



U.S. Department of Agriculture

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Office of Inspector General  
Great Plains Region

**Audit Report**  
**Commodity Credit Corporation**  
**Bioenergy Program**

Report No. 03601-25-KC  
January 2008

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UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



DATE: January 18, 2008

REPLY TO  
ATTN OF: 03601-25-KC

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: Commodity Credit Corporation Bioenergy Program

This report presents the results of our audit of the Farm Service Agency's (FSA) management controls over the Bioenergy Program administered by the Commodity Credit Corporation (CCC). We initiated this review after we became aware of several ongoing Office of Inspector General (OIG) investigations into possible misrepresentations of bioenergy production by producers. Specifically, our objective was to determine whether sufficient controls were in place to prevent and detect improper claims and payments to bioenergy producers. Beginning in fiscal year (FY) 2001, under a program announced by the Secretary of Agriculture, CCC made incentive payments to bioenergy producers<sup>1</sup> to increase their use of eligible commodities. Payments to producers were limited to the increased production in a fiscal year as compared to the corresponding prior year. Since the program's inception, 156 bioenergy producers have received over \$544.4 million in program payments. The program was discontinued at the end of the third quarter, FY 2006, because all funds available had been expended.

Overall, we determined that FSA had sufficient management controls in place to ensure the integrity of the program. FSA implemented a variety of controls to prevent and detect improper claims and payments, including reviews of all applications for payment and annual onsite field reviews for almost all bioenergy producers who received payments.<sup>2</sup> Nothing came to our attention during this review to indicate that these controls were not functioning as intended. However, we did note two aspects of the Bioenergy Program for FSA to consider for improvement if a similar program is offered in the future. First, FSA may want to consider

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<sup>1</sup> Bioenergy was defined as ethanol and biodiesel produced from eligible commodities.

<sup>2</sup> There were five bioenergy producers who were not subject to onsite reviews due to the nominal amounts they claimed.

whether the payment formula should be revised. The current payment formula uses a standard conversion rate to convert gallons of production to the unit of commodity used to produce the bioenergy. By using a standard conversion rate, payments to producers achieving conversion rates greater than the standard were based on commodity usage higher than actual use. If the intent of any future program is to promote the use of agricultural commodities into the production of bioenergy fuels, FSA may want to monitor and adjust the standard conversion rate as producers' production efficiencies increase.

In addition, FSA may also want to consider whether CCC should utilize the production data that bioenergy producers maintain for the Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF).<sup>3</sup> Our review found that in the early years of the CCC Bioenergy Program, ethanol producers mistakenly reported incorrect production quantities of ethanol because they did not record only pre-denatured ethanol production on CCC's application for payment form. However, ethanol producers had the pre-denatured ethanol production data correctly maintained for the ATF. We noted these errors in reporting were identified in examinations performed by FSA's Warehouse Licensing and Examination Division (WLED) and the resulting overpayments were collected or deducted from future payments. By utilizing the production data maintained for ATF, this would allow program participants to submit more accurate production information to CCC to prevent FSA from issuing improper payments and collecting from program participants when errors are discovered by examiners.

## **BACKGROUND**

In October 2000, the Department of Agriculture (USDA) announced the details of a new \$300 million program to encourage expanded production of environmentally-friendly fuels made from corn, soybeans, and other crops. Under the program, USDA made cash payments to bioenergy companies that increased their purchases of corn, soybeans, and other commodities to expand production of ethanol, biodiesel or other biofuels. The program provided a higher payment rate to small and new-to-market processors, including cooperatives, to encourage the expansion of domestic bioenergy production capacity.<sup>4</sup> Initially, USDA provided up to \$150 million for the program in FY 2001 and another \$150 million in FY 2002. The Farm Security and Rural Investment Act of 2002<sup>5</sup> (2002 Farm Bill) continued funding of the Bioenergy Program at \$150 million for each of FYs 2003 through 2006. For FY 2006, the Office of Management and Budget (OMB) reduced the program's apportionment to \$60 million. CCC applied \$34.5 million of the apportionment to pay for FY 2005, fourth quarter payments unpaid

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<sup>3</sup> The Homeland Security Act of 2002 (Act) reorganized the functions of the ATF into two new organizations with separate functions. The Act created the new Alcohol and Tobacco Tax Trade Bureau (TTB) under the U.S. Department of the Treasury, and shifted certain law enforcement functions of the ATF to the U.S. Department of Homeland Security. The bioenergy producers visited, as part of our review, still referred to the TTB as the ATF. For this reason, ATF was used throughout this report to represent the TTB.

