



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



DATE: April 2, 2002

REPLY TO
ATTN OF: 03099-50-KC

SUBJECT: Review of Quality Loss Programs

TO: James R. Little
Administrator
Farm Service Agency

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

We have completed an audit survey of Farm Service Agency's (FSA) Quality Loss Programs (QLP). Our review was designed to provide FSA with an assessment of the implementation and administration stages of the QLP and the Quality Loss Program-Apples and Potatoes (QLP-AP). Overall, we determined that the QLP and QLP-AP were operating as designed and that FSA was generally administering the programs in accordance with program procedures.

BACKGROUND:

The Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2001 (Public Law (PL) 106-387), dated October 28, 2000, provided assistance to producers for quality losses not covered by the 2000 Crop Disaster Program (CDP). The 2000 CDP already included quality payments for many crops; however, the QLP was a supplemental quality program for those situations where the CDP quality payments were inadequate or nonexistent. Quality payments earned under CDP were subtracted from the QLP and QLP-AP payments. Initially, the estimated cost of the QLP was \$500 million with \$50 to \$80 million of the payments to be made to North Dakota producers. As of March 1, 2002, FSA estimated the cost of the QLP at about \$131.6 million.

PL 106-387 authorized \$38 million for the QLP-AP; however, The Consolidated Appropriations Act, 2001 (PL 106-544), dated December 21, 2000, reduced the \$38 million appropriation by 0.22 percent to \$37,916,400. To ensure QLP-AP payments would not exceed the authorized funding level of about \$38 million, on March 21, 2002,

FSA transmitted to its county offices (CO) a national final payment factor of 27.77 percent.

On March 21, 2001, the Commodity Credit Corporation published the final rule at Title 7, Code of Federal Regulations, part 1480, to implement the provisions of the Act related to crop-loss disaster assistance (CDP, QLP, QLP-AP, Florida Nursery, and other specialty crop losses). FSA issued temporary directives (National Notices DAP-105, -106, and -109) in May and July 2001 to deliver the disaster assistance programs through its network of field offices. FSA added QLP and QLP-AP to its permanent directives in August 2001 (FSA Handbook 3-DAP, Amendment 4).

OBJECTIVES:

The objective of the review was to provide FSA with an assessment of the implementation and administration stages of the QLP and QLP-AP. Specifically, we focused on the development and testing of the automated system developed for the QLP/QLP-AP, the establishment of the quality adjustment factors, sign-up operations in selected FSA State and county offices, eligibility determinations (producer and production loss due to quality), and FSA county committee determinations. In addition, we determined if crop insurance linkage requirements were being met by 2000 CDP applicants and evaluated the effectiveness of FSA's outreach efforts for the QLP/QLP-AP for those States reviewed.

SCOPE AND METHODOLOGY OF THE SURVEY:

Our review was performed at the North Dakota and Kansas FSA State offices, seven FSA CO's, and at the FSA Kansas City Information Technology Services Division (KCITSD) in Kansas City, Missouri. We contacted the FSA National Office to obtain QLP and QLP-AP background information, program procedures, expected participation data, and payment data. We also contacted the Missouri and Michigan FSA State offices to obtain participation information for the QLP-AP. At 2 FSA CO's, we reviewed 75 of 213 approved QLP applications. In addition, at 5 FSA CO's, we reviewed all 25 QLP and 6 of 13 QLP-AP applications awaiting county office committee (COC) approval¹.

To accomplish our objectives, we interviewed officials at KCITSD and judgmentally selected FSA State and county offices. State and county FSA offices were selected based on expected QLP and QLP-AP participation levels identified by the FSA national and State offices. One of the FSA CO's was selected because of the number of QLP-AP applications on hand at the time. We also reviewed FSA procedures, Federal

¹ To accomplish our objective, we observed and reviewed applications received by FSA CO's during the initial phases of sign-up and prior to COC approval.

regulations, software requirements, and program participation reports related to the survey objectives.

At KCITSD, we reviewed and discussed QLP software requirements and acceptance testing results. At four FSA CO's, we confirmed, using our developed application, that the QLP software accurately calculated benefits for the sampled producers. We tested the QLP-AP payment software by manually computing QLP-AP payments for five producers and comparing the results with those obtained from the software.

QLP fieldwork was performed at FSA CO's in North Dakota and Kansas². We reviewed program records and made warehouse visits to verify production and quality loss documentation submitted by producers. For the QLP-AP, we reviewed FSA program records and production records submitted by producers in Michigan and Missouri³. The fieldwork was performed from August through December 2001. We conducted the audit survey in accordance with Government Auditing Standards.

AUDIT RESULTS:

We concluded that FSA had developed and initially implemented procedures that were generally effective in administering the QLP and QLP-AP. Our review showed that: (1) the automated system developed for QLP⁴ calculated payments in accordance with system requirements for our sampled producers and included controls for payment limitation, (2) although acceptance testing disclosed minor formatting problems with QLP or QLP-AP application software⁵, no payment or production calculation irregularities were noted for QLP, (3) quality adjustment factors were properly established by FSA State office personnel, (4) program sign-up operations were satisfactory, (5) producer and cause of loss eligibility determinations were properly documented, and (6) FSA county committee determinations for the QLP were documented appropriately. We also determined that crop insurance linkage requirements were met by 2000 CDP applicants and that FSA's outreach efforts at the sampled CO's were adequate.

Audit work performed in five of the seven FSA CO's did not disclose any significant problems with production records provided by producers as evidence for their QLP applications. However, at two CO's, we did identify errors made by CO personnel that resulted in QLP over and underpayments of \$130 and \$67, respectively. The payments were corrected by CO personnel. We also noted that supporting documentation for two of six QLP-AP applications for apple quality losses needed additional information prior

² Ward, Pembina, and Cass counties in North Dakota and Anderson and Franklin counties in Kansas.

³ Berrien county Michigan and Lafayette county Missouri.

⁴ At the time of our audit, payment software for QLP-AP was not available for review.

⁵ Acceptance testing noted two minor problems with the reconciliation report and a correction was sent out in the next software release.

to COC approval. Follow-up with CO's disclosed that additional apple production records were obtained prior to COC approval of the two QLP-AP applications. Based on the results of our work, we have no recommendations to offer.

We appreciate the assistance you and your staff provided to us during our review. No reply to this report is necessary.

/s/

RICHARD D. LONG
Assistant Inspector General
for Audit