



U.S. Department of Agriculture



Office of Inspector General  
Great Plains Region

# Audit Report

## Rural Business-Cooperative Service Value-Added Agricultural Product Market Development Grant Program

Report No. 34601-4-KC  
July 2006



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



DATE: July 28, 2006

REPLY TO  
ATTN OF: 34601-4-KC

TO: Jackie J. Gleason  
Acting Administrator  
Rural Business-Cooperative Service

THROUGH: John Dunsmuir  
Acting Director  
Financial Management Division

FROM: Robert W. Young /s/  
Assistant Inspector General  
for Audit

SUBJECT: Rural Business-Cooperative Service, Value-Added Agricultural Product  
Market Development Grant Program

This report presents the results of our audit of the Rural Business-Cooperative Service's (RBS) activities related to the administering of the Value-Added Agricultural Product Market Development Grant Program, also known as Value-Added Producer Grants (VAPG). As part of our audit, we examined the policies, procedures, and internal controls associated with the soliciting, awarding, and servicing of VAPG's to producers.

Our audit did not identify any material issues with the soliciting, awarding and servicing of VAPG. We did, however, identify three procedural weaknesses that we want to bring to your attention. The first relates to isolated problems regarding verification that grant matching fund requirements were met at the time of grant award and servicing the requests for grant fund reimbursements. We noted that RBS servicing offices did not properly verify the evidence of the availability of matching funds for 6 of 17 grant recipients reviewed. For five of the projects, the matching fund contribution requirement was met during the grant period. One of the grant recipients filed for bankruptcy after the grant funds were disbursed without meeting the requirement. In addition, the RBS servicing offices had also approved ineligible expenses for grant fund disbursements for 7 of 17 VAPG's reviewed. However, we noted that for all these seven grants, the grant fund disbursement requirements could have been met by substituting other eligible expenses incurred by the grant recipients. The second weakness relates to feasibility studies submitted for five VAPG projects that did not provide sufficient information on whether the projects had a reasonable chance for success. We found that two sample projects provided inadequate feasibility studies prepared by project consultants that did not include conclusions of reasonable assurance the projects would have a

reasonable chance of long-term success. In addition, for two of the projects that we reviewed in our sample, feasibility studies were provided that did not include all of the elements required for feasibility studies prepared for other Rural Development programs. Also, one sample project did not have any feasibility study. The third weakness relates to 9 of the 17 grant recipients that used related party individuals and entities to complete grant related activities. RBS files provided no evidence the agency had evaluated whether the payment rates were reasonable and typical for the activities completed.

We noted that RBS has incorporated several enhancements to the VAPG program for fiscal years (FY) 2005 and 2006 that now limit these vulnerabilities. The FY 2006 solicitation notice for project proposals requires that all matching fund contributions be specifically documented in the project application proposal. Applicants are required to include in their project application proposal a statement that matching fund contributions will be available at the same time grant funds are anticipated to be spent and that the matching fund contributions will be spent in advance of grant funding. In addition, working capital project applicants now must provide a feasibility study prepared by an independent third party before grant funds can be disbursed. Also, for FY 2006, all project proposals will be evaluated by the servicing State Office prior to finalizing the grant award to ensure that funded projects are feasible in the proposed project area. Finally, applicants are required to disclose potential conflicts of interest, including plans to conduct business with family members, company owners, or other identities of interest using grant or matching funds. Although we are not making any recommendations, your continued efforts to strengthen controls in these areas will improve the grant servicing process by providing greater assurance that sufficient evidence is obtained to support applications for project proposals and requests for reimbursement.

## **BACKGROUND**

The VAPG program was authorized by the Agriculture Risk Protection Act of 2000 (ARPA) and amended by the Farm Security and Rural Investment Act of 2002. The Secretary of Agriculture delegated administration of the VAPG program to the RBS upon its enactment in FY 2001. The primary objective of the VAPG program is to help eligible independent producers of agricultural commodities, producer groups, farmer and rancher cooperatives, and majority owned producer based business ventures develop strategies to create marketing opportunities and to help develop business plans for viable marketing opportunities. VAPG program grants are intended to facilitate greater participation in emerging markets and create new markets for value-added products. ARPA provided that the total grant award provided to a VAPG recipient could not exceed \$500,000. Grants are to be awarded only if projects or ventures are determined to be economically viable and sustainable.

VAPG program funds may be used for (1) developing feasibility studies or business plans needed to establish a viable value-added marketing opportunity for an agricultural product, or (2) funding working capital to operate a value-added business venture or an alliance that will allow producers to better compete in domestic and international markets. Solicitation notices of VAPG program fund authority, the eligibility requirements and grant agreement requirements are published in the *Federal Register* each program year. Applications and project proposals must be submitted to the appropriate RBS State Offices on or before the date specified to be considered. Awards are made based on in depth evaluations and ranked according to point scores assigned based on published evaluation criteria in the announcements.

## **OBJECTIVES**

The objectives of the audit were to evaluate whether FY 2001 and 2002 VAPG program grant recipients were eligible for the amount of grant funds awarded, used these funds in compliance with grant agreement requirements, and completed all activities included in approved project proposals.

## **SCOPE AND METHODOLOGY**

To perform our review, we statistically selected a sample of grants awarded for FYs 2001 and 2002. Our audit universe was comprised of 294 projects that received RBS VAPG awards totaling over \$57 million. Our statistically selected sample was comprised of 32 VAPG projects that received RBS grant awards totaling over \$10 million. We visited and reviewed 17 of the 32 selected VAPG program producer recipients that received RBS grant awards totaling in excess of \$6.4 million. We performed audit fieldwork at the RBS National Office in Washington, D.C., and the related RBS State Offices in Iowa, Kansas, Minnesota, Missouri, Ohio, and Virginia. After reviewing 17 projects, we found that 9 of the projects had not reached the stage where they were considered complete. Consequently, we did not complete visits to the remaining statistically selected project sites because it appeared sufficient evidence could not be gathered from enough completed grant projects to enable us to assess and provide a reliable statistical estimate whether VAPG program objectives were being met. We also visited the project site for one judgmentally selected VAPG recipient in Missouri at the State Office's request to review the recipient's compliance with requirements for submitting reimbursement requests according to program requirements.

To accomplish our audit objectives, we reviewed the applicable laws, regulations, agency instructions and procedures and solicitation notices for project proposals related to administering the VAPG program. This included the VAPG regulations, dated April 2004, and the Code of Federal Regulations requirements for other grant and loan programs administered by RBS and Rural Development agencies to identify the internal management control policies and operating procedures established for those grant and loan programs. We also obtained available information regarding program implementation and any new or emerging program issues. We also reviewed and monitored the VAPG program Internet site maintained by RBS National Office officials. For each project reviewed, we evaluated VAPG program recipient records to verify the grants were, in fact, eligible and that sufficient documentation had been provided to RBS to properly support disbursements of funds. We conducted interviews with RBS National Office officials, Office of the General Counsel attorneys in Washington, D.C., RBS State Office officials, and VAPG project management personnel. We interviewed VAPG recipients for the 17 projects reviewed.

We conducted fieldwork from February 2004, through November 2005. Our audit was performed in accordance with *Government Auditing Standards*.

We appreciate the cooperation of your staff during the audit and no response to this report is necessary.

Informational copies of this report have been distributed to:

Administrator, Rural Business-Cooperative Service	
Through: Director, Financial Management Division Operations and Management	(4)
Government Accountability Office	(1)
Office of the Chief Financial Officer	
Director, Planning and Accountability Division	(1)
Office of Management and Budget	(1)