<sup>4</sup> The payment rate was based on a reimbursement for 1 gallon out of every 2.5 gallons produced for producers with less than 65 million gallons per year compared to 1 gallon out of every 3.5 gallons produced for producers with 65 million gallons or more per year of production.

<sup>5</sup> Public Law 107-171, May 13, 2002.

at the end of the fiscal year (FY),<sup>6</sup> leaving \$25.5 million in funds remaining for all FY 2006. At the end of the third quarter FY 2006, the program was discontinued because all available FY 2006 funds had been expended.

To establish their eligibility, producers submitted a Bioenergy Program Agreement to CCC.<sup>7</sup> After becoming program participants, producers then used the "Bioenergy Program Application (Form CCC-850-A)"<sup>8</sup> to provide CCC with evidence of increased purchases and utilization of agricultural commodities that would facilitate their increased bioenergy production. Eligible commodities included barley, corn, grain sorghum, oats, rice, wheat, soybeans, sunflower seed, canola, crambe, rapeseed, safflower, flaxseed, mustard seed, and some cellulosic crops. Animal fats and oils produced in the United States were added as eligible commodities for the production of biodiesel in the 2002 Farm Bill.

Participants in the Bioenergy Program received payments on a quarterly basis. The payments were structured to encourage participation of producers with less than 65 million gallon annual production capacity. If the applicant produced less than 65 million gallons, the reimbursement rate was 1 feedstock<sup>9</sup> unit for every 2.5 gallons of increased production. If the applicant produced 65 million gallons or more, the reimbursement rate was 1 feedstock unit for every 3.5 gallons of increased production. A payment limitation restricted the amount of funds any single producer could obtain annually under the program to five percent of the total yearly allocation of \$150 million or \$7.5 million, in FYs 2001 through 2004; \$5 million and \$1.275 million in FY 2005 and 2006, respectively. As of September 11, 2006, payments under the Bioenergy Program totaled just under \$544.4 million to 155 bioenergy producers. A total of over \$438.7 million was disbursed to 91 ethanol producers and over \$105.7 million was disbursed to 65 biodiesel producers.<sup>10</sup>

Between December 2005 and May 2006, CCC/FSA became aware of three instances in which program participants may have misreported production information. In December 2005, CCC/FSA was contacted by an employee of a program participant who claimed that his employer was misreporting purchases and production for the Bioenergy Program. That same month, CCC/FSA contacted OIG Investigations requesting that OIG open an investigation into the allegations related to the program participant. OIG Investigations accepted the case and this matter is currently under investigation. Similarly, in June 2006, CCC learned of possible false statements made by another program participant. This information was referred to OIG

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<sup>6</sup> In FY 2003, OMB added a restriction to the Bioenergy Program's apportionment that all funds apportioned for a fiscal year had to be spent during the applicable fiscal year. With this restriction, the program payment earned in a fiscal year (the time period of production covered by program payments) differed from the program's funding (OMB apportionment). Therefore, a fiscal year's payment included the fourth quarter of the prior fiscal year and the first three quarters of the current fiscal year.

<sup>7</sup> Form CCC-850 (05-08-03).

<sup>8</sup> Form CCC-850-A (05-12-03).

<sup>9</sup> A feedstock unit meant bushel, hundredweight, pound, or other unit of measure, as applicable, for the commodity used in bioenergy production. The payment calculation converted the gallons reported back to a feedstock unit using the applicable conversion factor. This was multiplied by the size factor (see footnote 4). The result was then multiplied by the applicable posted county price for the commodity used to arrive at the gross payment.

<sup>10</sup> In FY 2006, there was one participant that earned both an ethanol payment and a biodiesel payment.

Investigations, which accepted the case. The matter is currently under investigation. CCC is awaiting the outcome of these two investigations before initiating any administrative action.

