies. The Office of Inspector General (OIG) initiated this audit to determine if the Farm Service Agency (FSA) had adequate controls in place to ensure that TTPP payments are issued only to eligible tobacco quota holders. Also, because FSA had identified a computer software problem which may have affected the accuracy of the database for flue-cured tobacco (FCTB) common ownership quota transfers (a procedure by which producers may transfer their tobacco quota from one piece of land they own to another) we tested calculations related to those transfers.²

To evaluate whether FSA's controls were adequate to ensure that payments were issued to eligible quota holders, we matched FSA's database of 387,182 contracts totaling \$6.24 billion to its database of 636,603 quota holders and identified 27,601 contracts for which the person(s) approved for TTPP payments were not listed in the quota holder database (mismatched contracts). We limited our review to 81 counties within the top 5 tobacco producing States (Kentucky, North Carolina, South Carolina, Tennessee, and Virginia) representing approximately 90 percent of the contract payments. This 5 State/81 county sample provided us with a universe of 12,988 mismatched contracts totaling \$166,761,910 from which we selected for review a sample of 300 contracts using a stratified random sampling plan. Three of these five States are FCTB producing States (North Carolina, South Carolina, and Virginia).

To determine the extent to which the computer software flaw affected FCTB common ownership tract to tract transfers, we identified from the database a universe of 1,081 transfers and reviewed a sample of 150 for the 3 FCTB States included in our audit. Of the 150 transfers selected, 27 were common ownership transfers.

¹ Quota holders are the landowners of the farm where a tobacco quota was assigned.

² In 2003 FSA identified a software error specifically related to common ownership transfers of flue-cured tobacco (FCTB). The error only affects FCTB because quota is determined from acreage and allotments which can fluctuate as compared to a fixed poundage as with other tobacco types.

Based upon our review of contracts and transfers in 61 counties in 5 tobacco-producing States,³ we found that FSA's controls were adequate to ensure that TTPP payments were issued only to eligible tobacco quota holders, and that tobacco quota transfers of FCTB were calculated correctly. However, we did find the following:

FSA Officials Did Not Obtain Documentation to Support Changes in Quota Ownership

An initial assessment of 18 judgmentally selected contracts in 1 North Carolina county found that 8 contracts, totaling \$44,296, were approved without documented proof of ownership of a farm with an established tobacco quota. Our review of courthouse records disclosed that these eight contract payees were not owners of the land in which the quota was attached. These contract holders received \$7,279 in improper payments for the first 3 years of the contract and potential overpayments of \$37,017 over the remaining 7-year contract period. Based on these initial findings we expanded our scope to include 300 statistically selected contracts in 5 tobacco-producing States.

Our review of the 300 statistically selected contracts found that FSA county offices (CO) did not always follow the agency's procedures and obtain documentation of ownership when approving contracts for 41 applicants:

- for 32 contracts, county officials approved 10-year contracts totaling \$1,358,336 without proof that the applicant owned the farm in question. Therefore, there were no assurances that the payees were the eligible quota holder and entitled to the payments. Although we subsequently determined that the applicants owned the land and were eligible to receive the payments, the COs did not follow FSA procedures and document the record with proof of ownership;⁴
- for six contracts totaling \$384,314, county officials approved the 10-year contracts for parties other than the owners of record. The COs did not follow agency procedures when determining payments to surviving spouses and estates, or when purchase agreements were involved, which resulted in payees that were not the eligible quota holders;
- for three 10-year contracts totaling \$20,202, county officials did not follow procedures when determining the division of quota among multiple owners. Since the procedures were not followed, 3 quota

³ We statistically selected a sample of 300 contracts and another sample of 150 transfers that were located in 60 counties. An additional 18 contracts and 6 transfers were selected from one county where we performed preliminary testing.

⁴ OIG obtained documentation at county courthouses that showed the applicants owned the land in question and were eligible to receive the payment.

holders have been approved for \$10,101 of payments in excess of what they were entitled to.

These errors identified in our review occurred because CO employees did not follow agency procedures that required each ownership change be supported by acceptable documentation. Despite procedures that specifically required the COs perform second party reviews of each change in quota holder and report to the State offices (SO) any ownership changes that were not supported by acceptable documentation, we still found cases in which the officials knew the applicants personally and did not request the required ownership documentation. Based upon a statistical projection of the errors in these 41 contracts, we estimate that, of the 12,988 contracts in the 5 State 81 county universe, the FSA COs may have approved 2,108 contracts totaling \$20.5 million without following procedures for documenting eligibility determinations or for division of quota among multiple owners. However, statistical projections could not be made with reasonable accuracy for the nine ineligible.

FSA COs Did Not Always Handle Common Ownership Transfers Correctly

In 2003, FSA identified a problem in the computer software it uses to process common ownership transfers of FCTB quota—a procedure by which producers can transfer their quota of tobacco between commonly owned (the same owner) tracts on the same farm. In some instances, when transfers were processed, the software incorrectly altered producers' tobacco basic quota (BQ).⁵ Although FSA corrected this software problem, it did not review all common ownership transfers made before the software was revised. Since TTPP payments were calculated from the established base quotas on a farm or farm tract, the payments could be based on incorrect base quota levels (BQL) and could affect transfers in all six FCTB States.

In total we reviewed 33 (27 statistically selected and 6 judgmentally selected) common ownership transfers and found 3 cases (2 statistically selected and 1 judgmentally selected) or nine percent, in which the software problem resulted in incorrect tobacco quota levels. From these errors we determined that for the three transfers, the incorrect BQL caused two TTPP contracts to be overstated by \$26,992 and one contract to be understated by \$2,828. But, these amounts represent only 3.5 percent of the total payment amounts for these 3 incorrect contracts in our sample of 33. Because TTPP payments will continue to be based on the incorrect BQL data, FSA needs to be cognizant of potential erroneous payment amounts associated with common ownership transfers of FCTB quota. However, due to the lack of materiality of erroneous payment amounts in our sample we are not making a formal recommendation on this issue at this time.

⁵ BQ is the amount of tobacco quota or allotment (converted to pounds) established for the farm that is eligible for payment. With implementation of TTPP, the quota or allotment is referred to as base quota level (BQL) as it relates to determining TTPP payments.

Recommendations in Brief

FSA needs to take action to correct the 49 contracts (41 statistically selected and 8 judgmentally selected contracts). To ensure that TTPP payments are issued only to eligible quota holders, we recommend that FSA:

- Instruct SOs to spot check the deleted/added quota holder reports in each CO to ensure that ownership changes are supported by acceptable documentation or placed in dispute until the parties provide acceptable documentation to support the ownership changes. Report to the NO the results of the SO reviews.
- Recover any portion of the \$438,711 contract amounts that was improperly issued to 17 payees (14 payees: 6 statistically selected and 8 judgmentally selected payees who were not the owners of record and 3 payees in which the division of quota was not properly determined) who were ineligible to receive the payment or received erroneous payments.

Also, FSA needs to:

- Review the three transfers in question, correct the BQL data and recompute the TTPP contracts to correct two overstated contracts totaling \$26,992 and one understated contract totaling \$2,828.

Agency Response

In its August 9, 2007, written response to our official draft report, FSA generally concurred with the reported findings and with each recommendation. FSA's response (sans attachments) is included in this report as exhibit F.

OIG Position

We agree with FSA's corrective action. Based on FSA's response, we were able to achieve management decision on Recommendation 1. The actions needed to achieve management decision for the remaining recommendations (Recommendations 2 through 7) are described in the OIG Position section following each recommendation in the report.

Abbreviations Used in This Report

BQ	Basic Quota
BQL	Base Quota Level
CED	County Executive Director
CFR	Code of Federal Regulations
CO	County Office
DAFP	Deputy Administrator for Farm Programs
FCTB	Flue-Cured Tobacco
FSA	Farm Service Agency
FY	Fiscal Year
IT	Information Technology
NO	National Office
SED	State Executive Director
SO	State Office
TTPP	Tobacco Transition Payment Program

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Background and Objectives

Background

On October 22, 2004, President Bush signed into law the Tobacco Transition Payment Program (TTPP) as part of the American Jobs Creation Act. This program replaced the tobacco marketing quota and price support loan programs, and established a 10-year transitional payment program. Rather than using Federal funds, TTPP is funded through assessments of approximately \$10.14 billion on domestic manufacturers of tobacco products and importers of foreign tobacco.

