

U.S. Department of Agriculture



Office of Inspector General
Southeast Region

Audit Report
Tobacco Transition Payment Program –
Producers

Report No. 03601-16-At
August 2009



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



August 3, 2009

REPLY TO

ATTN OF: 03601-16-At

TO: Jonathan W. Coppess
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 – Producers

This report presents the results of Phase III of our review of the Farm Service Agency's (FSA) administration and oversight of the Tobacco Transition Payment Program (TTPP). In Phase I, we assessed the adequacy of FSA's controls to ensure that TTPP payments were issued to eligible tobacco quota holders, and reported those results under Audit Report No. 03601-12-At, issued October 29, 2007. Then in Phase II, we focused our review on the tobacco assessments against tobacco manufacturers and importers that are levied and collected in order to fund TTPP payments to tobacco quota holders and producers.¹ The results of that review are reported under Audit Report No. 03601-15-At, issued October 15, 2008. Overall, we found that FSA's controls were adequate.

TTPP was authorized by the American Jobs Creation Act of 2004, which was signed by President Bush on October 22, 2004. This program ends the tobacco marketing quota and price support loan programs and establishes a 10-year transitional payment program funded through assessments of approximately \$10.14 billion on domestic manufacturers of tobacco products and importers of foreign tobacco. During the period of June 2005 through January 2014, FSA will make estimated payments of \$6.8 billion to TTPP tobacco quota holders and \$3.3 billion to TTPP tobacco producers.

The objective of Phase III was to evaluate FSA's controls over the eligibility verification and payment calculation processes for producers with an approved contract for TTPP payments. In

¹ Quota holders are individuals who have either a fee simple or life estate interest in the farm. Producers are individuals who share in the risk of producing tobacco. An individual may qualify as both a quota holder and a producer.

order to accomplish those objectives we reviewed TTPP producer contract files and related supporting documentation for contracts approved during fiscal years (FY) 2005 through 2008, and verified producer eligibility and TTPP payment accuracy. Nothing came to our attention during the audit that would indicate that the program was not operating as prescribed. Overall, we found that controls implemented by FSA are adequate to ensure that TTPP producers are eligible and payments are calculated correctly. No further action is required from your agency and we have closed our files on the subject audit.

BACKGROUND

FSA acting on behalf of Commodity Credit Corporation (CCC) administers TTPP and will make TTPP payments to eligible tobacco quota holders and producers using funds collected from assessments levied against tobacco manufacturers and importers. These funds will allow quota holders and producers of quota tobacco to make a smooth transition from the federally regulated program. FSA made payments to tobacco quota holders and producers between June and September for FY 2005; however, future payments will be issued annually during January. The signup period for TTPP was March 14, 2005, through June 17, 2005. If a tobacco quota holder or producer did not sign up during this period, he or she did not receive a payment for 2005; however, applications filed late will be accepted for future payments. Signing up for this tobacco program is voluntary. If a producer grows tobacco in more than one county, the producer must sign up for TTPP in each county.

An eligible tobacco producer is an owner, operator, landlord, tenant, or sharecropper who shared in the risk of producing tobacco on a farm where tobacco was produced, or considered planted, pursuant to a tobacco poundage quota or acreage allotment assigned to the farm for the 2002, 2003, or 2004 crop years. CCC will consider evidence presented by a producer that includes, but is not limited to, written leases, contracts for the purchase of tobacco, crop insurance documents, or receipts for the purchase of items used in the production of tobacco.

OBJECTIVE

The objectives of our review were to determine if (1) FSA controls are adequate to ensure that payments are issued to eligible tobacco producers and (2) the producer payments are calculated in accordance with the regulations.

SCOPE AND METHODOLOGY

Our review covered TTPP producer activity between FYs 2005 through 2008. Specifically, we reviewed 200 producer contracts totaling over \$3.5 million that were approved during the review period along with supporting documentation for eligibility and payment (see exhibit A).

To perform our review, we obtained from FSA the TTPP contract database that contained about 202,000 records totaling \$2.9 billion in contracts for all producers that shared in the risk of production in the 2002 through 2004 crop years. This includes those producers who were

originally listed in FSA's Acreage Report System² as the producer of record on historical farm records and producers that were later added to the farm records. We tested the data for duplication of records and payments, deleted contracts, and analyzed contract distribution of payments by State and by county. No deficiencies were identified.

Based on prior audit results, as well as information provided by FSA, we concluded that the greater risk of error existed with producers who were "added" to the farm records because they shared in the risk of production during crop years 2002 through 2004. Therefore, we asked FSA to identify those added producers. FSA provided us an Excel spreadsheet that contained a list of about 24,200 added producer records totaling \$198 million in contracts.³ We used the added producer contract listing from FSA to select our producer contract review sample. During our analysis of the added producers' contract listing, we found that 74 percent of the TTPP contract dollars for those producers were located within Kentucky and North Carolina. Focusing our review on those two States, we further stratified our universe to include the top five counties within each State that accounted for the largest producer contract dollars.