Finally, a May 2006 review conducted by FSA's WLED of a third bioenergy producer located in Wisconsin disclosed that the producer's first FY 2005 payments were based on its certification that no production of biodiesel occurred in FY 2004. However, the examiner's review found that the bioenergy producer did have biodiesel production in FY 2004 and verified that production through the use of sales invoices for finished biodiesel. From this information, CCC/FSA concluded that the bioenergy producer did not have any increases in production from FY 2004 to FY 2005, and thus, was only eligible for a Bioenergy Program payment in FY 2006 based on the FY 2005 base production. CCC/FSA issued a letter to the bioenergy producer, dated July 17, 2006, requesting a refund of over \$10,000 in unearned payment. This case was not referred to OIG Investigations, but handled administratively by CCC.

OMB's FY 2005 Program Assessment Rating Tool (PART) report for USDA disclosed that prior to FY 2004, participants in the Bioenergy Program were able to take advantage of the program in order to receive higher subsidies by claiming increases in bioenergy production that were not legitimate, as defined by authorizing legislation. The loophole allowed ethanol producers with multiple production sites to claim production for one fiscal year at a particular site and zero production at the site for the previous fiscal year. The producer could then move production to a second facility in the following fiscal year and again claim zero production in the prior fiscal year for that second site. The final rule<sup>11</sup> closed this loophole by requiring producers to claim all production for all locations so that these figures could be compared to the prior year's production for those locations and could be validated.

## **OBJECTIVES**

Our primary objective was to evaluate the FSA's management controls to ensure program integrity in CCC's Bioenergy Program. Specifically, we assessed whether sufficient controls were in place to prevent and detect improper claims and payments to bioenergy producers. We evaluated controls over the application process and annual field monitoring reviews. Also, we reviewed and verified sampled producers' commodity purchase records and bioenergy production records and confirmed the accuracy of payment amounts by verifying the commodity price used and re-computing their payments.

## **SCOPE AND METHODOLOGY**

We initially conducted a limited examination of applications and supporting documentation submitted by all ethanol and biodiesel participants for all program years<sup>12</sup> to identify any systemic problems with program administration and/or with individual applications/payment

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<sup>11</sup> Title 7 Code of Federal Regulations (C.F.R.) 1424, dated May 7, 2003.

<sup>12</sup> The Bioenergy Program was in effect from the first quarter of FY 2001 through the third quarter of FY 2006.

claims. The focus of this initial screening was to identify potential program abuse from the documentation on file at the Kansas City Commodity Office (KCCO). We then selected a judgmental sample of bioenergy producers based on our assessment of the forms CCC-850-A<sup>13</sup> and supporting documentation, which were submitted to and kept on file at KCCO for field verification. We based our judgmental sample on our analysis of production and payment data submitted to KCCO, with emphasis on those applications/payment requests that were insufficiently supported, showed inordinate increases in production from one fiscal year to another on a quarter-by-quarter basis, or indicated that participants temporarily left the program and then claimed increased production upon their return the following fiscal year. KCCO data shows that over the program period, 155 program participants received over \$544 million in payments, with over \$438.7 million received by 91 ethanol producers, and over \$105.7 million received by 65 biodiesel producers. Our sample consisted of two biodiesel producers and three ethanol producers (see exhibit A).

Our fieldwork was performed at the FSA national office in Washington, D.C., and at the KCCO located in Kansas City, Missouri, where we interviewed the appropriate FSA officials, and reviewed program records. Fieldwork was also performed at selected biodiesel and ethanol producers in Missouri, Iowa, and South Dakota. At the selected producers, we interviewed production facilities' management. We also reviewed their forms CCC-850-A and supporting data for all years the producers participated in the program. We reviewed production logs, commodity purchase records, and other documents to verify if production increases reported to FSA were valid. In addition, we re-computed payment amounts, as warranted. The fieldwork was performed during the period December 2006 through April 2007.

We conducted this 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.