All aspects of the Federal tobacco marketing quota and price support loan programs have ended. Beginning with the 2005 tobacco crop there are no more planting restrictions, no more marketing cards, and no more price support loans. Signing up for the TTPP is the final and only opportunity to receive Federal payments related to tobacco production.

The 10-year transitional period for TTPP began in 2005 and will end in 2014. In fiscal year (FY) 2005, payments were issued between June and September; in future years, payments will be issued in January.

Eligibility and Payments for Quota Holders

Quota holders are the landowners of the farm where a tobacco quota was assigned. To be eligible for TTPP, quota holders must be the owners of a farm with an established 2004 basic marketing quota on their farm as of October 22, 2004, the date the President signed the bill that ended the quota system. Landowners who purchased farms after this date are not eligible to receive the quota holder payment. When an applicant completes a Form CCC-955, "Tobacco Transition Payment Quota Holder Contract," Farm Service Agency (FSA) county office (CO) employees must determine if the applicant is eligible to receive a payment.

TTPP applicants that were not listed by FSA as quota holders on October 22, 2004, must fill out a Form CCC-955 and must meet ownership requirements to qualify for a quota holder payment. To establish their ownership of a farm, applicants must provide their local FSA COs with a copy of a deed, contract for deed, will, or other document proving ownership. If individuals have entered into an agreement for divisions of quota pounds for TTPP, the agreement must be documented in the CO committee minutes and the sales agreement retained in the COs.

On September 28, 2005, FSA issued National Notice TB-1174, "Deleted and/or Added Quota Holder Report," for tobacco State offices (SO) and COs. The notice repeated the requirement that, to delete or add an owner to the TTPP database, acceptable documentation must have been submitted to

the CO. Further, the notice required COs to perform second party reviews on all documentation to support each deletion/addition listed on the Quota Holder – Deleted and/or Added Quota Holder Report not later than November 1, 2005. The COs were to report to the SOs, not later than November 4, 2005, any ownership changes that were listed on the report that were not supported by acceptable documentation. In turn, the SO representatives were to review the report in each TTPP CO by December 30, 2005, and report their results to the NO by January 6, 2006.⁶

For TTPP payments for quota holders, total eligible quota pounds of tobacco are based on the quota allocated for crop year 2002. The national poundage for crop year 2002 eligible for buyout was 953,763,573 pounds allocated among the tobacco producing States as follows:

STATE	QUOTA HOLDERS	QUOTA	PERCENT OF TOTAL	AMOUNT
Alabama	72	499,060	.0005244	\$3,493,420
Florida	431	10,098,132	.0106113	70,686,924
Georgia	5,845	61,360,831	.0644791	429,525,817
Indiana	9,665	8,648,443	.0090879	60,539,101
Kansas	33	36,275	.0000381	253,925
Kentucky	170,104	244,763,295	.2572019	1,713,343,065
Minnesota	39	43,855	.0000461	306,985
Missouri	1,450	3,180,558	.0033422	22,263,906
North Carolina	97,524	393,378,603	.4133697	2,753,650,221
Ohio	10,973	10,857,050	.0114088	75,999,350
Oklahoma	8	1,019	.0000011	7,133
South Carolina	18,410	72,599,589	.0762890	508,197,123
Tennessee	83,350	71,921,067	.0755760	503,447,469
Virginia	30,683	65,525,813	.0688558	458,680,691
West Virginia	3,220	2,031,261	.0021345	14,218,827
Wisconsin	4,769	6,693,557	.0070337	46,854,899
SUBTOTAL	436,576	951,638,408	1.0000	\$6,661,468,856
Reserve		2,125,165		14,876,155
TOTAL⁷	436,576	953,763,573		\$6,676,345,011

Eligible tobacco quota holders will receive \$7 per pound based upon their basic quota (BQ) at the 2002 marketing level.

Common Ownership Transfers

In 1998, FSA began permitting its COs to process common ownership sales or transfers of flue-cured tobacco (FCTB) quota. Producers used the common ownership transfers for estate planning. For example, a producer would transfer/move the tobacco quota from one tract that he/she owned to another in order to sell a tract of land to a developer or give the land to his/her child.

⁶ FSA Notice TB-1174 actually requires the report be sent to the NO "not later than January 6, 2005 [sic]."

⁷ These totals represent estimates prior to program implementation.

A common ownership transfer allows producers to move their assigned quota of FCTB production from one tract of land to another as long as the producer is the owner of all tracts involved in the transfer. In order to allow COs to process these transfers, FSA's Information Technology (IT) staff designed software and distributed it to COs.

In 2003, a Virginia CO employee identified irregularities with three common ownership transfers processed in that office. The employee noted that the BQ in all transfers increased significantly after the transfer. The CO contacted the Virginia State FSA Office (Virginia SO) where the issue was researched, and it was determined that the BQ had in fact increased for the three transfers in question. It was later determined by FSA IT personnel that a problem in the common ownership transfer software caused the BQ to be calculated incorrectly. The Virginia SO then alerted the FSA national office (NO) of the problem. In addition, the Virginia SO initiated a review to correct any errors affecting common ownership transfers that occurred in FYs 2002 and 2003.

Once they learned of the software problem, officials at the NO also analyzed data for the years 1998 through 2003. This analysis compared State BQs to the national level to determine if there were any discrepancies. This analysis revealed no significant deviations in the State and national BQs. In 2003, the NO asked the SOs to inquire of their counties whether they had identified any issues with common ownership transfers. Based on feedback from State officials, the NO concluded that an indepth review of the transfers was not warranted.

Objectives

The objectives of this audit were to determine if FSA's controls were adequate to ensure that (1) payments are issued to eligible quota holders and (2) FCTB quotas are correct.

Findings and Recommendations

Section 1. Change in Quota Ownership

In a preliminary assessment of FSA controls, we judgmentally reviewed 18 mismatched contracts and found 8, totaling \$44,296, for which the county office did not obtain proper documentation to support a change in ownership. Based on this initial observation, we then selected a statistical sample from a total of 81 counties within 5 (Kentucky, North Carolina, South Carolina, Tennessee, and Virginia) of the 16 tobacco producing States. These five States represent over 90 percent of the estimated \$6.2 billion in TTPP payments for quota holders over 10 years (see exhibit C). From FSA's database, we matched a list of 387,182 contracts with 636,603 tobacco quota holders and identified 27,601 mismatched contracts. From these 27,601 mismatched contracts we identified 12,988 mismatched contracts, totaling \$166,761,910 in the 5 State/81 county universe. From these 81 counties we selected 300 contracts using a stratified simple random sampling plan. Our review of these 300 contracts identified 41 contract exceptions (38 approved without sufficient documentation to support payments to parties other than the owners of record – see Finding 1; 3 approved without following regulations concerning payments of quota shares – see Finding 2).

In 38 contracts the county offices did not obtain proof of land or quota ownership at the time the contract applications were processed. In three other contracts the applicant's share of quota ownership was not correctly determined. Based upon a statistical projection of the errors in 41 contracts identified in our review of 300 statistically selected contracts, we concluded that if this error rate is projected over the 12,988 mismatched contracts in the 5-State, 81 county universe, the COs could have approved an estimated 2,108 TTPP contracts totaling \$20.5 million without obtaining proof of ownership when the payees were parties other than the quota owners of record. Although this missing documentation is a control weakness, we were able to determine from other sources that most of the payments made on the 41 contracts we questioned were to eligible applicants. However, for 9 of the 41 contracts we determined to be ineligible or have received excessive payments, statistical projections could not be made with reasonable accuracy.

Finding 1

FSA Officials Did Not Obtain Documentation to Support Changes in Ownership

Of the 300 statistically selected contracts reviewed, we found that FSA county officials approved 38 contracts without the required proof of ownership documented in the file. This occurred because county officials

sometimes relied on their personal knowledge of applicants, and did not follow the procedure which required proof of ownership to be documented with a deed, will, or land contract.

