



United States Department of Agriculture  
Office of Inspector General  
Washington, D.C. 20250



DATE: December 9, 2010

AUDIT  
NUMBER: 03601-28-KC (1)

TO: Jonathan Coppess  
Administrator  
Farm Service Agency

ATTN: Philip Sharp  
Acting Director  
Operations Review and Analysis Staff

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

SUBJECT: Recommendations for Improving Basic CHST Program Administration  
Biomass Crop Assistance Program Controls over Collection, Harvest, Storage,  
and Transportation Matching Payments Program

### Summary

The Biomass Crop Assistance Program (BCAP) was authorized by the Food, Conservation, and Energy Act of 2008 (2008 Farm Bill) to support the establishment and production of eligible crops of renewable biomass.<sup>1</sup> Biofuel production plays a key role in the Administration's efforts to achieve homegrown sustainable energy options.<sup>2</sup> One portion of BCAP involves provisions for matching payments to assist agricultural and forest land owners and operators with the cost of collection, harvest, storage, and transportation (CHST) of eligible material for use in a qualified biomass conversion facility. This provides an incentive for collecting underutilized biomass, such as crop residue and wood waste, for energy production.<sup>3</sup> Before the program was

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<sup>1</sup> Biomass is organic material that can be converted into heat, power, bio-based products, or advanced biofuels.

<sup>2</sup> "Memorandum on Biofuels and Rural Economic Development," Daily Compilation of Presidential Documents, dated May 5, 2009.

<sup>3</sup> Farm Service Agency, "Fact Sheet: The Biomass Crop Assistance Program," dated June 2010. Congressional Research Service, "Biomass Crop Assistance Program: Status and Issues," dated August 13, 2010.

terminated,<sup>4</sup> the Farm Service Agency (FSA) spent a total of over \$243 million on the CHST portion in 2009 and 2010.<sup>5</sup>

BCAP is a brand new program unlike any other that FSA has historically delivered. Additionally, the CHST portion of BCAP resulted in very high FSA county office workload in many areas minimally staffed because of limited production agriculture activities and participation by a producer base not normally accustomed to doing business with FSA. At the request of FSA, OIG performed a review of the CHST portion of BCAP, focusing on the efficacy of processes and controls FSA used in implementing the program. Based on our review of 12 county office operations in 4 States, as well as overall administration of the program at the national office, we found wide-ranging problems in how the CHST program was operated. These included inconsistent application of program provisions across State and county offices, varying methods for measuring biomass moisture levels,<sup>6</sup> inconsistent use of program forms, and data errors. These problems occurred because FSA, in an effort to quickly implement the program to comply with a deadline established by Presidential Directive, was unable, in the limited timeframe, to develop a handbook, specialized forms, or a computer support system that was suited to the specific requirements of the CHST program. Due to these problems, FSA implemented a program that encumbered the efforts of its field-level personnel and resulted in inequitable treatment of program participants, improper payments, and reduced scope for oversight and accountability.

In order to correct these problems, we are recommending that FSA develop a program-specific handbook, program-specific forms, and a program-dedicated data system that includes suitable edit checks and reporting functions. These issues are being provided in a Fast Report format to aid FSA as it moves forward with re-implementation of the CHST program. This Fast Report provides only a few examples of the problems and deficiencies found by OIG; a full report with greater scope and detail will be provided at the completion of our fieldwork. Agency managers were previously briefed on these findings and were in general agreement with the facts.

## **Background**

The 2008 Farm Bill authorized such sums as are necessary to carry out BCAP, and in 2009, it received \$25 million in funding. The 2010 Supplemental Appropriations Act<sup>7</sup> set BCAP funding at \$552 million in fiscal year 2010.

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<sup>4</sup> The program was terminated after the proposed rule was issued on February 3, 2010; however, deliveries were allowed to continue through April 30, 2010. The final rule was issued on October 27, 2010. With the final rule announcement the collection, harvest, storage, and transportation program has been reauthorized, but is currently awaiting implementation guidance.

<sup>5</sup> Farm Service Agency, "BCAP CHST Summary Report," dated October 20, 2010.

<sup>6</sup> All moisture measurements were performed by biomass conversion facilities. These data were then submitted to FSA to support matching payment disbursements.

<sup>7</sup> Public Law 111-212.

BCAP supports two sets of activities. First, it provides funding for “matching payments” for certain eligible material sold to qualified biomass conversion facilities. CHST matching payments are made at a rate of \$1 for each \$1 per dry ton<sup>8</sup> paid by a qualified biomass conversion facility, in an amount up to \$45 per dry ton. Second, BCAP provides funding for producers to establish and maintain renewable biomass crops in specified project areas. The second part of the program had not yet been implemented at the time of our review.