## **AUDIT RESULTS**

We determined that FSA had sufficient management controls in place to ensure the program's integrity. FSA's controls for preventing and detecting improper claims and payments included desk reviews of applications for payment and annual field reviews for each bioenergy producer who received payments. We found no indication that FSA's management controls did not perform as intended. We noted that overpayments identified by FSA were collected or deducted from future payments. However, if a similar Bioenergy Program is offered or continued in the future, FSA may want to consider whether (1) the payment conversion rates should be monitored and revised to reflect actual production efficiencies, and (2) whether CCC should utilize the

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<sup>13</sup> Form CCC-850-A is the form used by bioenergy producers to show increases in commodities used to produce biofuels and increases in biofuel production. The information on this form is used by FSA to compute the program payment.

ethanol industry terminology utilized by the ATF to ensure that ethanol producers are properly reporting their production of ethanol proof gallons.

### CCC Payment Formula

The goal of the Bioenergy Program was to encourage increased purchases of eligible commodities for the purposes of expanding production of bioenergy.<sup>14</sup> However, the formula used by CCC to compute payments rewarded the most efficient producers. This occurred because CCC used a standard conversion factor of 2.5 gallons per bushel for ethanol and 1.4 gallons per bushel for biodiesel to convert gallons produced to commodity<sup>15</sup> used to compute payments rather than each plant's actual conversion rate. Although CCC had the option of changing the conversion rates during the program, CCC did not announce new conversion rates. The conversion for producers who achieved conversion rates in excess of the standard resulted in inflated gross payable units (bushels). These producers, therefore, realized greater payments than producers producing at or below the standard. Our review at three ethanol producers and one biodiesel producer<sup>16</sup> found that these producers were achieving actual conversion rates greater than the standard conversion rate. In effect, these producers received a premium on their Bioenergy Program payments since the calculation did not account for these efficiencies.

CCC established a payment formula in which the gallons of biofuel produced were divided by a standard conversion factor.<sup>17</sup> The result was then divided by a plant size factor.<sup>18</sup> This resulted in Gross Payable Units (bushels). The Gross Payable Units were then multiplied by the appropriate Posted County Price, as determined by FSA, for the commodity used, resulting in a computed payment. If total computed payments for all participants exceeded the fiscal year allocation, a reduction factor was then applied to the computed payment.

We compared the standard conversion rate with the actual conversion rates obtained from three ethanol plants and one biodiesel plant in our selection sample. The ethanol plants received payments based on the gallons of increase divided by the standard conversion factor of 2.5 gallons of ethanol per bushel of corn. The biodiesel plant received payments based on the gallons of increase divided by the standard conversion factor of 1.4 gallons per bushel of soybeans. Our review disclosed the ethanol plants were actually operating at conversion rates of 2.6 to 2.8 gallons per bushel; the biodiesel plant was operating at a conversion of 1.5 to 1.7 gallons per bushel. To illustrate, if an ethanol producer produces 100,000 gallons of ethanol

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<sup>14</sup> For Bioenergy Program purposes, bioenergy was defined as fuel ethanol and biodiesel.

<sup>15</sup> This conversion of gallons to commodity used was called gross payable units.

<sup>16</sup> Only one biodiesel plant was included in our conversion rate analysis because one biodiesel plant visited did not maintain sufficient records to determine an actual conversion rate.

<sup>17</sup> The standard conversion factors were established by CCC. Our field reviews involved ethanol plants that used only corn to produce ethanol and biodiesel plants that used soybean oil to produce biodiesel. The standard conversion rates were 2.5 and 1.4 gallons per bushel, respectively.

<sup>18</sup> The plant size factor was either 2.5 for plants producing less than 65 million gallons per year or 3.5 for plants producing more than 65 million gallons per year. The application of this factor was to satisfy program requirements that CCC reimburse bioenergy producers at a rate of 1 feedstock unit of eligible commodity for every 2.5 units used for small plants and 3.5 units for large plants.

at a conversion rate of 2.6, the producer would use about 38,400 bushels of corn. Under the program payment calculation, the producer would have been paid for using 40,000 bushels of corn (100,000 divided by the standard conversion of 2.5). At the standard conversion of 1.4, biodiesel producers would be computed as using about 71,400 bushels of soybeans to produce 100,000 gallons of biodiesel. At a conversion rate of 1.6, producers would actually use about 62,500 bushels of soybeans.

