USDA United States Department of Agriculture

# Agriculture Risk Coverage and Price Loss Coverage Programs

This report was revised and reissued on May 19, 2022, to correct and clarify some narrative information. These revisions had no material impact on the report's findings, conclusions, recommendations, or post audit actions.

**Audit Report 03601-0002-31**

**September 2018**

OFFICE OF INSPECTOR GENERAL

## IMPORTANT NOTICE

This audit report contains sensitive information that has been redacted for public release, due to privacy concerns.

# Agriculture Risk Coverage and Price Loss Coverage Programs

## Audit Report 03601-0002-31

OIG evaluated the adequacy of FSA's controls over the ARC/PLC program.

### OBJECTIVE

Our objective was to evaluate FSA's required implementation of the ARC/PLC program established by the 2014 Farm Bill. Specifically, we evaluated the adequacy of FSA's controls over the program, including the calculation of base acres and program payments.

### REVIEWED

We reviewed applicable laws, regulations, and handbooks concerning ARC/PLC; interviewed FSA officials; and reviewed pertinent ARC/PLC data and records related to 22 non-statistically selected producers for crop years 2014 and 2015.

### RECOMMENDS

We recommend that FSA coordinate with relevant groups to ensure that goals of current and future programs are accurately presented in guidance and related materials, reassess whether issuing payments based on a farm's physical location would be a more reasonable approach when implementing the next Farm Bill, recover overpayments due to incorrect PLC yields, and revise its current spot check process.

### WHAT OIG FOUND

The 2014 Farm Bill authorized the Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) program. The ARC portion of the program protects producers against revenue shortfalls. Two options were available under ARC: county coverage (ARC-CO), which offered protection based on county average yields, and individual coverage (ARC-IC), which based protection on an individual farm's yields. The PLC portion of the program protects producers against price declines.

We found that the Farm Service Agency (FSA) issued documentation that may have incorrectly characterized ARC-CO as revenue protection as the Department characterized the program differently. This occurred because FSA did not have a process to coordinate with appropriate groups when implementing ARC/PLC. As a result, the public may not understand the goal of the program clearly. We also found that FSA made ARC-CO payments based on each farm's administrative county instead of the county where the farm was physically located. The agency did not consider whether physical location was a more reasonable approach when implementing the 2014 Farm Bill. Lastly, we found that 10 of 30 PLC yields we reviewed were incorrect based on our review of production records and historical FSA records. This occurred because either PLC yields were calculated incorrectly or FSA's spot check review process was not robust enough to identify errors with retained yields. As a result, FSA made $109,580 of improper payments in crop year 2015.

FSA agreed with our findings and recommendations, and we accepted management decision on all seven recommendations.

OFFICE OF INSPECTOR GENERAL
United States Department of Agriculture

**DATE:** May 19, 2022

**AUDIT NUMBER:** 03601-0002-31

**TO:** Zach Ducheneaux
Administrator
Farm Service Agency

**ATTN:** Gary Weishaar
Branch Chief
External Audits and Investigation Division

**FROM:** Gil H. Harden
Assistant Inspector General for Audit

**SUBJECT:** Agricultural Risk Coverage and Price Loss Coverage Programs

This report presents the revised results of the subject audit. We regret any inconvenience these revisions may have caused FSA, and we appreciate the agency's continuous assistance. Your initial written response to the official draft report, dated August 24, 2018, is included in its entirety at the end of this report. Excerpts from your response and the Office of Inspector General's position are incorporated into the relevant sections of the report. Based on your written response, we accepted management decision for all audit recommendations in the report.

As part of an internal quality control process, we identified errors in the report we issued on September 20, 2018. Consequently, we revised the report to address these errors. Ultimately, these revisions resulted in no material impact on the reported findings, conclusions, and recommendations. Therefore, further response from FSA will not be required.

In accordance with Departmental Regulation 1720-1, final action needs to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report. Please follow your internal agency procedures in forwarding final action correspondence to OCFO.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publicly available information and only publicly available information will be posted to our website (http://usdaoig.oversight.gov) in the near future.