On May 5, 2009, the President issued a directive calling for the acceleration of investment in and production of biofuels.<sup>9</sup> In particular, the directive called for the issuance of guidance and support related to the collection, harvest, storage, and transportation of eligible materials for use in biomass conversion facilities within 30 days. In order to meet this directive, on June 11, 2009, the Commodity Credit Corporation (CCC) published a BCAP notice of funds availability in the Federal Register for the collection, harvest, storage, and transportation of eligible materials. FSA administers this program on behalf of CCC.

We initially selected Missouri for our review because it allowed us to test our audit program and it was in close proximity to our office conducting the field work. We then selected FSA offices in Alabama, California, and Maine because they distributed the largest amounts of matching payments to program participants. They also represented a diverse range of biomass industries and varying geographical regions. County offices were selected primarily based on payment volume. The national office was reviewed to gain perspective on overall program administration.

## Results

The expedited manner in which the CHST program was implemented created confusion among field level personnel on program requirements, methods of administration, and data system use. Our review found that, among other issues, county offices allowed different standards for acceptable moisture levels in biomass shipments, which resulted in inequitable treatment of program participants. We also found that county offices used forms inconsistently, with one scenario resulting in improper payments. Finally, we found data errors in the computer system used for the program that often reported payment amounts violating program requirements.

These problems occurred because FSA was unable to develop a handbook, a specialized form for the program, or a program-specific database. FSA usually develops program handbooks to instruct county office personnel in the day-to-day administration of a major program. However, FSA officials explained they did not have the time to develop a handbook for the CHST program.

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<sup>8</sup> There is no definition of “dry ton” in the notice of funding availability or statute. The final rule states that one dry ton means “one U.S. ton measuring 2,000 pounds. One dry ton is the amount of renewable biomass that would weigh one U.S. ton at zero percent moisture content.” It is important to note that the final rule was not issued during the period under study. However, Notice BCAP-2, “Implementing the BCAP’s CHST Matching Payment Program,” dated July 12, 2009 defined a dry ton as the weight of actual biomass with zero percent moisture.

<sup>9</sup> Published in the Federal Register (FR) on May 7, 2009 (74 FR 21531-21532).

Second, FSA used an existing form developed for the implementation of conservation cost-share programs that did not fit the particular requirements of the CHST program. On the pre-existing form AD-245,<sup>10</sup> FSA made a single modification in order to administer the CHST program, adding a program-specific certification in the “remarks” section. FSA officials explained that creating new forms would involve obtaining approval from the Office of Management and Budget (OMB),<sup>11</sup> which can take from 6-9 months. Given the time constraints imposed by the Presidential Directive, FSA explained that it did not have the time to develop and implement a properly approved CHST-specific form.

Third, FSA did not develop a program-dedicated data management system with fields appropriate to the requirements of the CHST program, and did not create edit checks to catch data entry errors and ensure that data did not violate program provisions. Instead, FSA used the existing Conservation, Reporting, and Evaluation System (CRES) to monitor CHST program allocations and expenditures. CRES was originally created to support conservation cost share programs and the form AD-245. FSA stated that it lacked resources to timely create a new data system.

If these three elements are not developed before the CHST program is re-implemented, FSA runs the risk of continuing to encumber the efforts of its field level personnel, potentially resulting in further inequitable treatment of program participants, improper payments, and reduced oversight and accountability.

#### *FSA Did Not Determine Adequate Standard Definitions of Moisture Levels*

We found that county offices accepted differing methods used by biomass conversion facilities for determining what levels of moisture in biomass loads would qualify as dry. The moisture levels were measured by the biomass conversion facilities and then shared with the county offices on a periodic basis.

During our review, OIG found 5 different methods for measuring moisture levels. For example, some facilities would individually test each load delivered by a program participant, while others would combine samples of all shipments from one participant in a given day and then measure the resulting moisture content. One facility recorded every load delivered as having the same moisture content rate.<sup>12</sup>

The CHST program was required to account for moisture levels when calculating matching payments. Measuring by dry weight serves to equalize payments for different materials, which naturally have different moisture rates. Loads with moisture levels higher than zero percent are

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<sup>10</sup> Page 1 is called “USDA Request for Cost Shares,” and page 2 is called “Practice Approval and Payment Application.”

<sup>11</sup> Pursuant to the Paperwork Reduction Act of 1995, agencies must go through a public comment and OMB-approval process for all new forms that will collect information from 10 or more respondents in a 12 month period.

<sup>12</sup> This facility would often measure moisture content of non-BCAP materials along with BCAP-eligible materials. Also, regardless of the actual measurements, the facility made the decision to apply a single moisture content rate, explaining that they believed it to be a historical average.

paid based on adjusted weight, which is calculated in proportion to the moisture percentage measured. For example, if a biomass load is measured as having 15-percent moisture, then the gross weight is reduced by roughly 15 percent. However, one facility used a 12-percent moisture rate as standard, despite the BCAP Notice which specified that a dry ton should have zero percent moisture.<sup>13</sup> At this facility, a biomass load having a 15-percent moisture rate would have had its gross weight reduced by only 3 percent. The county office where the facility in question was located allowed this practice per advice from the State office and pending the development of more definitive guidance by the National Office. This practice resulted in overpayments for biomass loads that would have received less in other areas. For instance, one participant was overpaid by over \$679, while another was overpaid by at least \$828. In total, there were 24 program participants who received matching payments for deliveries to this facility for the county office in question.

