



U.S. Department of Agriculture



Office of Inspector General
Southeast Region

Audit Report

Farm Service Agency Peanut Quota Buyout Program

Report No. 03099-166-AT
August 2003



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



DATE: August 12, 2003

REPLY TO
ATTN OF: 03099-166-At

SUBJECT: Peanut Quota Buyout 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 the subject audit. Farm Service Agency's July 25, 2003, response to the draft report is included as exhibit D with excerpts and the Office of Inspector General's (OIG) position incorporated in the Findings and Recommendations sections of the report.

We can reach management decision on the recommendations once we have been provided the requested information as outlined in the report's "OIG Position" sections. In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days detailing the requested information. Please note that the regulation requires a management decision to be reached on all recommendations within 6 months of report issuance.

We appreciate the courtesies and cooperation extended to us by members of your staff during the review.

RICHARD D. LONG
Assistant Inspector General
for Audit

Executive Summary

Farm Service Agency Peanut Quota Buyout Program (Audit Report No. 03099-166-AT)

Results in Brief

This report presents the results of our review of the Farm Service Agency (FSA) Peanut Quota Buyout Program (QBOP). The objective was to evaluate FSA's controls for ensuring QBOP payments were made to eligible quota holders. An eligible quota holder is a party who owned a farm or tract as of May 13, 2002, that had a 2001 quota.

QBOP eliminated peanut quotas and provided compensation to quota holders for their loss of asset value. For the 16 States with peanut quotas, the program payments were expected to be approximately \$1.3 billion. QBOP payments for the States we reviewed, Georgia and Florida, were \$535 million and \$55 million respectively. We selected the two largest payment counties in each State for review. The payments in the four counties totaled about \$96.3 million.

Because FSA records may not have been updated to reflect changes in ownership, QBOP procedures allowed payments to new owners only if the sale or transfer agreements were executed prior to May 13, 2002. At the 4 service centers selected for review, we identified 1,365 payments totaling about \$9 million made to parties other than the owners of record reflected in FSA's automated farm records maintenance system as of May 13, 2002, ("owners of record"). Our review of 102 of these payments totaling about \$4.5 million found they were generally made to eligible quota holders in conformance with program requirements. However, we did find the following:

- One service center generally did not obtain sufficient documentation to support payments to parties other than the owners of record. The service center made 184 payments totaling about \$1.4 million to the other parties.
- Of the 102 payments tested, we questioned 4 payments totaling \$152,535, made by 3 service centers, because the payees could not provide sufficient proof of ownership.

A summary of monetary results is provided in exhibit A.

Recommendations In Brief

We recommend the FSA National Office to instruct (1) State offices (SO) to require county offices to review and certify that they have adequate documentation that QBOP payees were eligible quota holders, (2) the Florida SO to require the Santa Rosa County Service Center to obtain documentation sufficient to support payments to parties other than the owners of record, and

(3) the Georgia and Florida SO's to refer the four questioned payments to the Deputy Administrator of Farm Programs, through the SO, for determinations of eligibility.

Agency Response In its July 25, 2003, written response to the draft report, FSA agreed with the recommendations and stated its proposed actions for implementing them.

OIG Position We agree with the proposed actions and can achieve management decision on the recommendations once we receive a timeframe for completing the actions.

Table of Contents

| | |
|---|------------------------------|
| Executive Summary | Error! Bookmark not defined. |
| Background and Objectives | 1 |
| Findings and Recommendations | 3 |
| Section 1. Transfers of Ownership | 3 |
| Finding 1 One Service Center Did Not Obtain Documentation to Support Changes in Ownership | 3 |
| Recommendation No. 1..... | 4 |
| Recommendation No. 2..... | 5 |
| Finding 2 Payees Could Not Provide Proof of Ownership..... | 5 |
| Recommendation No. 3..... | 6 |
| Scope and Methodology | 8 |
| Exhibit A – Summary of Monetary Results | 9 |
| Exhibit B – Universe and Sample Data for Counties Visited | 10 |
| Exhibit C – Exception Narrative | 11 |
| Exhibit D – Agency Response | 14 |

Background and Objectives

Background

The Farm Security and Rural Investment Act of 2002 (2002 Farm Bill), included a provision to repeal the market quota system for peanuts. The quota system was replaced with a system of direct and counter-cyclical payments (DCP) and non-recourse loans with marketing loan provisions similar to other commodities such as corn, soybeans, and cotton.