We determined the effect on program payments made to our three sample ethanol producers and one biodiesel producer (see exhibit B). Our analysis disclosed that when actual conversion rates were used, payments for our sample producers decreased by almost \$1.2 million. We did not attempt to quantify what the effect may have been on total payments made in the program overall. To do so, we would have needed to obtain the actual conversion rates for all bioenergy participants for all relevant periods. However, for those producers that produced at greater efficiencies than the standard conversion factor, this condition would have likely impacted/affected the payment factor applied to these producers during the quarterly calculation of the program payments.

All ethanol producers we visited maintained conversion rate records, and the one biodiesel producer we visited had sufficient information to compute a conversion rate. Using the actual conversion rates, if available, would have more closely represented the actual quantity of eligible commodity used to produce the biofuel and avoided providing incentives for more commodities than were actually used. As manufacturing processes improve and industry conversion factors improve, CCC needs to be able to reflect the bioenergy producer's operational and efficiencies true cost of production.

FSA officials acknowledge that the program regulations allowed for changes in the conversion rates but they did not modify the conversion rate during the program. If the intent of any future program is to promote the use of agricultural commodities into the production of bioenergy fuels, we believe CCC should perform ongoing analysis of the conversion factors and adjust the conversion rate commensurate with the participants' production efficiencies or have the participants report their conversion rates and have the warehouse examiners review the computation as part of their review process. FSA officials agreed that they would consider changes to the conversion rates in a future program and possibly have their warehouse examiners review the conversion rates during the review process.

#### Using ATF Records for Ethanol Production Reporting

We noted in our audit that some of the ethanol producers were not correctly reporting their pre-denatured ethanol production and accurate degrees of proof to CCC. These conditions occurred by ethanol participants new to the CCC Bioenergy Program. CCC could have reduced these reporting errors by having participants report the production data using the same

terminology as they used for gathering production data for the ATF.<sup>19</sup> All ethanol producers must have authority from the ATF to produce ethanol and must be produced at a facility approved by the ATF for production of ethanol for fuel. By requiring the separate reporting of the number of pre-denatured gallons from producers using different terminology, CCC apparently confused some producers and they submitted incorrect reports to CCC. For one sampled ethanol producer, errors in reporting denatured gallons rather than pre-denatured gallons resulted in overpayments totaling over \$208,000 covering three quarters over 2 fiscal years. The reporting errors were noted in reviews performed by FSA's WLED and were repaid to CCC by direct payment from the producer and administrative off-set of earned program payments.

CCC required bioenergy producers to submit quarterly production on the forms CCC-850-A. The production information consisted of gallons produced, commodity type, quantities of the commodity used in the current quarter of the current fiscal year, and the corresponding quarter in the prior year. The instructions for the application required that ethanol program participants report the total number of gallons of pre-denatured ethanol production for each plant for the quarter. The instructions also required that ethanol program participants enter the average proof, rounded to 1 decimal place, of pre-denatured ethanol produced for the plant for the quarter reported.

Ethanol producers must also maintain records to satisfy recordkeeping requirements of ATF. These records include two measurements of monthly ethanol production: wine gallons (gallons of ethanol before denaturation) and proof gallons (wine gallons adjusted for actual proof).

Although program payments for ethanol producers were based, in part, on the total number of gallons of pre-denatured ethanol production produced during the quarter, we noted that in the early years of the Bioenergy Program, CCC did not request data using terminology that producers were familiar with in maintaining similar information for the ATF. For example, the quarterly production reporting form included instructions to report to CCC pre-denatured gallons instead of wine gallons as maintained for the ATF.

Our review of the forms CCC-850-A submitted by all ethanol participants disclosed that over the program period (FY 2001 through the third quarter, FY 2006), a total of 23 ethanol participants incorrectly reported denatured ethanol production and 73 ethanol participants incorrectly reported 200 proof ethanol produced. Further analysis showed that 19 of the 23 cases involving incorrect reporting of denatured gallons occurred in the participant's first year of participation. Of the 73 incorrect proof reports, 46 were in the first year of participation. Only five participants incorrectly reported denatured gallons in more than 1 year. A total of 23 participants incorrectly reported 200 proof production in more than 1 year. In our sample, one of the three ethanol producers incorrectly reported denatured gallons and all three incorrectly reported 200 proof