According to FSA regulations, a quota holder is a person who owned, as of October 22, 2004, a farm for which a basic tobacco farm marketing quota was established for the 2004 marketing year.⁸ When applicants apply for TTPP contracts, COs are required to follow established procedures for determining applicants' eligibility, including obtaining proof of their ownership of the farm or farm tract.⁹ According to these policies, proof of ownership includes, but is not limited to, a deed, will, or land contract.¹⁰ In addition, the regulations require that TTPP payments will be based on the BQL determined for each farm and then for quota holders' ownership shares in the farm. On September 28, 2005, FSA issued a notice specifically requiring the COs to review (not later than November 1, 2005) each deletion/addition listed on the Quota Holder – Deleted and/or Added Quota Holder Report. The COs were to report to the SOs, not later than November 4, 2005, any ownership changes that were listed on the report that were not supported by acceptable documentation.

FSA county officials approved 38 of the 300 contracts (totaling \$1,742,650) in our sample without obtaining proof that the applicant owned the farm in question. These applicants were not listed as the quota holders of record as of October 22, 2004, and therefore should have been required to provide proof of ownership. In each case the approving official at the CO signed the contracts attesting that all criteria had been met. Because FSA county officials often knew applicants personally, they did not require the applicants to submit evidence of ownership as required by FSA regulations. Despite FSA's requirement to perform second party reviews by November 1, 2005, on all documentation to support each deletion/addition, the COs did not require the quota holders to submit official proof of ownership, and the contracts were approved without assurances that they were for the eligible quota holder.

For 32 of the 38 contracts (totaling \$1,358,336), we were able to independently obtain documentation showing that the applicants owned the land and were eligible. We visited county courthouses and obtained documentation to determine whether the applicants owned the land in question and were eligible to receive payments.

For the remaining six contracts totaling \$384,314, FSA county officials approved the contract even though the applicant was not the quota holder.

⁸ 7 *Code of Federal Regulations* (C.F.R.), part 1463, dated April 4, 2005.

⁹ FSA Notice TB-1124, "TTPP Quota Holder Provisions," dated March 1, 2005. FSA Notice TB-1155, "Land Ownership & Affidavits," dated May 12, 2005.

¹⁰ FSA Notice TB-1138, "TTPP Quota Holder Provision #2," dated April 4, 2005. *FSA Handbook* 3 CM, dated May, 9, 2005.

These six contracts were approved in error because county officials either made decisions based on their familiarity with the applicants or did not require that appropriate documentation be submitted as required by FSA procedures. Additionally, we could not verify independently that the applicant was the eligible quota holder. FSA NO told us documentation acceptable to verify change in ownership of land will be limited to copies of the deed that was finalized for the purchase of quota or land assigned for the 2004 marketing year. The following describe our observations for these six contracts.

- Florence County, South Carolina, officials improperly approved a 10-year contract for \$52,766 for the applicant although the applicant was not the owner of record as of October 22, 2004. According to county officials, they approved the contract because the applicant told them that he had an outside agreement with the quota holder giving rights to him to apply for the TTPP payment for the farm tract in question. County officials accepted the applicant's word and did not obtain a copy of the purchase agreement or any other supporting ownership documentation¹¹ for the applicant's file. Since the applicant was not the eligible quota holder and a purchase agreement was not documented prior to the contract's approval, we concluded that the applicant was ineligible. When we asked the county executive director (CED) why she approved the contract, she explained that in the CO's rush to begin the program the CO did not adequately review FSA's policies and procedures. After reviewing the procedures, the CED agreed that the purchase agreement was not documented in the file and the applicant was ineligible.
- Horry County, South Carolina, officials improperly approved a contract for \$138,082 because the contract was approved for the estate and not the surviving spouse as required by regulations. FSA regulations state that the surviving spouse should receive the payment if the quota holder died after October 22, 2004.¹² The quota holder died on January 24, 2005. When we asked the CED why he approved the contract for the estate rather than the surviving spouse, the CED stated that he was told by either the spouse or one of the heirs that the quota holder had a prenuptial agreement with the spouse that waived all rights to the quota holder's estate. Although the CED admitted that the payment should have been issued to the surviving spouse, he explained that he issued the payment to the estate because he knew that the children would eventually receive the payment.
- Lunenburg County, Virginia, officials improperly approved two contracts for two types of tobacco, one for fire-cured tobacco for

¹¹ FSA Notice TB-1121, exhibit 1, "TTPP Frequently Asked Questions for Quota Holders," dated February 25, 2005.

¹² Ibid.

\$34,797 and one for FCTB for \$114,933 because the contracts were issued to the surviving spouse instead of the estate as regulations require. FSA's regulations state that the heirs of the estate (the children) are eligible for the payment and that the quota should be transferred to the estate, not to the surviving spouse if the quota holder died prior to October 22, 2004.¹³ County officials, however, issued the 2005 annual payment to the surviving spouse. When we asked officials why they approved the payments for the surviving spouse, the CED stated that, although he knew the regulations required the quota to be transferred to the estate, he approved the contract because the applicant was his neighbor and he knew that the children were going to give the payment to their mother regardless of what the regulations required.

- Fayette County, Kentucky, officials improperly approved a contract for \$27,006 because the applicant was not the quota holder of record as of October 22, 2004. The applicant claimed a 25-percent interest in the quota of a farm listed in FSA's database under the quota holder's estate. Since the land was not listed in the applicant's name prior to October 22, 2004, FSA officials should have requested that the applicant provide ownership documentation before approving the contract.¹⁴ Instead, county officials accepted the applicant's word and approved the contract without obtaining such proof. When we asked county officials why they approved this contract, they stated that they did so because the applicant told them that they would provide ownership documentation as soon as the estate was settled. Since the CO did not require the applicant to provide proof of ownership when her application was processed and there was no subsequent proof of ownership obtained, we concluded that she was not the eligible quota holder. After reviewing the application, county officials agreed that the contract should not have been approved.
- Columbus County, North Carolina, officials improperly approved a contract for \$16,730 because they accepted a death certificate as proof of ownership. According to FSA regulations, a death certificate alone is not to be accepted as proof of ownership unless the applicant is a surviving spouse.¹⁵ However, we found that county officials accepted this death certificate as the applicant's proof even though the deceased was unmarried. When we asked the CED why he approved this application, he stated that he knew the applicant and that the applicant was a relative of the deceased quota holder. However, since there was no documentation showing any relationship between the applicant and

¹³ FSA Notice TB-1182, "TTPP Contract Transfer Frequently Asked Questions and Answers," dated October 31, 2005.

¹⁴ FSA Notice TB-1138, "TTPP Quota Holder Provision #2," dated April 4, 2005. FSA Notice TB-1155, "Land Ownership & Affidavits," dated May 12, 2005.

¹⁵ FSA Notice TB-1180, "TTPP Contract Transfer," dated October 18, 2005.

the deceased owner, FSA had no assurance that the applicant was the eligible quota holder and was entitled to the payment.

We also found in our preliminary review of 18 mismatched contracts in Bladen County, North Carolina, that 8, totaling \$44,296, were improperly approved because the applicants were not the quota holders of record as of October 22, 2004. Six contract holders received \$3,005 before the CO acknowledged and reported to the SO (as per FSA Notice TB-1174) that the contracts were approved without documented proof of ownership. The SO reported to the NO the six contracts whose ownership records were improperly modified, and the NO advised the SO to suspend payments and place the contracts in dispute until the quota ownership could be resolved. The remaining two contracts, however, were not identified by the CO as lacking ownership documentation, and therefore received payments totaling \$4,274 for the first 3 years of the contract and potential over payments totaling \$9,972. Since the county office did not obtain proof of ownership at the time the application was processed and we could not locate this information at the courthouse, we concluded that there were no assurance that these eight applicants were eligible quota holders and eligible to receive the payments.