The 2002 Farm Bill¹ included a provision to compensate peanut quota holders for loss of their quota asset value. The Peanut Quota Buyout Program (QBOP) is a one-time program for eligible quota holders who contract with the U.S. Department of Agriculture to receive compensation for the loss of quota at the rate of \$0.11 per pound annually for 5 years or a lump-sum payment of \$0.55 per pound. The determination of the peanut poundage amount for a qualified person was based on the 2001 crop quota levels, taking into account sales of the farm that occurred before the (May 13, 2002) date of enactment of the 2002 Farm Bill and any permanent transfers of quota that took place before that date.

The national peanut quota for 2001 was 2,354,100,000 pounds that would equate to a maximum QBOP payout of \$1,294,755,000. (See table 1.)

Table 1

| State | Quota Pounds | Percent of Total | Amount |
|----------------|---------------|------------------|------------------|
| Georgia | 972,036,751 | 41.29 | \$534,620,213 |
| Alabama | 316,516,843 | 13.45 | 174,084,264 |
| Texas | 310,347,830 | 13.18 | 170,691,307 |
| North Carolina | 260,178,192 | 11.05 | 143,098,006 |
| Virginia | 186,341,375 | 7.92 | 102,487,756 |
| Oklahoma | 157,197,688 | 6.68 | 86,458,728 |
| Florida | 100,642,483 | 4.28 | 55,353,366 |
| South Carolina | 17,307,885 | .74 | 9,519,337 |
| New Mexico | 13,670,117 | .58 | 7,518,564 |
| Mississippi | 8,940,048 | .38 | 4,917,026 |
| Arkansas | 4,904,273 | .21 | 2,697,350 |
| Louisiana | 2,152,354 | .09 | 1,183,795 |
| Arizona | 1,471,501 | .06 | 809,326 |
| California | 1,023,869 | .04 | 563,128 |
| Tennessee | 1,007,272 | .04 | 554,000 |
| Missouri | 361,519 | .02 | 198,835 |
| Subtotal | 2,354,100,000 | 100.00 | \$ 1,294,755,000 |
| Reserve | 5,900,000 | | |
| Total | 2,360,000,000 | | |

¹ 2002 Farm Bill, section 1309(f)(6), dated May 13, 2002.

To identify eligible quota holders entitled to QBOP payments, Farm Service Agency (FSA) service centers were required to run a report on August 27, 2002, which showed parties who owned a farm or tract, as of May 13, 2002, that had a 2001 peanut quota (“owners of record”). The report was generated from the agency's 2001 farm ownership file. Because FSA files may not have been updated to reflect changes in ownership, QBOP procedures² allowed for payments to new owners only if the sale or transfer agreements were executed prior to May 13, 2002. All sales and transfers of ownership prior to May 13, 2002, were accepted if they were (1) in writing and (2) signed by all parties involved in the sale/transfer. Transfers/sales after May 13, 2002, were not allowed for payment purposes.

In the cases of death, the estate beneficiaries were eligible for the payments. FSA required documentation for estate beneficiaries including identification and signatures of all beneficiaries and acknowledgement of consequences for improper/fraudulent representations.^{3,4}

Objectives

The review objective was to determine if FSA's controls were adequate to ensure QBOP recipients were eligible quota holders.

² FSA Handbook, "1 DCP," amendment 1, paragraph 526C, dated September 26, 2002.

³ FSA Handbook, "1 DCP," amendment 1, paragraph 526D, dated September 26, 2002.

⁴ FSA Notice, "DCP 26," part 6a, exhibit 2, dated August 30, 2000.

Findings and Recommendations

Section 1. Transfers of Ownership

We visited 4 FSA service centers in Georgia and Florida and reviewed 102 of the 1,365 QBOP payments these centers made to payees other than the owners of record. Our sample represented \$4,485,250 million (51 percent) of the \$8,781,007 payments the 4 service centers made to the 1,365 payees. Our review disclosed the following:

- One service center generally did not obtain sufficient documentation to support payments to parties other than the owners of record. The service center made 184 payments totaling \$1,379,710 to the other parties.
- Of the 102 payments tested, we questioned 4 payments totaling \$152,535 made by 3 service centers because the payees could not provide sufficient proof of ownership.