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<sup>19</sup> CCC collected all overpayments resulting from reporting errors noted by FSA's WLED. In most cases, reporting errors that resulted in underpayments were not disbursed because the WLED reviews were performed on the prior fiscal year's production reports. CCC was prohibited from further expending prior fiscal year funds once the fiscal year ended.

production in at least 2 years of participation. All of the aforementioned reporting errors were noted by WLED examiners as part of their field verification reviews, and CCC collected all associated overpayments to participants. If the data for wine gallons maintained for ATF had been used to report production to FSA, the errors may have been minimized. FSA officials agreed to look at the possibility of using similar terminology as the ATF in future bioenergy programs.

In conclusion, FSA may be able to further improve its Bioenergy Program should the program be offered or continued in the future. CCC should also consider performing on-going analysis of the conversion factors and periodically adjust the conversion rates used for program purposes to more accurately reflect actual production efficiencies. FSA might also prevent reporting errors and the resulting incorrect payment calculations by utilizing terminology similar to that used for ATF.

Since the program has been discontinued, we are not making any formal recommendations. FSA subsequently indicated agreement with the conditions as presented in the draft report provided to them and advised us that an exit conference was not necessary. In addition, FSA declined the opportunity to provide a written response for inclusion in this report.

## **Exhibit A – Listing of Biofuel Producers Visited**

Exhibit A – Page 1 of 1

|                   | <b><u>Producers</u></b>      | <b><u>Plant Location</u></b> | <b><u>Payments</u></b> <sup>20</sup> | <b><u>Participated</u></b>  |
|-------------------|------------------------------|------------------------------|--------------------------------------|-----------------------------|
| <b>Biodiesel:</b> | Missouri Better Bean         | Bunceton, MO                 | \$ 894,599.40                        | FY2004-2006                 |
|                   | Minnesota Soybean Processors | Brewster, MN                 | \$4,366,809.72                       | FY2005-2006                 |
|                   |                              |                              |                                      |                             |
| <b>Ethanol:</b>   | Northeast Missouri Grain     | Macon, MO                    | \$9,172,731.22                       | FY2001-2006                 |
|                   | Tall Corn Ethanol            | Coon Rapids, IA              | \$9,706,143.05                       | FY2002-2006                 |
|                   | Golden Triangle              | Craig, MO                    | \$5,419,757.25                       | FY2001-2002,<br>FY2004-2006 |

<sup>20</sup> The payment amounts shown above reflect the original net payments made to the participants and do not reflect any refunds or other adjustments assessed during the program. Refunds and other adjustments are reflected in the payments shown under Standard Rate in exhibit A; therefore, exhibits A and B will not reconcile.

