



U.S. Department of Agriculture  
Office of Inspector General  
Washington, D.C. 20250



DATE: March 15, 2010

REPLY TO  
ATTN OF: 03703-2-Ch (1)

TO: Jonathan Coppess  
Administrator  
Farm Service Agency

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

FROM: Gil H. Harden /s/  
Acting Assistant Inspector General  
for Audit

SUBJECT: Controls Over Aquaculture Grant Recovery Act Funds – Phase 2

The American Recovery and Reinvestment Act of 2009 (Recovery Act) authorized up to \$50 million to carry out the 2008 Aquaculture Grant Program (AGP) to assist aquaculture producers in recovering from losses associated with high feed costs during the 2008 calendar year. Congress, in enacting the Recovery Act, emphasized the need for accountability and transparency in the expenditure of funds. Accordingly, the Office of Inspector General (OIG) initiated a two-phase audit of AGP. In the first phase, we determined if the Farm Service Agency (FSA) had established adequate processes and controls to implement the Recovery Act's aquaculture provisions in a timely and equitable manner. In this, the second phase, we determined if the Farm Service Agency (FSA) and participating State Departments of Agriculture (SDA) were complying with agency procedures and with Recovery Act requirements, and if program funds were timely distributed, if reporting requirements were met, and if the program was being sufficiently overseen.

Based on our review of 4 of the 35 SDAs participating in the program—Alabama, Louisiana, Mississippi, and Texas, which, together, received over \$33 million of AGP's \$50 million—we found that there was a problem with how the Alabama SDA reimbursed 4 of the 7 producers who raised tilapia in their aquaculture operations.

Of the six Alabama producers raising tilapia who were determined eligible for the AGP, three producers chose to feed their fish not with more expensive tilapia food, but with less expensive

catfish food.<sup>1</sup> However, when the Alabama SDA reimbursed these producers for the increase in feed costs, it used the price of tilapia feed instead of the price of catfish feed. Since the goal of these payments is to recompense producers for the spike in feed costs, we maintain that these producers should have been reimbursed for the type of feed they actually used.<sup>2</sup>

When FSA implemented the program, it instructed each SDA to determine its State's increase in prices by comparing each producer's 2008 feed price with the average price from 2003 to 2007.<sup>3</sup> The difference in feed price could then be multiplied by the number of tons of feed the producer purchased in 2008. This sum was used to determine the grant amount that an eligible producer could receive under AGP.

The Alabama SDA determined that the 2003-2007 average cost of tilapia feed in Alabama was \$376 per ton, while the average cost of catfish feed was \$237 per ton. When a producer applying for the AGP stated that he paid \$504.64 per ton for *catfish* feed, the Alabama SDA determined that the increase in feed price was \$128.64 per ton by subtracting the average tilapia feed price of \$376 per ton from the actual catfish feed price of \$506.64 actually paid by the producer. Based on the producer purchasing 12.34 tons of feed, the Alabama SDA concluded that the producer should receive a grant of \$1,587.42.<sup>4</sup>

OIG maintains that the Alabama SDA should have used the average cost of *catfish* feed from 2003 to 2007 in those cases where it was the type of feed the producer actually used during the 5-year base period. If the Alabama SDA had used this average for the producer discussed above, who paid \$504.64 per ton for *catfish* feed in 2008, the SDA would have determined the increase in feed price to be \$267.64 per ton. Based on the producer purchasing 12.34 tons of feed, the Alabama SDA should have determined the producer's grant to be \$3,302.68.<sup>5</sup> As a result, the three tilapia producers were underpaid a total of \$4,776.95.

Additionally, we found that another Alabama producer was judged ineligible for the program because the SDA used tilapia feed prices instead of catfish feed prices. To be eligible, a producer's increase in feed prices for 2008 had to be at least 25 percent higher than the 2003-2007 average cost of feed.<sup>6</sup> In 2008, this producer paid \$336.92 for catfish feed. The Alabama SDA used the tilapia feed threshold of \$470<sup>7</sup> to determine his eligibility instead of the catfish feed threshold of \$296.25.<sup>8</sup> As a result, this producer was underpaid \$399.68.

In total, OIG determined that these four Alabama tilapia producers who used catfish feed were underpaid a total of \$5,176.63.

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<sup>1</sup> The difference between "tilapia feed" and "catfish feed" is a matter of how much protein is in the food. Food fed to tilapia has more protein and is, therefore, more expensive.

<sup>2</sup> According to the Recovery Act, these funds are intended to assist producers with losses associated with high feed costs during the 2008 calendar year (H.R. 1, Sec. 102, (d)(2)(A)). Producers are only eligible if their increase in feed costs was at least 25 percent of the 5-year average feed price [Grant Agreement, Section D.3.b.].

<sup>3</sup> Grant Agreement, Section C.5.

<sup>4</sup>  $\$504.64 - \$376.00 = \$128.64 \times 12.34 = \$1,587.42$ .

<sup>5</sup>  $\$504.64 - \$237.00 = \$267.64 \times 12.34 = \$3,302.68$ .

<sup>6</sup> Grant Agreement, Section D.3.b.

<sup>7</sup>  $\$376 \times 1.25 = \$470$ .

<sup>8</sup>  $\$237 \times 1.25 = \$296.25$ .