Finding 1

One Service Center Did Not Obtain Documentation to Support Changes in Ownership

One of the four service centers we visited generally had not obtained documentation to support that QBOP payees, other than the owners of record, were eligible quota holders. The Florida Santa Rosa County FSA Service Center staff generally did not obtain deeds, probated wills, or signed agreements to support changes in the owners of record. Therefore, there were no assurances that the payees were the eligible quota holders and entitled to the payments. The service center director stated that he was not aware of the ownership documentation requirement because changes to the FSA Handbook, "1-DCP," applicable to QBOP, were not received until sometime after quota holders applied for payments. The service center made 184 payments totaling \$1,379,710 to payees other than the owners of record.

FSA Headquarters officials stated that guidance was provided to service centers prior to beginning signups on September 2, 2002. FSA Notice DCP-23, dated August 19, 2002, provided specific documentation requirements for changes in ownership through sales, contract for purchase of quota, life estates, deaths and estates, and dissolved entities.

FSA farm ownership records were to be updated when the new quota holders applied for QBOP payments. At that time, the applicants were to provide

proof of ownership in order to receive payments. FSA program rules⁵ defined proof as written contract, written agreement, verbal agreement with a signed certification by all parties, legal documentation demonstrating the estate division or method, or a written agreement signed by all heirs.

To identify payments to parties other than the owners of record, we asked each service center to generate a list of QBOP payees and compared the list to the report of owners of record run by the service center on August 27, 2002. The August 27, 2002, report of the owners of record was extracted from the agency's farm ownership file.

At the 4 service centers we visited, we identified 1,365 payments totaling \$8,781,007 made to parties other than the owners of record. (See exhibit B.) The differences generally occurred because the new owners had not reported the acquisition of the farms or quotas, occurring prior to May 13, 2002, to the service centers. The changes were attributed to (1) farm and quota sales; (2) inheritances and estate settlements; and (3) corrections of producer names, producer classifications (e.g., person vs. estate), and producer shares.

The Santa Rosa County Florida Service Center made 184 payments totaling \$1,379,710 to payees who were not listed as the owners of record. We sampled 18 of the largest payments totaling \$757,315 and found that the center had not obtained documentation to support 14 payments totaling \$664,495. The service center had not required applicants to submit documentation, such as deeds or quota transfer forms, to show that they were eligible quota holders. FSA's farm ownership records were to be updated when the new owners applied for QBOP payments. At that time, the applicants (new owners) were to provide proof of ownership in order to receive the payments.

During our visit, the service center staff was able to obtain from the courthouse or payees documentation to support 13 of the 14 payments totaling \$602,080. For the remaining payment of \$62,415, the deed and will obtained did not clearly delineate the owner(s) of the property or the peanut quota and was not sufficient to determine the payee was entitled to the payment. (See finding no. 2 and exhibit C for details.)

Recommendation No. 1

Instruct States participating in QBOP to require county offices to review and certify that they have adequate documentation to support payments to payees other than those shown on the August 27, 2002, report.

⁵ FSA Handbook, "1 DCP," amendment 1, paragraph 526C, and 526F, dated September 26, 2002.

Agency Response. In its July 25, 2003, response, FSA stated,

FSA will instruct State offices that participated in QBOP to require county offices to review a sample of payees who were not shown on the August 27, 2002, report to determine if supporting documentation was obtained. The method to be used to pull the sample will be the same as used by OIG. Once county offices have certified to State offices, we will have each State office certify to this office.

OIG Position. We agree with the proposed actions. However, to achieve management decision, we need timeframes for completing them.

Recommendation No. 2

For the remaining 166 cases (184-18=166) in which the Santa Rosa County FSA Service Center issued QBOP payments to payees who were not listed on the August 27, 2002, printout, instruct the Florida State office (SO) to require the service center to obtain documentation to support the eligibility of such payees.

Agency Response. In its July 25, 2003, response, FSA stated, "FSA will notify the Florida State Office that the Santa Rosa County FSA Office is to review and certify that they have obtained documentation to support the remaining 166 cases that OIG did not review, due to the number of cases that did not have supporting documentation."

OIG Position. We agree with the proposed action. However, to achieve management decision, we need timeframes for completion.