Overall, our review of a sample of 318 contracts (300 from our statistical sample and 18 from our preliminary review) identified 46 contracts that had not been processed according to FSA's procedures which requires, when there is a change of ownership, the county office to obtain documentation in the form of a will, deed or purchase agreement as proof of ownership. For 32 of these contracts we were able to independently obtain documentation to support the quota holders' eligibility for the payments. The remaining quota holders for 14 of these contracts have received improper payments totaling \$119,568 for the first 3 years of the 10-year payout period. The remaining \$309,042 should be cancelled to avoid future improper payments.

Since FSA's initial registration period for TTPP ended on June 17, 2005, the majority of those who will receive TTPP payments have already applied and been approved. Nonetheless, as time passes, current quota holders will pass away, property will be left to their heirs, and that property may be divided among several heirs. FSA must be prepared to adequately review and reissue TTPP contracts under these changing circumstances. We concluded that FSA should strengthen its controls to ensure that any changes in ownership are documented prior to contract reissue and approval.

Recommendation 1

Instruct the SOs to spot check the deleted/added quota holder reports in each CO to ensure that ownership changes are supported by acceptable documentation or placed in dispute until the parties provide acceptable

documentation to support the ownership changes. Report to the NO the results of the SO reviews.

Agency Response

FSA has drafted a notice to SOs and COs directing SO Representatives to spot check 15 percent of TTPP farms listed on the Quota Holder – Deleted and/or Added Quota Holder Report in each TTPP county office for acceptable supporting ownership documentation not later than October 12, 2007.¹⁶ The State Executive Directors (SED) will report to the Deputy Administrator for Farm Programs (DAFP) not later than November 9, 2007, any contracts where the ownership records were improperly modified. The notice will be issued to the field not later than August 20, 2007.

OIG Position

We accept management decision for this recommendation.

Recommendation 2

Instruct Kentucky, North Carolina, South Carolina, and Virginia to require the 5 COs to review the 14 contracts where applicants did not meet FSA's eligibility requirements and take appropriate recovery actions to collect \$119,568 of improper payments made in FYs 2005, 2006, and 2007.

Agency Response

On August 6, 2007, the DAFP directed the Kentucky, North Carolina, South Carolina, and Virginia SEDs by memorandum to direct the 5 county offices to review the 14 contracts where applicants did not meet FSA's eligibility requirements and to notify the contract holder that acceptable documentation must be provided to the county office within 30 days or the contract would be terminated and a receivable would be established to collect improper payments made in FYs 2005, 2006, and 2007.

OIG Position

We agree with FSA's corrective action. In order to achieve management decision, we need copies of the bills for collection and accounts receivable for the \$119,568 in improper payments.

¹⁶ OIG reviewed the draft notice, which includes instructions for COs to place any contract found with unacceptable or lack of documentation into "in dispute" status until acceptable documentation has been provided by all parties or the contract is "involuntarily terminated."

Recommendation 3

Instruct Kentucky, North Carolina, South Carolina, and Virginia to require the 5 COs to cancel the remaining \$309,042 of the 14 contracts to preclude overpayment.

Agency Response

On August 6, 2007, the DAFP directed the Kentucky, North Carolina, South Carolina, and Virginia SEDs by memorandum to direct the 5 county offices to review the 14 contracts where applicants did not meet FSA's eligibility requirements and, if acceptable documentation was not provided within 30 days from date of notification by the contract holder, to terminate the remaining contract payments to preclude overpayment.

OIG Position

We agree with FSA's corrective action. In order to achieve management decision, FSA needs to provide OIG with the results of FSA's review of the 14 contracts, to include a specific accounting for the monetary results associated with the recommendation, i.e., agreement as to how much of the \$309,042 will be canceled.

Finding 2

Correct Division of the BQL on Farms with Multiple Owners

Of the 300 statistically selected contracts reviewed, 65 included multiple owners. We found that county officials generally processed these payments correctly. However, for 3 of these 65 contracts, we found county officials did not follow procedures when approving contracts belonging to multiple owners, resulting in improper payments totaling \$10,101. County officials stated that this occurred, in two cases, because State officials told them that the entire payment could be given to one owner if the other owner(s) did not dispute the claim. However, State officials denied that they gave this instruction. In the third case, county officials issued the entire payment to one owner because family members told the CO that the co-owner could not be located.

According to Federal regulations, eligible quota holders will receive a TTPP payment equal to their ownership share of the farm. For example, if a quota holder has only a one-third share in a farm, he or she will receive one third of the BQL established for the farm.¹⁷ FSA NO officials further explained that if an individual who owns a share of a quota can't be located or does not

¹⁷ 7 C.F.R., Part 1463, dated April 4, 2005. FSA Notice TB-1121, "TTPP Frequently Asked Questions for Quota Holders," dated February 25, 2005.

assign his/her quota share to others, that share cannot be reallocated to the other quota applicants by FSA.

The following describes the three 10-year contracts for which COs did not follow the regulations.

- A Bourbon County, Kentucky, official incorrectly processed a \$15,001 contract for a farm with multiple owners. Although a quit claim deed named two individuals as joint owners of the property, officials approved a contract paying a single owner for the entire BQL. No provision was made for the second owner. When we asked county officials why they approved this contract, they stated that State officials instructed the CO that if a farm had multiple owners and only one owner applied for the TTPP payment, then that owner could receive the TTPP payment for the entire farm. According to Federal regulations, however, the applicant's payment will be based on his/her share of the BQL established for the farm; therefore, each of the two owners should have been approved for a \$7,500.50 10-year contract.
- A Claiborne County, Tennessee, official incorrectly processed an \$882 contract for a farm with multiple owners. Although a warranty deed granted two individuals equal ownership of the farm, county officials approved a contract paying the entire allotment to a single owner. No provision was made for the second owner. When we asked county officials why they approved this contract, they stated that State officials instructed the CO that if a farm had multiple owners and only one owner applied for the TTPP payment, then that owner could receive the TTPP payment for the entire farm. According to Federal regulations, however, each of the two owners is only entitled to receive their share of the BQL and therefore, should have received \$441.
- A Duplin County, North Carolina, official incorrectly processed a \$4,319 contract for a farm with multiple owners. Although the original quota holder's last will and testament granted equal shares of the property to two sons, county officials issued the entire TTPP payment to only one son. The CO prepared a contract for each son, one receiving a 100-percent share and the other a zero share, and approved only the one son's (100-percent share) contract. When we asked county officials why the contract was approved for only one son, they stated that the family members told the CO that the co-owner could not be found and there was no known address for him for 15 years. County officials therefore processed the payment for the one owner who applied. According to Federal regulations, however, each son was entitled to receive his share of the BQL and therefore each son should have received \$2,159.50.

We concluded that FSA should strengthen its controls for approving any future TTPP contracts to ensure that applicants meet all eligibility requirements and that payments are processed according to each applicant's ownership share. Our recommendations in Finding 1 should address this concern.

Recommendation 4

Instruct the three COs to review the three contracts issued to multiple owners of shared land ownership, determine the proper division of quota, and recover \$3,030 in improper payments made in FYs 2005, 2006, and 2007; or an amount determined appropriate for the documented division of quota.

Agency Response

On August 6, 2007, the DAFP directed the Kentucky and Tennessee SEDs by memorandum to direct the Bourbon County, Kentucky, and the Claiborne County, Tennessee, COs respectively to review the two contracts issued to multiple owners of shared land ownership, determine the proper division of quota, and recover the improper payments made in FYs 2005, 2006, and 2007.

In regard to the Duplin County, North Carolina, contract #370612004070, the CO and TTPP database do not reconcile with the named contract holder provided by the OIG report. No action can be taken on this discrepancy until the contract holder/contract has been properly identified by OIG.

OIG Position

We agree with FSA's corrective action. In order to achieve management decision, FSA needs to provide us with copies of the bills for collection and accounts receivable for the \$3,030 in improper payments. OIG has provided FSA with additional information to properly identify the contract holder for contract #370612004070.

Recommendation 5

For the three contracts issued to multiple owners of shared land ownership, instruct the three COs to suspend \$7,071 in contract payments for the remaining 7 years until ownership shares are properly determined.

Agency Response

On June 25, 2007, “to ensure no further disbursements until resolved,” the DAFP directed the SO Tobacco Specialists by e-mail to place the identified contracts into “in dispute” status until the proper ownership shares had been determined and the contracts were corrected.