When we discussed these underpayments with officials at the Alabama SDA, they stated that they believed that using the 5-year average price of tilapia feed was correct and, thus, they did not seek clarification from FSA. FSA Headquarters officials stated that officials from the Arkansas SDA had contacted them about this same issue. Arkansas SDA officials informed FSA that they determined the grant payment for tilapia producers using catfish feed based on the 5-year average for catfish feed. FSA officials notified the Arkansas SDA that they agreed with their process, but they did not notify other SDAs of this determination.

If this program is utilized in the future, OIG maintains that FSA needs to implement a process to ensure that all SDAs are consistently implementing the program. Without such a process, the agency will lack assurance that it is treating all producers equitably.

Given these problems, we recommend that FSA:

- 1) Instruct the Alabama SDA to recalculate the four tilapia producers' grant payments using the 5-year catfish average price and thereby correct underpayments totaling \$5,176.63.
- 2) Determine if other SDAs correctly calculated grant payments for aquaculture producers, using the guidance provided to the Arkansas SDA. Take appropriate action to correct any errors found.
- 3) Ensure that determinations made by FSA Headquarters are provided to all participating SDAs if this program is funded in future years.

Please provide a written response to this letter within 5 days, outlining your proposed actions. If you have any questions, please contact me at (202) 720-6945, or have a member of your staff contact Ernest M. Hayashi, Audit Director, Farm and Foreign Agricultural Programs, at (202) 720-2887.

**USDA'S**

**FARM SERVICE AGENCY**

**RESPONSE TO AUDIT REPORT**



**United States  
Department of  
Agriculture**

**March 29, 2010**

Farm and Foreign  
Agricultural  
Services

Farm Service  
Agency

Operations Review  
and Analysis Staff

1400 Independence  
Ave, SW  
Stop 0540  
Washington, DC  
20250-0501

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

**FROM:** T. Mike McCann, Director /s/ **T. Mike McCann**  
Operations Review and Analysis Staff

**SUBJECT:** Responding Your Memorandum Dated March 15: Controls Over  
Aquaculture Grant Recovery Act Funds Audit 03703-2-CH (1)

Attached is a copy of a memorandum dated March 29 from the Farm Service Agency's Deputy Administrator for Farm Programs, which responds to the subject's recommendations.

Attachment



United States  
Department of  
Agriculture

Farm and Foreign  
Agricultural  
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20250-0501

March 29, 2010

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

**FROM:** Brandon C. Willis /s/ **Brandon C. Willis**  
Deputy Administrator for Farm Programs

**SUBJECT:** Response to the Office of the Inspector General (OIG) Memorandum,  
dated March 15, 2010, Controls Over Aquaculture Grant Recovery Act  
Funds – Phase 2, Audit 03703-2-CH (1)

This is in response to your memorandum of March 16, 2010, requesting a written response to the OIG memorandum dated March 15, 2010, Controls Over Aquaculture Grant Recovery Act Funds – Phase 2.

Provided below are responses to the three recommendations to the Deputy Administrator for Farm Programs provided in the OIG memorandum.

**RECOMMENDATION 1:**

Instruct the Alabama State Department of Agriculture (SDA) to recalculate the four tilapia producers' grant payments using the 5-year catfish average price and thereby correct underpayments totaling \$5,176.63.

**RESPONSE TO RECOMMENDATION 1:**

The Farm Service Agency (FSA) concurs with Recommendation 1 with respect to instructing the Alabama SDA to recalculate the four tilapia producers' grant payments using the 5-year average catfish feed price and thereby correcting the underpayments totaling \$5,176.63.

FSA will contact Alabama SDA, in writing, concerning this issue and will provide copies of the letter to your office upon completion. Furthermore, FSA will take the necessary action to reallocate \$5,176.63 of 2008 Aquaculture Grant Program (AGP) funding to Alabama, from the AGP national reserve, in order for Alabama SDA to provide additional assistance to the four subject tilapia producers.

**RECOMMENDATION 2:**

Determine if other SDA's correctly calculated grant payments for aquaculture producers, using the guidance provided to the Arkansas SDA. Take appropriate action to correct any errors found.

**Philip Sharp**

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**RESPONSE TO RECOMMENDATION 2:**

FSA concurs with Recommendation 2 with respect to determining if other participating SDA's accurately calculated AGP payments to tilapia producers, as instructed in the guidance provided to the Arkansas SDA.

FSA will contact SDAs that provided assistance to tilapia producers and determine if AGP payments were accurately calculated using the appropriate 5-year average feed price. If it is determined that a SDA did not use the correct 5-year average feed price when calculating a tilapia producer's AGP payment, FSA will take the necessary action to allocate additional funding to the SDA in order to provide additional assistance to the subject tilapia producers. FSA will provide your office with the findings.

**RECOMMENDATION 3:**

Ensure that determinations made by FSA Headquarters are provided to all participating SDAs if this program is funded in future years.

**RESPONSE TO RECOMMENDATION 3:**

FSA concurs with Recommendation 3 with respect to FSA providing all participating SDAs with program policy determinations if AGP is funded in future years.

If an aquaculture disaster assistance program is funded in the future, FSA will take the necessary steps to ensure that all participating States receive all program policy determinations in a timely manner.