Finding 2

Payees Could Not Provide Proof of Ownership

Four of the 102 payments that we reviewed were made to individuals who could not provide support that they were eligible quota holders authorized to receive the payments. The four payments, made by three service centers, totaled \$152,535. In one case the service center did not require documentation to support the eligibility of the individual before making the payment and in the other three cases the service center staffs did not adequately evaluate the documentation to determine the applicant's entitlement to the payments.

FSA program rules⁶ define an eligible quota holder as an individual, joint operation, or entity who owned a farm or tract before May 13, 2002, which had a 2001 basic quota. A person who holds a life estate in the farm or tract of a farm that has a peanut quota is the eligible owner. Program rules also provide for recognition of permanent transfers of quotas if there was an agreement by all parties prior to May 13, 2002. All parties must sign a certification for the transfer to be valid. In the event the quota holder is deceased, legal documentation must be provided demonstrating the estate division method (typically a probated will) or a written agreement signed by all heirs showing each prorated share in the deceased's quota.

If situations occur where the eligible quota holder cannot be determined, the service centers shall refer the payments to the Deputy Administrator of Farm Programs (DAFP), through the SO, for a determination.⁷

Payments totaling \$152,535 made to four individuals, were not supported.

- Two payments totaling \$50,070 were made to two brothers rather than their mother who held a life estate in the farm. She was incapacitated due to health problems and was unable to enter into the QBOP contract.
- One payment of \$40,050 was not supported by a quota transfer/sales document.
- One payment of \$62,415 was made although the deeds and wills provided for the property did not clearly delineate the owner(s) of the property or the quota.

The FSA county service center staffs agreed that the payments should have been referred to DAFP for eligibility determinations and/or sufficient documentation obtained to support the entitlement of the payees.

Exhibit C contains additional details of the four payments.

Recommendation No. 3

Instruct the Georgia and Florida SO's to refer the four cases to DAFP for a determination of the payees' eligibility. If the payees are determined ineligible, take appropriate recovery action.

⁶ FSA Handbook, "1 DCP," amendment 1, 526A, 526C, and 526H, dated September 26, 2002.

⁷ FSA Handbook, "1 DCP," amendment 1, 526D, dated September 26, 2002.

Agency Response. In its July 25, 2003, response, FSA stated, "FSA will instruct the Georgia and Florida State Offices to refer the cases, as recommended by OIG, to this office for a determination of eligibility of payees for QBOP payments."

OIG Position. We agree with the proposed action. However, to achieve a management decision, we need (1) a timeframe for completing the eligibility determinations and (2) if improper payments are determined, copies of the billings to recover the payments.

Scope and Methodology

The review was performed in accordance with generally accepted government auditing standards and covered the period May 2002 through March 2003.

Work was performed at the FSA National Office in Washington, D.C., and four FSA service centers that served the two largest peanut producing counties in each of Georgia and Florida.

Projected QBOP payments in Georgia and Florida were \$590 million of the \$1.3 billion projected payments nationwide. Records at the 4 service centers we visited showed that there were 4,663 owners of record eligible for payments totaling \$96,269,314 (see exhibit B). We identified 1,365 payments totaling \$8,781,007 that the 4 centers made to payees other than the owners of record. We reviewed 102 of the 1,365 payments. The 102 payments represented the largest payments at each center and totaled \$4,485,250 (51 percent) of the \$8,781,007.

To accomplish the review objectives, we performed the following steps:

- Reviewed applicable laws, regulations, and guidance for QBOP;
- Reviewed FSA policies, procedures, and administrative controls for QBOP;
- Interviewed officials at FSA headquarters and county service centers;
- Compared county QBOP payee reports to county lists of the owners of record to identify payments to producers other than the owners of record;
- Selected the two largest QBOP payment centers in both Georgia and Florida for review;
- Judgmentally selected the largest mismatched QBOP payments at the 4 centers (102 QBOP payments selected);
- Interviewed QBOP payment recipients;
- Reviewed QBOP payment file documentation to support transfers; and
- Visited the county courthouses to review farm ownership records.