On August 6, 2007, the DAFP directed the Kentucky and Tennessee SEDs by memorandum to direct the Bourbon County, Kentucky and the Claiborne County, Tennessee, COs respectively to review the two contracts issued to multiple owners of shared land ownership, determine the proper division of quota, and correct the contracts to reflect the proper ownership for the remaining 7 years’ payments.

In regard to the Duplin County, North Carolina, contract #370612004070, the CO and TTPP database do not reconcile with the named contract holder provided by the OIG report. No action can be taken on this discrepancy until the contract holder/contract has been properly identified by OIG.

OIG Position

We agree with FSA’s corrective action. In order to achieve management decision, FSA needs to provide OIG with the results of the ownership share determinations for the three contracts, to include a specific accounting for the monetary results associated with the recommendation, i.e., agreement as to how much of the \$7,071 will be suspended/canceled. OIG has provided FSA with additional information to properly identify the contract holder for contract #370612004070.

Section 2. Software Flaw Resulted in Improper TTPP Payments

Finding 3

Computer Software for Processing Common Ownership Transfers Was Flawed

In addition to our statistical sample of 300 contracts, we also statistically selected 150 quota transfers which included 27 common ownership transfers.¹⁸ Our review of these 27 common ownership transfers, along with the 6 from our preliminary assessment, disclosed 3 cases (9 percent) for which FSA did not identify and/or correct errors in BQ data caused by a known software flaw. In 2003, FSA learned that its software for performing common ownership transfers was flawed and could, in some cases, incorrectly change FCTB producers' BQs. Although FSA corrected this software flaw, it did not review all common ownership transfers made before the software was revised to determine if the transfers resulted in increased or decreased BQs. Because TTPP contract payments¹⁹ are calculated on the quota holder's BQ established for the farm, some TTPP contracts may have been determined from BQ amounts that were incorrect. We identified two common ownership transfers from our statistical sample and one common ownership transfer from our judgmental sample of six common ownership transfers—each made before the software was revised—in which the software flaw resulted in incorrect BQs that caused two TTPP contracts to be overstated by \$26,992 and one contract to be understated by \$2,828.

Beginning in 1998, FSA regulations permitted producers to transfer their quota of tobacco between commonly owned (the same owner) tracts on the same farm.²⁰

In 2003, the FSA NO officials learned of a flaw in its software for transferring FCTB quotas from tracts of land owned by the same producer. The problem was initially identified in Virginia where officials noted that, when the computer transferred tobacco quota from tracts with different yields, it calculated the BQs incorrectly.²¹ During 2003, in response to FSA officials' concerns, the software designer corrected the software by revising how these calculations were performed.

FSA's NO officials took several steps to identify transfers that may have been performed incorrectly. They notified State officials in the six FCTB producing States of the software problem to determine if the State officials were aware of any problems with the common ownership transfer software. The Virginia SO took the initiative to review common ownership transfers

¹⁸ A "common ownership transfer" allows producers to move their assigned quota of FCTB production from one piece of land to another (7 C.F.R. 723.216).

¹⁹ Eligible tobacco quota holders will be entitled to \$7 per pound, over a 10-year period beginning with FY 2005 payment (FSA Notice TB 1147).

²⁰ 7 C.F.R. 723.216 (a), dated January 1, 1999.

²¹ The software caused the transferred quota to be altered by the yield of the associated tract to which the quota was transferred, when it should have remained constant.

statewide, but other States in our sample did not take action because they did not believe that there were any problems with the transfers. The Virginia SO identified 21 common ownership transfers in its State, of which 7 transfers (33 percent) resulted in a change in the BQ caused by the software error. The Virginia SO told us that the errors were corrected for the seven transfers; however, we verified that at least one of the seven transfers had not been corrected. After talking with the Virginia SO as well as the FSA NO, we were informed that the remaining six transfers may also be incorrect. Officials in the North and South Carolina SOs did not report any errors with the common ownership transfers in their States. We found that 21 of 23 COs we visited in North and South Carolina were unaware of the software error and had not been contacted by the State officials regarding the issue.

FSA NO officials also informed us that they compared State and county quota levels with national quota levels. Although we were unable to verify the comparison the NO officials maintained that, if the software error had resulted in widespread problems, county and State BQs would have been notably inconsistent with the national averages, but FSA found that they were not. Based on the results of its comparison and the SOs' responses, FSA concluded that the software error had not caused a significant problem. Our review of 33 common ownership transfers in 3 States and 3 counties identified 3 transfers (9 percent) with errors that were caused by this problem. Each of the three transfers resulted in incorrect BQs that caused TTPP contracts to be calculated incorrectly.²²

- In March 2000, the Bladen County, North Carolina, FSA Office processed a common ownership transfer, for which the software incorrectly altered the BQ for the new tract of land. In this instance, because the tract to which the tobacco was transferred had a higher yield than the tract from which it was transferred, the software flaw incorrectly increased the BQ by 3,175 pounds. Due to the incorrect BQL data, the TTPP contract was overstated by \$22,225.
- In March 2002, the Florence County, South Carolina, FSA Office processed a common ownership transfer, but the software incorrectly altered the BQ for the new tract of land. In this instance, because the tract to which the tobacco was transferred yielded less than the tract from which it was transferred, the BQ was decreased incorrectly by 404 pounds. Due to the inaccurate BQL, the TTPP contract was understated \$2,828.
- In April 2003, the Pittsylvania County, Virginia, FSA Office processed a common ownership transfer, but the software incorrectly altered the BQ for the new tract of land. This transfer was one of seven common

²² Because TTPP contract payments are calculated on the quota holder's BQL established for the farm, some TTPP contracts may have been determined from BQL amounts that were incorrect.

ownership transfer errors that the Virginia SO attempted to correct after they conducted a statewide review of all common ownership transfers that occurred between 2002 and 2003. Our review found that this transfer had not been corrected as indicated by the VA SO officials. The VA SO explained that this mistake occurred because they made corrections to current year data and not historical records. Therefore, if the data for the TTPP was pulled from the historical records, that data would also be incorrect. In this instance, because the tract to which the tobacco was transferred yielded more than the tract from which it was transferred from, the software flaw incorrectly increased the BQ by 681 pounds. Although the Virginia SO specialist told us that they had corrected the error in this transfer, they agreed with our analysis that the correction had not been made. Due to the inaccurate BQL data, the TTPP contract was overstated by \$4,767.

We conclude that, because the error rate of common ownership quota transfers ranged between 9 and 33 percent for transfers we and the Virginia SO reviewed, FSA should take steps to correct the inaccurate BQL data in order to ensure that TTPP payments are accurate. Also, FSA should be cognizant of potential erroneous payments associated common ownership transfers that may have been affected by the software problem, as well as TTPP payments that may have been miscalculated. However, due to the lack of materiality of erroneous payment amounts in our sample we are not making a formal recommendation on this issue at this time.

Recommendation 6

Review the two transfers with overstated BQL data, correct the BQL data, and recompute the TTPP contracts and associated payments to correct overstated contracts totaling \$26,992. In addition, review and correct the contracts associated with the remaining six common ownership transfers in Virginia in which errors were originally found.

Agency Response

On August 6, 2007, the DAFP directed the North Carolina and Virginia SEDs by memorandum to direct the COs to correct the BQL errors caused by the common ownership software, recompute the TTPP contracts BQL data, and correct associated payments.

OIG Position

We generally agree with FSA's corrective action. However, our review of the DAFP's August 6, 2007, memorandum to the Virginia SED disclosed the memorandum addresses the review and correction of the TTPP contract and payment for only the one transfer in Pittsylvania County, Virginia; the memorandum is silent on the remaining six common ownership transfers in Virginia in which errors were originally found.

In order to achieve management decision, FSA needs to provide OIG with copies of the bills for collection and accounts receivable for the \$26,992 in improper payments caused by the common ownership software flaw. Moreover, FSA needs to provide to OIG documentation that the applicable Virginia COs will review and correct the TTPP contracts associated with the remaining six common ownership transfers in Virginia (in which errors were originally found), to include an estimated completion date for such action.

Recommendation 7

Review and correct the one transfer in which inaccurate BQL data caused the contract to be understated by \$2,828.