Due to these uncertainties over moisture content, program participants received inequitable treatment. OIG concluded that FSA, as part of developing a handbook for the program, needs to consistently define and apply the levels of moisture appropriate for the program.

#### *FSA Used an Unsuitable Form for the Program That Resulted in Improper Payments*

The form FSA used to administer the CHST program is not tailored to a program that requires multiple payments over time. Throughout our review, we found inconsistent use of the form AD-245's page 2, which is used for supporting program payments.

In the CHST program, county offices receive settlement sheets on a periodic basis which detail the number of loads received from a program participant and the amount paid for each. Matching payments are then disbursed based on this information. Unfortunately, within the structure of the form AD-245, FSA personnel are unable to correct for errors in one payment disbursement without starting over and detailing all previous payments again. Many county offices started keeping records by hand to account for errors. In one case, an error in a payment resulted in two subsequent payment errors before it was finally corrected.

In an extreme example, a county office did not require a completed page 2 to support each matching payment. Instead, it made an arrangement with the biomass conversion facility where it would email copies of delivery documents to the county office, and the county office would generate checks to program participants using information from the documents. During this arrangement, the county office overlooked some payments when it failed to recognize at least one email containing copies of delivery documents. This resulted in five producers with eligible deliveries who did not receive matching payments of over \$18,500. Also, at least one program participant was not paid because the biomass conversion facility did not realize that participant was approved for the program, and did not forward the payment information to FSA. This program participant did not receive matching payments totaling over \$3,400 for his eligible deliveries.

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<sup>13</sup>Notice BCAP-2, dated July 12, 2009.

Due to the unsuitable nature of the form used to administer the program, improper payments were made. OIG concluded that FSA should ensure that day-to-day program administration is easily facilitated on forms used for the CHST program.

*FSA Used an Unsuitable Data System That Hinders Monitoring and Reporting*

Because the CRES computer system was not created specifically for the CHST program, misunderstanding by personnel led to erroneous data being entered into it. To administer the CHST program correctly, the quantity of dry tons delivered and the payments made both need to be accumulated for each matching payment. However, some county offices did not know that CRES automatically adds entries within the dollar field, but not the quantity field. Therefore, when they would enter the correct quantity and payment for each individual matching payment, CRES would then show quantities that did not correspond to the total quantities they had entered. In many cases, this led to performance reporting data showing payment rate amounts significantly higher than the maximum payment rate of \$45 per dry ton. In one instance, the data indicated a payment rate exceeding \$12,000 per dry ton.<sup>14</sup>

With inadequate edit checks on the data within the system, discrepancies often occurred that make it more difficult to monitor compliance with the maximum payment rate. OIG concluded that as part of developing a program-specific data system, FSA should create appropriate edit checks for critical and necessary data fields to ensure the data entered are properly validated and reliable.

Given the problems we found, we are recommending that FSA take the following steps before any future implementation of the BCAP CHST program:

Develop (1) a program handbook setting forth policies and procedures governing program administration; (2) forms specifically tailored to facilitate day-to-day administration and capture relevant program data; and (3) a data system with applied edit checks and a designed structure to facilitate data validation, management reporting, and data analysis.

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

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<sup>14</sup> After conducting our data analysis and discovering these potential errors, we provided FSA with the results of our analysis for follow-up.

**Agency's Response**

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**USDA'S**

**FARM SERVICE AGENCY'S**

**RESPONSE TO AUDIT REPORT**



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December 16, 2010

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

**FROM:** Philip Sharp, Acting Director  
Operations Review and Analysis Staff

**SUBJECT:** Responding Your Memorandum Dated December 9: Recommendations for Improving Basic CHST Program Administration Biomass Crop Assistance Program Controls over Collection, Harvest, Storage, and Transportation Matching Payments Program, Audit 03601-28-KC (1)

A final rule was published in the Federal Register on October 27, 2010, and new internal guidance, forms, and software are scheduled to be released for matching payments in early January 2011 which will satisfy the three OIG recommendations. However, as of December 14, FSA has received all required OMB clearance to make the program available and intends to do so immediately. In the interim period before the new software is available, FSA intends to deliver the matching payments portion of BCAP using the same forms and information systems as were used for previous CHST implementation. Use of the old forms is not likely to be widespread because biomass conversion facilities must first become “qualified” before an eligible material owner could apply for a matching payment.

The initial software release scheduled for early January 2011 will be for matching payments. A future software release is planned for the project portion of the program which includes mid- to long-term contracts and establishment payments. The release date may be adjusted to accommodate funding availability for software development.