Exhibit A – Summary of Monetary Results

Exhibit A – Page 1 of 1

| Finding No. | Recommendation No. | Description | Amount | |
|--------------------|---------------------------|---------------------------|---------------|---|
| 2 | 3 | Unsupported QBOP payments | \$152,535 | Unsupported Cost, Recovery Recommended |

Exhibit B – Universe and Sample Data for Counties Visited

Exhibit B – Page 1 of 1

| EARLY COUNTY, GEORGIA | No. of Producers | ENTITLEMENT |
|---|-------------------------|--------------------|
| Owners of Record ¹ | 1,012 | \$31,943,904 |
| Payments to Parties Other Than Owners of Record | 388 | \$3,310,815 |
| No. Reviewed | 35 | \$1,812,140 |
| No. of Exceptions | No Exceptions | N/A |
| WORTH COUNTY, GEORGIA | No. of Producers | ENTITLEMENT |
| Owners of Record ¹ | 1,196 | \$31,899,265 |
| Payments to Parties Other Than Owners of Record | 283 | \$1,859,323 |
| No. Reviewed | 25 | \$1,000,323 |
| No. of Exceptions | 2 | \$50,070 |
| SANTA ROSA COUNTY, FLORIDA | No. of Producers | ENTITLEMENT |
| Owners of Record ¹ | 665 | \$6,926,765 |
| Payments to Parties Other Than Owners of Record | 184 | \$1,379,710 |
| No. Reviewed | 18 | \$757,315 |
| No. of Exceptions | 1 | \$62,415 |
| JACKSON COUNTY, FLORIDA | No. of Producers | ENTITLEMENT |
| Owners of Record ¹ | 1,790 | \$25,499,380 |
| Payments to Parties Other Than Owners of Record | 510 | \$2,231,159 |
| No. Reviewed | 24 | \$915,472 |
| No. of Exceptions | 1 | \$40,050 |
| REVIEW TOTALS | No. of Producers | ENTITLEMENT |
| Owners of Record ¹ | 4,663 | \$96,269,314 |
| Payments to Parties Other Than Owners of Record | 1,365 | \$8,781,007 |
| No. Reviewed | 102 | \$4,485,250 |
| No. of Exceptions | 4 | \$152,535 |

¹Owners of record as recorded in FSA files as of May 13, 2002.

Exhibit C – Exception Narrative

Worth County, Georgia -- Two payments were made to brothers whose mother had a life estate in the farm. The mother's quota was 91,029 pounds that resulted in a \$50,070 lump-sum payment. FSA Handbook, "1 DCP," amendment 1, paragraph 526H, dated September 26, 2002, provides, "A person, who holds a life estate in a farm or tract that has a peanut quota attached, is the eligible quota holder." Due to severe health problems, the mother was without the capacity to enter into the QBOP contract; thus, the sons applied for and split the \$50,070 QBOP payment. The brothers told us that a power of attorney had not been executed. They contended that the farm assets were theirs including the buildings, timber rights, and peanut quota. The sons had deeded the property to their mother at the time of their father's death with the understanding that she would receive the cash rent from the land. The FSA service center should have sent this case to the SO for referral to DAFP for a determination as to the proper payee. FSA service center officials agreed that the payments should have been referred for a determination.

Santa Rosa County, Florida -- One payment of \$62,415 for 113,481 pounds made to an heir of an estate was not supported. The owner of record was deceased. FSA Handbook, "1 DCP," amendment 1, paragraph 526E, dated September 26, 2002, provides,

If the eligible quota holder died before entering into a contract for QBOP, the estate is the eligible quota holder. If there is no estate, the eligible quota pounds will be divided according to the following:

- *the method the estate was divided*
- *if an estate was not formed, then all heirs of the estate must agree in writing on the division of quota pounds*

Legal documentation must be provided demonstrating either of the following:

- *the estate division method*
- *a written agreement signed by all heirs reflecting the subject heirs associated with the deceased producer's interest and division of pounds.*

The service center had not obtained documentation such as a deed and will to support that the payee was entitled to the payment. At our request, the payee

provided a deed and will for the property. They showed that (1) the property was part of an estate and (2) the payee was one of several heirs associated with the estate. The documentation provided did not define the method by which the estate was divided, which heir survived which heir, or in which order the property and peanut quota passed to the heirs. This case should have been referred via the SO to DAFP for a determination as to which individuals were entitled to the payment. FSA service center officials agreed that the payment should have been referred for a determination.