Agency Response

On August 6, 2007, the DAFP directed the South Carolina SED by memorandum to direct the CO to correct the BQL error caused by the common ownership software, recompute the TTPP contract BQL data, and notify the contract holder that additional TTPP payments were available.

OIG Position

We agree with FSA's corrective action. In order to achieve management decision, FSA needs to provide OIG with the results of FSA's review of the transfer, to include a specific accounting for the monetary results associated with the recommendation, i.e., agreement as to how much of the \$2,828 was underpaid.

Scope and Methodology

We reviewed FSA's management controls to determine if the controls were adequate to ensure that TTPP payments were issued to eligible quota holders and if FCTB quotas were calculated correctly after common ownership transfers. From August 2005 through August 2006, we performed audit work at the FSA NO, 5 FSA SOs, and 61 FSA Cos. Using FSA's national databases, we obtained data to statistically select tobacco contracts and common ownership transfers for review. We relied on the data provided and did not perform any system testing.

We performed an initial program assessment in 1 county office in North Carolina and found that out of 18 contracts reviewed 8 were approved without documented proof of ownership. In addition, we found that of six common ownership tobacco quota transfers reviewed, one transfer benefited from increased quota because of a computer software glitch that increased the basic quota allotments when transfers were made from a low-yielding tract to a higher yielding tract.

We narrowed the overall contract universe to include only 81 counties in 5 of the 16 tobacco producing States. These five States (Kentucky, North Carolina, South Carolina, Tennessee, and Virginia) issued contracts totaling over 90 percent of the estimated \$6.2 billion in TTPP payments that will be made over 10 years. To correspond with the contract universe, the common ownership transfer universe consisted of three of six States (North Carolina, South Carolina, and Virginia) that grew FCTB and had transfers.

The general statistical sample design for this audit was a stratified simple random sampling scheme where tobacco contracts and common ownership transfers were selected (see exhibit C for a complete description of our statistical sampling scheme):

- The contract universe consisted of 12,988 mismatched TTPP contracts filed as of June 17, 2005, in the selected States that represented parties other than the quota holders of record as of October 22, 2004.
- The transfer universe consisted of a total of 2,173 separate and common ownership FCTB transfers identified from FSA's nationwide transfer database that occurred between 1998 and 2003. Our sample was drawn from a universe of 1081 transfers in 3 FCTB States.

Two statistical samples of 300 contracts and 150 transfers (27 of 150 transfers were common ownership transfers (see exhibit C) were selected. A 95-percent confidence level was produced for all statistical estimates in this review.

Our fieldwork consisted of visiting 61 CO sites in 5 States to review contracts and transfers (see exhibit D). To evaluate FSA's controls over the eligibility of applicants receiving TTPP payments, we performed file reviews to determine if FSA had obtained the required documentation to prove ownership. If ownership documentation was not present in the files at the CO, we visited the courthouse to verify ownership. In addition, we interviewed national, State, and county officials to determine if the proper management controls were in place and functioning. Our evaluation of management controls also included tests to ensure that there was a separation of duties for processing and approving contracts and whether second party reviews were used to ensure that contracts were processed in accordance with applicable procedures.

We also reviewed CO files in 28 CO sites and 3 States to ensure that FCTB quotas were correct, specifically those involving common ownership transfers. We compared farm historical data before and after the transfer to determine the effect on BQLs and subsequent TTPP payments. In addition, we interviewed national, State, and county officials to establish what reviews were conducted of the software used to perform these transfers.

This audit was conducted in accordance with generally accepted government auditing standards. Therefore, the audit included tests of program and accounting records considered necessary to meet the audit objectives.

Exhibit A – Summary of Monetary Results

Finding No.	Recommendation No.	Description	Amount	Category
1	2	Ownership Criteria Not Met	\$119,568	Questioned Costs - Recovery Recommended
1	3	Ownership Criteria Not Met	\$309,042	FTBPTBU *
2	4	Incorrect Calculation of Multiple Ownership Shares	\$3,030	Questioned Costs – Recovery Recommended
2	5	Incorrect Calculation of Multiple Ownership Shares	\$7,071	FTBPTBU *
3	6	Incorrect FCTB Quotas/ Overstated TTPP Contract	\$26,992	Questioned Cost – Recovery Recommended
3	7	Incorrect FCTB Quotas/ Understated TTPP Contract	\$2,828	Underpayments

* FTBPTBU = Funds to be put to better use - deobligations.

Exhibit B – Statistical Estimates for Finding 1

Improperly Approved in Population of \$166,761,910 Across 12,988 Contracts	Estimate	95-Percent Confidence Interval		
		+ Precision	Lower Bound	Upper Bound
Dollars	\$20,469,868	\$8,235,284	\$12,234,584	\$28,705,152
As a percent of \$166,761,910	12.3%	4.9%	7.3%	17.2%
Contracts	2,108	920	1,189	3,028
As a percent of 12, 988 contracts	16.2%	7.1%	9.2%	23.3%

STATISTICAL SAMPLE DESIGN

Farm Service Agency Tobacco Transition Payment Programs Review - Contracts

The general statistical sample design for this audit was a stratified simple random sampling scheme where tobacco contracts were selected. The universe consisted of FSA TTPP contracts in 81 specific counties, in 5 States. A 95 percent, two-sided confidence level was used for all the statistical estimates in this review.

Stratification

There were a total of 387,182 tobacco contracts totaling \$6,243,662,642 that were obtained from FSA. There were a total of 636,603 tobacco quota holders also obtained from FSA. Additionally, a total of 566,897 tobacco contract dollar amounts were downloaded from the FSA Internet web site. The 387,182 tobacco contracts were matched with the 636,603 tobacco quota holders, giving 159,243 non-matches, which were further reduced to 27,601 tobacco contracts. The contract dollar amounts were merged into these tobacco contracts to get dollar amounts for the 27,601 tobacco contracts. However, not all tobacco contracts had a corresponding dollar amount figure in the 566,897 contract dollar amount data set, so these contracts had missing values. For stratification purposes, these missing contract amount figures were assigned a zero dollar amount.

Exhibit C – Statistical Sample Plan

To minimize staff and travel constraints, the universe of tobacco contracts was further limited to the following States and counties:

Kentucky	North Carolina	Tennessee
Barren	Pitt	Robertson
Bourbon	Johnston	Montgomery
Christian	Robeson	Greene
Shelby	Columbus	Sumner
Fayette	Nash	Claiborne
Madison	Wilson	Hawkins
Scott	Wake	Washington
Woodford	Sampson	Macon
Graves	Wayne	Smith
Logan	Lenoir	Cheatham
Henry	Duplin	Cocke
Harrison	Greene	Grainger
Daviess C	Edgecombe	Maury
Hart	Rockingham	Dickson
Mason	Surry	
Calloway	Franklin	
Owen	Stokes	
Fleming	Martin	Virginia
Breakinridge	Person	Pittsylvania
Garrard		Halifax
Clark		Mecklenburg
Todd		Brunswick
Jessamine	South Carolina	Lunenburg
Mercer	Horry	Washington
Washington	Florence	Scott
Lincoln	Williamsburg	
Bracken	Marion	
Pulaski		
Montgomery		
Bath		
Warren		
Green		
Casey		
Grant		
Franklin		
Marion		
Metcalf		

Exhibit C – Statistical Sample Plan

There were 12,988 tobacco contracts in the above States and counties. The five States were a major stratification (STATE) and the tobacco contracts within each State were further stratified with respect to the tobacco contract amounts. Within each State, 6 contract dollar amount strata (STRATA) were formed for a total of 30 strata. All contracts with zero dollar amounts were placed in their own separate strata (STRATA = 1,7,13,19,25). Within each State the remaining contracts were stratified with respect to the tobacco contract amount using the cumulative square root of the frequencies methodology (Cochran, SAMPLING TECHNIQUES).²³

The following table gives the specifics of the stratification used in this sample design.