## **Exhibit B – Potential Effect On Program Payments Using Actual Conversion Rates**

Exhibit B – Page 1 of 2

| Year/Quarter           | Northeast Missouri Grain    |              |            | Tall Corn Ethanol |              |                            |
|------------------------|-----------------------------|--------------|------------|-------------------|--------------|----------------------------|
|                        | Standard Rate <sup>21</sup> | Actual Rate  | Difference | Standard Rate     | Actual Rate  | Difference                 |
| 2001 – 1 <sup>st</sup> | 443,317.82                  | 409,115.74   | 34,202.08  |                   |              |                            |
| 2001 – 2 <sup>nd</sup> | 1,227,303.27                | 1,123,904.10 | 103,399.17 |                   |              |                            |
| 2001 – 3 <sup>rd</sup> | 724,181.36                  | 652,650.82   | 71,530.54  |                   |              |                            |
| 2001 – 4 <sup>th</sup> | 175,128.87                  | 151,600.48   | 23,528.39  |                   |              |                            |
| 2002 – 1 <sup>st</sup> | 343,560.86                  | 303,498.99   | 40,061.87  | 0.00              | 0.00         | 0.00                       |
| 2002 – 2 <sup>nd</sup> | 204,378.76                  | 181,831.64   | 22,547.12  | 0.00              | 0.00         | 0.00                       |
| 2002 – 3 <sup>rd</sup> | 118,714.00                  | 106,795.61   | 11,918.39  | 0.00              | 0.00         | 0.00                       |
| 2002 – 4 <sup>th</sup> | (22,569.23)                 | (18,776.39)  | (3,792.84) | 1,199,119.69      | 1,356,470.24 | (157,350.55)               |
| 2003 – 1 <sup>st</sup> | 0.00                        | 0.00         | 0.00       | 3,300,190.85      | 3,235,481.22 | 64,709.63                  |
| 2003 – 2 <sup>nd</sup> | 0.00                        | 0.00         | 0.00       | 2,678,101.03      | 2,635,926.21 | 42,174.82                  |
| 2003 – 3 <sup>rd</sup> | 990,394.32                  | 906,290.55   | 84,103.77  | 1,521,708.12      | 1,628,592.57 | (106,884.45) <sup>22</sup> |
| 2003 – 4 <sup>th</sup> | 1,361,986.29                | 1,199,776.50 | 162,209.79 | 0.00              | 0.00         | 0.00                       |
| 2004 – 1 <sup>st</sup> | 1,604,291.83                | 1,472,908.40 | 131,383.43 | 307,382.91        | 294,428.08   | 12,954.83                  |
| 2004 – 2 <sup>nd</sup> | 1,231,318.17                | 1,103,331.70 | 127,986.47 | 367,518.34        | 357,508.11   | 10,010.23                  |
| 2004 – 3 <sup>rd</sup> | 25,633.77                   | 22,676.72    | 2,975.05   | 242,170.13        | 236,494.26   | 5,675.87                   |
| 2004 – 4 <sup>th</sup> | 196,846.36                  | 179,211.90   | 17,634.46  | 0.00              | 0.00         | 0.00                       |
| 2005 – 1 <sup>st</sup> | 138,394.69                  | 119,264.64   | 19,130.05  | 0.00              | 0.00         | 0.00                       |
| 2005 – 2 <sup>nd</sup> | 107,067.75                  | 107,584.16   | (516.41)   | 0.00              | 0.00         | 0.00                       |
| 2005 – 3 <sup>rd</sup> | 144,631.60                  | 128,813.32   | 15,818.28  | 0.00              | 0.00         | 0.00                       |
| 2005 – 4 <sup>th</sup> | 155,137.86                  | 139,062.26   | 16,075.60  | 0.00              | 0.00         | 0.00                       |
| 2006 – 1 <sup>st</sup> | 0.00                        | 0.00         | 0.00       | 1,367.12          | 1,340.31     | 26.81                      |
| 2006 – 2 <sup>nd</sup> | 0.00                        | 0.00         | 0.00       | 17,064.46         | 16,729.86    | 334.60                     |
| 2006 – 3 <sup>rd</sup> | 0.00                        | 0.00         | 0.00       | 75,136.37         | 74,837.02    | 299.35                     |
| Totals                 | 9,169,718.35                | 8,289,541.14 | 880,177.21 | 9,709,759.02      | 9,837,807.88 | (128,048.86) <sup>23</sup> |

<sup>21</sup> Producers were paid at the Standard Rate. Payment amounts shown under Actual Rate are what the payments would have been, using the producers' actual conversion rate, rather than the standard conversion rate.

<sup>22</sup> The increased payment in the third quarter FY 2003, was the result of Tall Corn Ethanol attaining the payment limitation of \$7.5 million and represents the sum of the decreased payments in the previous two quarters.

<sup>23</sup> The net increase in program payments to Tall Corn Ethanol were the result of a less than 2.5 gallon per bushel conversion rate in the 4th quarter, FY 2002, less all other decreased in payments, not counting the first and second quarters FY 2003.