Jackson County, Florida -- One payment of \$40,050 for 72,815 pounds was made to a farm operator without a properly executed transfer. FSA Handbook, "1 DCP," amendment 1, paragraph 526C, dated September 26, 2002, provides,

If an agreement for the permanent transfer of quota was in effect before May 13, 2002, the QBOP payment will be disbursed according to the agreement. The agreement shall contain a certification from the previous quota holder stating that they will not file a request for QBOP payments on poundage represented in the agreement. The agreement must be 1 of the following:

- *FSA-375 (peanuts),*
- *written contract,*
- *written agreement, or*
- *verbal agreement.*

* * * * *

For a verbal agreement, the parties involved must submit to the [county committee] a certification, which must include the date of the agreement, pounds agreed upon, and associated farm numbers. All parties must sign the certification for it to be considered valid. Verbal agreements without a signed certification will not be considered.

The operator was the son/relative of the four owners (all related family members) who each owned one of four tracts that were entitled to a payment. The operator stated that he had purchased the peanut quota several years ago and placed it on the family farm's four tracts. The QBOP file contained a statement from the operator's mother that the operator had placed the quota on the farm; however, the document did not conform to FSA's procedures for

Exhibit C – Exception Narrative

transfer/sale of quota because all owners did not sign the statement. After reviewing the deeds, we determined the following relatives of the operator owned the 4 tracts with following quota allocations (1) his mother owned 1 tract with 22,159 pounds of quota, (2) his aunt owned 1 tract with 30,321 pounds of quota, (3) his grandmother owned 1 tract with 14,824 pounds of quota, and (4) his uncle owned 1 tract with 5,511 pounds of quota.

The owners were entitled to the payment unless the operator could provide documentation that before May 13, 2002, he owned or had entered into an agreement to purchase the farmland with the quota on it, or he had an agreement to transfer the quota to other farmland he owned. FSA officials agreed that the payment was not supported by the required documentation for a transfer/sale of quota.

Exhibit D – Agency Response

Exhibit D – Page 1 of 3



United States
Department of
Agriculture

Farm and Foreign
Agricultural
Services

Farm Service
Agency

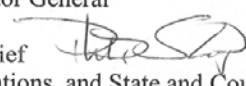
Operations Review
and Analysis Staff

Audits,
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JUL 25 2003

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

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

SUBJECT: Response to Audit No. 03099-166-AT, Farm Service Agency (FSA)
Peanut Quota Buyout Program

Enclosed is a copy of a memorandum dated July 25 from FSA's Deputy Administrator for Farm Programs, which responds to your request for information regarding the subject audit.

Please direct any questions to Cindy Foister at 720-5463.

Enclosure

USDA is an Equal Opportunity Employer

Exhibit D – Agency Response



PKS
7/25

United States
Department of
Agriculture

Farm and Foreign
Agricultural
Services

Farm Service
Agency

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

FROM: *JA* John A. Johnson
Deputy Administrator for Farm Programs *John A. Johnson* JUL 25 2003

SUBJECT: Responding to OIG Audit No. 03099-166-AT, FSA Peanut Quota Buyout Program

In response to subject audit, please find FSA's response to OIG's position relating to corrective actions to recommendations.

Recommendation No. 1

Instruct States participating in QBOP to require county offices to review and certify that they have adequate documentation to support payments to payees other than those shown on the August 27, 2002, report.

FSA Response:

FSA will instruct State offices that participated in QBOP to require county offices to review a sample of payees who were not shown on the August 27, 2002, report to determine if supporting documentation was obtained. The method to be used to pull the sample will be the same as used by OIG. Once county offices have certified to State offices, we will have each State office certify to this office.

Recommendation No. 2

For the remaining 166 cases (184-18=166) in which the Santa Rose County FSA Service Center issued QBOP payments to payees who were not listed on the August 27, 2002, printout, instruct the Florida State Office to require the Santa Rosa County FSA Office to obtain documentation to support the eligibility of such payees.

FSA Response:

FSA will notify the Florida State Office that the Santa Rosa County FSA Office is to review and certify that they have obtained documentation to support the remaining 166 cases that OIG did not review, due to the number of cases that did not have supporting documentation.

Philip Sharp
Page 2

Recommendation 3

Instruct the Georgia and Florida State Offices to refer the four cases to DAFP for a determination of payees' eligibility that were paid without supporting documentation. If the payees are determined ineligible, take appropriate recovery action.

FSA Response:

FSA will instruct the Georgia and Florida State Offices to refer the cases, as recommended by OIG, to this office for a determination of eligibility of payees for QBOP payments.