STRATA	BOUNDARY Contract Dollar Amount	Number of Contracts	Contract Dollar Amount	n=300
Kentucky				
1	0	156	0	6
2	0-5,000	1,805	4,124,260	7
3	5,000-14,000	1,401	11,964,652	7
4	14,000-30,000	737	15,033,977	12
5	30,000-61,000	377	15,604,316	14
6	Over 61,000	148	17,909,976	14
State Total		4,624	64,637,181	60
North Carolina				
1	0	304	0	6
2	0-5,000	1,285	2,783,151	7
3	5,000-16,000	881	8,358,861	7
4	16,000-36,000	526	12,581,842	12
5	36,000-79,000	239	12,441,947	14
6	Over 79,000	117	20,480,082	14
State Total		3,352	56,645,883	60

²³ Sampling Techniques, William Cochran, 3rd Edition.

Exhibit C – Statistical Sample Plan

STRATA	BOUNDARY Contract Dollar Amount	Number of Contracts	Contract Dollar Amount	n=300
South Carolina				
1	0	60	0	6
2	0-4,000	361	607,824	7
3	4,000-11,000	228	1,595,489	7
4	11,000-24,000	152	2,385,411	12
5	24,000-56,000	71	2,535,169	14
6	Over 56,000	54	5,620,909	14
State Total		926	12,744,802	60
Tennessee				
1	0	163	0	6
2	0-2,000	1,016	993,482	7
3	2,000-7,000	1,135	4,684,400	7
4	7,000-15,000	589	6,044,955	12
5	15,000-31,000	303	6,418,125	14
6	Over 31,000	113	6,073,802	14
State Total		3,319	24,214,764	60
Virginia				
1	0	146	0	6
2	0-2,000	224	180,117	7
3	2,000-7,000	195	813,582	7
4	7,000-17,000	118	1,294,349	12
5	17,000-53,000	49	1,357,321	14
6	Over 53,000	35	4,873,911	14
State Total		767	8,519,280	60
TOTAL		12,988	166,761,910	300

Exhibit C – Statistical Sample Plan

A sample size of 300 tobacco contracts was selected. A sample size of 60 was allocated to each of the 5 States. Within each State the sample size of 60 was allocated subjectively to each of the 6 tobacco dollar amount strata, as shown in the table on previous page. The tobacco contracts in STRATA 1-30 were selected with equal probability without replacement within each strata. The sample unit within each strata was a tobacco contract.

Statistical Analysis

All statistical sample design, selection, and statistical estimation were accomplished on a DELL Pentium Personal Computer using SAS and SUDAAN. The statistical estimates used for projections, along with their standard errors were produced using the Windows version of SUDAAN, a software system that analyzes sample survey data gathered from complex multistage sample designs. SUDAAN was written by B.V. Shah of Research Triangle Institute, Research Triangle Park, North Carolina.

The term sample precision (sp), as used in the report for estimating dollar values and number of occurrences is defined as:

$$sp = \frac{t * STDERR}{PTEST}$$

where

t - t factor for a 95% two-sided lower confidence level
PTEST - point estimate (estimate of the total, mean, or number of occurrences)
STDERR - standard error of the point estimate

The sample precision for estimating percentage values for number of occurrences is defined as:

$$sp = t * STDERR$$

where

t - t factor for a 95% two-sided lower confidence level
STDERR - standard error of the point estimate (percentage value)

Exhibit C – Statistical Sample Plan

Tobacco Transition Payment Program - Transfers

GENERAL SAMPLE DESIGN

The data used to design and select this statistical sample was obtained from the Farm Service Agency by OIG SER staff in Atlanta, Georgia. After discussions with OIG staff in Atlanta, Georgia, a stratified simple random sample design was used to sample tobacco transfers. This sampling methodology was considered to be the optimum to minimize the constraints of manpower and travel, yet provide reliable statistical estimates. A tobacco transfer was the sample unit. The specifics of this design are detailed below.

STRATIFICATION

There were a total of 2,173 tobacco transfers obtained from FSA. To minimize staff and travel constraints, the universe of tobacco transfers was further limited to the following States and counties:

North Carolina	South Carolina	Virginia
Pitt	Horry	Pittsylvania
Johnston	Florence	Halifax
Robeson	Williamsburg	Mecklenburg
Columbus	Marion	Brunswick
Nash		Lunenburg
Wilson		
Wake		
Sampson		
Wayne		
Lenoir		
Duplin		
Greene		
Edgecombe		
Rockingham		
Surry		
Franklin		
Stokes		
Martin		
Person		

Exhibit C – Statistical Sample Plan

There were 1,081 tobacco transfers in the above states and counties. The three states were a major stratification (STRATA) and the tobacco transfers were not stratified within the state.

The following table describes the specifics for this stratification:

STRATA	Number of Counties	Number of Transfers	Percentage Number of Transfers	n=300	n=150
North Carolina	19	718	66.4	100	80
South Carolina	4	222	20.5	100	40
Virginia	5	141	13.1	100	30
TOTAL	28	1,081	100.0	300	150

SAMPLE ALLOCATION & SELECTION

A sample size of 150 tobacco transfers was felt to be sufficient to give reliable statistical estimates. The sample size of 150 was allocated to each of the three states, as shown in the above table. The tobacco transfers in each state were selected with equal probability without replacement within each state. The sample unit within each state was a tobacco transfer. A larger sample size of 300 was initially selected and allocated, as described above, to provide extra sample units, if needed. The sample of 300 was listed in the order selected to allow the identification of the smaller sample size of 150. The table above contains the details for this allocation and sample selection.

STATISTICAL ESTIMATES

Attribute and variable statistical estimates were generated from this statistical sample design. All statistical estimates used a 95% two-sided confidence level.

The statistical estimates were calculated using the software packages SAS and SUDAAN. SUDAAN produces statistical estimates from complex multistage sample designs and was written by B. V. Shah of Research Triangle Institute in Research Triangle Park, North Carolina.

The term sample precision (sp), as used in the report for estimating dollar values and number of occurrences is defined as:

$$sp = \frac{t * STDERR}{PTEST}$$

where

t - t factor for a 95 percent two-sided lower confidence level
PTEST - point estimate (estimate of the total, mean, or number of occurrences)
STDERR - standard error of the point estimate

The sample precision for estimating percentage values for number of occurrences is defined as:

$$sp = t * STDERR$$

where

t - t factor for a 95 percent two-sided lower confidence level
STDERR - standard error of the point estimate (percentage value)

Exhibit D – List of Sites Visited

State	County	Contracts	Transfers	Total
NC	Columbus	2	8	10
NC	Duplin	3	9	12
NC	Edgecombe	1	1	2
NC	Franklin	2	8	10
NC	Greene	9	3	12
NC	Johnston	4	6	10
NC	Lenoir	6	2	8
NC	Martin	-	1	1
NC	Nash	2	6	8
NC	Person	3	1	4
NC	Pitt	5	4	9
NC	Robeson	3	1	4
NC	Rockingham	2	7	9
NC	Sampson	1	7	8
NC	Stokes	2	2	4
NC	Surry	5	-	5
NC	Wake	-	6	6
NC	Wayne	2	2	4
NC	Wilson	8	6	14
KY	Bourbon	4	-	4
KY	Breckinridge	1	-	1
KY	Calloway	14	-	14
KY	Daviess C	2	-	2
KY	Fayette	4	-	4
KY	Fleming	1	-	1
KY	Franklin	1	-	1
KY	Garrard	4	-	4
KY	Grant	2	-	2
KY	Graves	14	-	14
KY	Hart	1	-	1
KY	Henry	1	-	1

Exhibit D – List of Sites Visited

State	County	Contracts	Transfers	Total
KY	Lincoln	1	-	1
KY	Logan	1	-	1
KY	Madison	2	-	2
KY	Scott	4	-	4
KY	Shelby	1	-	1
KY	Todd	1	-	1
KY	Warren	1	-	1
TN	Cheatham	10	-	10
TN	Claiborne	2	-	2
TN	Cocke	1	-	1
TN	Dickson	8	-	8
TN	Grainger	1	-	1
TN	Greene	2	-	2
TN	Hawkins	4	-	4
TN	Maury	1	-	1
TN	Montgomery	15	-	15
TN	Robertson	15	-	15
TN	Washington	1	-	1
VA	Brunswick	4	3	7
VA	Halifax	27	8	35
VA	Lunenburg	4	5	9
VA	Mecklenburg	8	8	16
VA	Pittsylvania	10	6	16
VA	Scott	3	-	3
VA	Washington	4	-	4
SC	Florence	21	11	32
SC	Horry	19	13	32
SC	Marion	11	5	16
SC	Williamsburg	9	11	20
TOTAL		300	150	450
NC ²⁴	Bladen	18	6	24

²⁴ Judgmentally selected.