## **Exhibit B – Potential Effect On Program Payments Using Actual Conversion Rates**

Exhibit B – Page 2 of 2

| Year/Quarter           | Golden Triangle |              |                           | Minnesota Soybean Processors |              |              |
|------------------------|-----------------|--------------|---------------------------|------------------------------|--------------|--------------|
|                        | Standard Rate   | Actual Rate  | Difference                | Standard Rate                | Actual Rate  | Difference   |
| 2001 – 1 <sup>st</sup> | 0.00            | 0.00         | 0.00                      |                              |              |              |
| 2001 – 2 <sup>nd</sup> | 349,286.99      | 365,362.96   | (16,075.97) <sup>24</sup> |                              |              |              |
| 2001 – 3 <sup>rd</sup> | 1,114,313.98    | 1,035,607.79 | 78,706.19                 |                              |              |              |
| 2001 – 4 <sup>th</sup> | 1,219,410.65    | 1,168,017.87 | 51,392.78                 |                              |              |              |
| 2002 – 1 <sup>st</sup> | 1,352,348.15    | 1,285,502.04 | 66,846.11                 |                              |              |              |
| 2002 – 2 <sup>nd</sup> | 1,026,562.90    | 994,731.49   | 31,831.41                 |                              |              |              |
| 2002 – 3 <sup>rd</sup> | 9,486.11        | 9,121.26     | 364.85                    |                              |              |              |
| 2002 – 4 <sup>th</sup> | 90,574.26       | 84,807.36    | 5,766.90                  |                              |              |              |
| 2003 – 1 <sup>st</sup> | 0.00            | 0.00         | 0.00                      |                              |              |              |
| 2003 – 2 <sup>nd</sup> | 0.00            | 0.00         | 0.00                      |                              |              |              |
| 2003 – 3 <sup>rd</sup> | 0.00            | 0.00         | 0.00                      |                              |              |              |
| 2003 – 4 <sup>th</sup> | 0.00            | 0.00         | 0.00                      |                              |              |              |
| 2004 – 1 <sup>st</sup> | 22,364.81       | 21,755.65    | 609.16                    |                              |              |              |
| 2004 – 2 <sup>nd</sup> | 128,188.31      | 120,932.37   | 7,255.94                  |                              |              |              |
| 2004 – 3 <sup>rd</sup> | 86,174.37       | 80,245.55    | 5,928.82                  |                              |              |              |
| 2004 – 4 <sup>th</sup> | 0.00            | 0.00         | 0.00                      |                              |              |              |
| 2005 – 1 <sup>st</sup> | 0.00            | 0.00         | 0.00                      |                              |              |              |
| 2005 – 2 <sup>nd</sup> | 0.00            | 0.00         | 0.00                      |                              |              |              |
| 2005 – 3 <sup>rd</sup> | 7,602.82        | 6,345.46     | 1,257.36                  |                              |              |              |
| 2005 – 4 <sup>th</sup> | 3,865.84        | 3,633.31     | 232.53                    | 3,091,809.72                 | 2,885,689.08 | 206,120.64   |
| 2006 – 1 <sup>st</sup> | 0.00            | 0.00         | 0.00                      | 581,901.78                   | 509,164.06   | 72,737.72    |
| 2006 – 2 <sup>nd</sup> | 0.00            | 0.00         | 0.00                      | 510,997.91                   | 447,123.17   | 63,874.74    |
| 2006 – 3 <sup>rd</sup> | 5,528.87        | 5,300.48     | 228.39                    | 182,100.31                   | 318,712.77   | (136,612.46) |
| Totals                 | 5,415,708.06    | 5,181,363.59 | 234,344.47                | 4,366,809.72                 | 4,160,689.08 | 206,120.64   |

Total Difference: \$1,192,593.45<sup>25</sup>

<sup>24</sup> The increased payment to Golden Triangle in the second quarter FY 2001 was the result of a less than 2.5 gallons per bushel conversion rate.

<sup>25</sup> The Total Difference was the sum of the total difference for each of four producers in the above table: \$880,177.21 - \$128,048.86 + \$234,344.47 + \$206,120.64.

## ***Glossary of Terms***

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Denaturant - Any material authorized under 27 C.F.R. part 21 for addition to spirits in the production of denatured spirits.

Proof - The ethyl alcohol content of a liquid at 60 degrees Fahrenheit (F), stated as twice the percent of ethyl alcohol by volume.

Proof gallon - A gallon of liquid at 60 degrees F, which contains 50 percent by volume of ethyl alcohol having a specific gravity of 0.7939 at 60 degrees F, referred to water at 60 degrees F, as unity, or the alcoholic equivalent.

Gallon - wine gallon - A United States gallon of liquid measure equivalent to the volume of 231 cubic inches at 60 degrees F.

Informational copies of this report have been distributed to:

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