For each of the 10 counties we randomly selected 15 producer contracts for review.⁴ In addition, while on site at each State office, we obtained district director spot check review listings for the selected 10 county offices detailing TTPP producer contracts which were subject to a district director spot check by TB Notice 1237. Using the district director spot check reports, we judgmentally selected 5 producer contracts for review for a total of 20 contracts reviewed at each of the 10 county offices visited.⁵

We performed fieldwork from August 2008 through January 2009 at the FSA national office; North Carolina FSA State Office in Raleigh, North Carolina; Kentucky FSA State Office in Lexington, Kentucky; and FSA county offices located throughout North Carolina and Kentucky.

To accomplish our objectives, we (1) interviewed FSA national office officials and reviewed applicable laws, regulations, policies, and procedures to determine how TTPP was administered at the national office level; (2) obtained and analyzed TTPP database and added producer contract listing; (3) selected a random sample of producer contracts for review from the added producer contract listing; (4) interviewed North Carolina and Kentucky FSA State Office officials; (5) obtained district director spot check review records and selected a judgmental sample of producer contracts for review; (6) interviewed county office officials, obtained and analyzed TTPP producer contract documentation, and completed Office of Inspector General-created contract review forms for eligibility and payment calculation to document results of our file reviews.

² The FSA Acreage Report System was used to upload each producer's share of the tobacco crop for the farm for crop years 2002 through 2004 into the TTPP web-based system. Later, producers were added directly to the web-based system. The TTPP web-based system is used by FSA to manage TTPP contract activity.

³ Twenty-four thousand, two hundred producer records were included in the database of 202,000 records.

⁴ Sample was selected using the random number generator function in MS Excel.

⁵ We judgmentally selected producer contracts from the district director spot check review listing by selecting the second contract listed and every other contract, thereafter, until a total of 5 contracts were selected (i.e., contracts 2, 4, 6, 8, and 10). If fewer than 10 contracts were listed on the district director spot check review listing, we generally selected the first 5 contracts for review (i.e., contracts 1-5).

For each contract reviewed we performed the following tasks:

- Verified that the producer's contract and notification of contract approval was on file and signed.
- Verified that second party reviews were completed and on file.
- Determined if any additional reviews, such as spot checks, were performed.
- Verified that farm eligibility documentation was complete and on file.
- Verified the adequacy of documentation supporting producer eligibility.
- Obtained BQL worksheets and compared data entered on worksheet to data listed on farm crop records to verify accuracy of TTPP payment calculation.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

SUMMARY

During our review, nothing came to our attention to indicate that the FSA national office, selected State, and county offices were not operating in accordance with prescribed laws, regulations, and policies and procedures.

We determined that the internal controls implemented by FSA are adequate to ensure that payments are issued only to eligible tobacco producers and that producer payments are calculated in accordance with the regulations. As such, we are making no recommendations for corrective actions in this report.

Because we have no findings or recommendations to this report, we will notify the Office of the Chief Financial Officer that your office requires no further action. We appreciate the cooperation and courtesies extended to us by your staff during the audit.

Exhibit A – Added Producer Contracts Reviewed

Kentucky County Office	Added Producer Total Contracts	Added Producer Contracts Reviewed	District Director Spot Check Listing Contracts Reviewed	North Carolina County Office	Added Producer Total Contracts	Added Producer Contracts Reviewed	District Director Spot Check Listing Contracts Reviewed
Barren	\$2,475,821	\$64,479	\$89,017	Columbus	\$4,714,440	\$343,832	\$216,784
Bourbon	2,252,867	206,289	104,076	Duplin	3,677,311	217,516	51,461
Mercer	2,932,637	317,020	100,653	Harnett	3,611,410	394,927	137,591
Scott	2,101,045	72,096	55,546	Johnston	3,587,272	146,450	67,705
Woodford	2,289,110	281,903	102,090	Robeson	3,697,088	387,575	179,186
TOTAL	\$12,051,480	\$941,787	\$451,382	TOTAL	\$19,287,522	\$1,490,300	\$652,727
Added Producer Total Contracts for Counties Not Reviewed	\$60,738,336				\$54,763,198		
TOTAL	\$72,789,816			TOTAL	\$74,050,720		

Informational copies of this report have been distributed to:

Administrator, FSA

ATTN: Agency Liaison Officer (3)

Government Accountability Office (1)

Office of Management and Budget (1)

Office of the Chief Financial Officer (1)

Director, Planning and Accountability Division