Exhibit E – List of Improperly Approved Contracts

No.	Contract Number	Amount	
1	371712002155	\$102,536.00	a
2	371712001560	\$126,154.00	a
3	210171001464	\$14,959.00	a
4	210731001511	\$137,977.00	a
5	210791002207	\$39,130.00	a
6	210791000635	\$186,095.00	a
7	211415001378	\$2,877.00	a
8	212091002866	\$574.00	a
9	212091002832	\$170,653.00	a
10	470291000059	\$15,806.00	a
11	470571000757	\$9,177.00	a
12	470591004140	\$108,381.00	a
13	470731000862	\$2,268.00	a
14	470731002592	\$728.00	a
15	470731004214	\$6,944.00	a
16	471191001964	\$0.00	a
17	471475002369	\$161.00	a
18	471471001095	\$1,323.00	a
19	471474001575	\$53,361.00	a
20	510832001126	\$30,716.00	a
21	510833000027	\$7,259.00	a
22	510832001803	\$29,785.00	a
23	510832004480	\$1,967.00	a
24	510832004020	\$8,064.00	a
25	510832002585	\$6,566.00	a

No.	Contract Number	Amount	
26	510832004395	\$182.00	a
27	510832002353	\$12,061.00	a
28	510832004021	\$8,071.00	a
29	510832002979	\$237,762.00	a
30	510832003495	\$3,415.00	a
31	450892002430	\$8,869.00	a
32	511911000576	\$4,515.00	a
33	450412001810	\$52,766.00	b
34	450512002389	\$138,082.00	b
35	511113000091	\$34,797.00	b
36	511112000446	\$114,933.00	b
37	210671001744	\$27,006.00	b
38	370472004355	\$16,730.00	b
39	210171002512	\$7,500.50	b
40	370612004070	\$2,159.50	b
41	470251004093	\$441.00	b
42	370172003038	\$12,775.00	b
43	370172003026	\$420.00	b
44	370172003123	\$1,820.00	b
45	370172003055	\$2,905.00	b
46	370172003053	\$2,905.00	b
47	370172003121	\$3,444.00	b
48	370172002582	\$1,470.00	b
49	370172000767	\$18,557.00	b

a = Independent verification during the audit determined that the contract applicants owned the land and were eligible to receive the payments.

b = Unable to determine through independent verification that these applicants owned the land and were eligible to receive the TTPP payment.

Exhibit F – Agency Response

NOTE: Attachments referenced in this response are not included in this exhibit/report.



United States
Department of
Agriculture

Farm and Foreign
Agricultural
Services

Farm Service
Agency


Operations Review
and Analysis Staff

Audits,
Investigations, and
State and County
Review Branch

1400 Independence
Ave, SW
Stop 0540
Washington, DC
20250-0540

AUG - 9 2007

TO: Director, Farm and Foreign Agriculture Division
Office of Inspector General

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

SUBJECT: Audit 03601-12-AT – Tobacco Transition Payment Program

Attached is the Farm Service Agency's Deputy Administrator for Farm Programs response to the official draft of the subject audit.

Please address any questions to Karren Fava 720-6152.

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Exhibit F – Agency Response

NOTE: Attachments referenced in this response are not included in this exhibit/report.



United States
Department of
Agriculture

Farm and Foreign
Agricultural
Service August 8, 2007

Farm Service
Agency

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

1400 Independence
Ave, SW
Stop 0510
Washington, DC
20250-0580

FROM: John A. Johnson
Deputy Administrator for Farm Programs

SUBJECT: Audit 03601-12-AT – Tobacco Transition Payment Program

Please find below the FSA response to OIG Audit 03601-12-AT.

RECOMMENDATION 1: FSA has drafted a notice to state and county offices directing a State Office Representative to spot check 15 percent of Tobacco Transition Payment Program (TTPP) farms listed on the Quota Holder – Deleted and/or Added Quota Holder Report in each TTPP county office for acceptable supporting ownership documentation not later than October 12, 2007. The State Executive Director (SED) will report to the Deputy Administrator for Farm Programs (DAFP) not later than November 9, 2007 any contracts where the ownership records were improperly modified. The notice will be issued to the field not later than August 20, 2007 (Attachment A).

RECOMMENDATION 2: On August 6, 2007 the DAFP directed the Kentucky, North Carolina, South Carolina and Virginia SEDs by memorandum (Attachments B – G) to direct the 5 county offices to review the 14 contracts where applicants did not meet FSA's eligibility requirements and to notify the contract holder that acceptable documentation must be provided to the county office within 30 days or the contract would be terminated and a receivable would be established to collect improper payments made in FYs 2005, 2006 and 2007.

RECOMMENDATION 3: On August 6, 2007 the DAFP directed the Kentucky, North Carolina, South Carolina and Virginia SEDs by memorandum (Attachments B – G) to direct the 5 county offices to review the 14 contracts where applicants did not meet FSA's eligibility requirements and if acceptable documentation was not provided within 30 days from date of notification by the contract holder to terminate the remaining contract payments to preclude overpayment.

RECOMMENDATION 4: On June 25, 2007, the DAFP directed the State Office Tobacco Specialist by e-mail to place the identified contracts into "in dispute" status until the proper ownership share had been determined and the contracts were corrected to ensure no further disbursements until resolved. (Attachment M)

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Exhibit F – Agency Response

NOTE: Attachments referenced in this response are not included in this exhibit/report.

On August 6, 2007 the DAFP directed the Kentucky and Tennessee SEDs by memorandum (Attachments H and I) to direct the Bourbon County, Kentucky and the Claiborne County, Tennessee county offices respectively to review the two contracts issued to multiple owners of shared land ownership, determine the proper division of quota and to recover the improper payments made in FYs 2005, 2006 and 2007.

In regard to the Duplin County, NC contract #370612004070 the county office and TTPP database do not reconcile with the named contract holder provided by the OIG report. No action can be taken on this discrepancy until the contract holder/contract has been properly identified by OIG.

RECOMMENDATION 5: On June 25, 2007, the DAFP directed the State Office Tobacco Specialist by e-mail to place the identified contracts into “in dispute” status until the proper ownership share had been determined and the contracts were corrected to ensure no further disbursements until resolved. (Attachment M)

On August 6, 2007 the DAFP directed the Kentucky and Tennessee SEDs by memorandum (Attachments H and I) to direct the Bourbon County, Kentucky and the Claiborne County, Tennessee county offices respectively to review the two contracts issued to multiple owners of shared land ownership, determine the proper division of quota and to correct the contract to reflect the proper ownership for the remaining 7 payments.

In regard to the Duplin County, NC contract #370612004070 the county office and TTPP database do not reconcile with the named contract holder provided by the OIG report. No action can be taken on this discrepancy until the contract holder/contract has been properly identified by OIG.

RECOMMENDATION 6: On August 6, 2007 the DAFP directed the North Carolina and Virginia SEDs by memorandum (Attachments J and L) to direct the county office to recompute the TTPP contracts Base Quota Level (BQL) data, correct the BQL error, caused by the common ownership software, and associated payments.

RECOMMENDATION 7: On August 6, 2007 the DAFP directed the South Carolina CED by memorandum (Attachment K) to direct the county office recomputed the TTPP contract BQL data, correct the BQL error, caused by the common ownership transfer software, and to notify the contract holder that additional TTPP payments were available.

If additional information or documentation is required, please contact Misty Jones at 202-720-3996.

Informational copies of this report have been distributed to:

Administrator, FSA, **Attn:** Agency Liaison Officer (10)

General Accountability Office (1)

Office of Management and Budget (1)

Office of the Chief Financial Officer (1)

Director, Planning and Accountability Division