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# Background and Objectives

## Background

The United States Department of Agriculture's (USDA) Farm Service Agency's (FSA) mission is to equitably serve all producers and agricultural partners by delivering effective, efficient, agricultural programs to all Americans. The agency administers farm loan, commodity, conservation, and disaster assistance programs through 50 State offices, an area office in Puerto Rico, and more than 2,100 local and regional service centers.

The 2014 Farm Bill authorized the Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) program to combine the provisions of the counter-cyclical portion of the Direct and Counter-Cyclical program, as well as the Supplemental Revenue Assistance Payments and Average Crop Revenue Election programs, and run through crop year 2018.[1] Overall, the ARC/PLC program is designed to be a safety net program with the ARC portion protecting producers against revenue shortfalls and the PLC portion protecting producers against price declines. As FSA implemented the ARC/PLC program, producers were presented with three decisions:

1. **Base Acre Reallocation.** Producers were provided a one-time opportunity to either retain their farm's 2013 base acres, or reallocate them according to the planting history of covered commodities on each farm.[2] If reallocation was selected, the farm's 2013 base acres were redistributed according to the proration of each covered commodity planted in crop years 2009 through 2012 to the total acres of all covered commodities planted during that time.[3] Additionally, the 2014 Farm Bill mandated that all upland cotton base acres as of 2013 become generic base acres for use under the ARC/PLC program.[4] Since crop year 2014, producers have only been eligible to receive payments for generic base acres when one or more covered commodities is planted.

2. **Yield Update.** Producers were also provided a one-time opportunity to either retain 2013 payment yields or update them. Payment yields had previously been referred to as counter-cyclical yields through crop year 2013, but became known as PLC yields for crop

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[1] Agricultural Act of 2014, Pub. L. No. 113-79, § 1111-1117, 128 Stat. 649, 659-72 (2014 Farm Bill).

[2] Base acres are a farm's crop-specific acreage of covered commodities used for FSA program purposes and are allocated to covered commodities according to the planting history on the farm. There are 22 covered commodities for ARC/PLC purposes: barley, canola, small chickpeas, large chickpeas, corn, crambe, flaxseed, lentils, mustard seed, oats, dry peas, peanuts, rapeseed, long grain rice, medium grain rice, temperate japonica rice, safflower, sesame seed, grain sorghum, soybeans, sunflower seed, and wheat.

[3] For example, if a farm had 100 total base acres in 2013 and the producer planted 100 acres of corn in 2009, 2010, and 2012, and 100 acres of soybeans in 2011, then 75 base acres would be allocated to corn and 25 base acres would be allocated to soybeans. This is calculated by dividing total corn acres (i.e., 300 acres) by total acres planted (i.e., 400 acres) and total soybean acres (i.e., 100 acres) by total acres planted (i.e., 400 acres).

[4] The 2014 Farm Bill excluded cotton as a covered commodity under the ARC/PLC program. Therefore, for crop years 2014 and beyond, all cotton base acres that were in existence as of Sept. 30, 2013, became generic base acres for the purposes of the program. Unlike base acres for other commodities, generic base acres could not be reallocated and had to remain generic base acres.

years 2014 through 2018. If a producer chose to update PLC yields, the actual yields for the covered commodities planted on the farm in crop years 2008 through 2012 were used to do so.[5] PLC yields are only used to calculate PLC payments (i.e., not used to calculate ARC payments). However, FSA provided all producers the opportunity to update PLC yields regardless of participation in the program.

3. **ARC/PLC Election.** Lastly, producers were required to make an election of ARC county coverage (ARC-CO) or PLC on a covered commodity-by-covered commodity basis or ARC individual coverage (ARC-IC) for all covered commodities on the farm. Producers who did not make a valid election during the designated election period were ineligible for crop year 2014 ARC/PLC payments, deemed to have elected PLC, and eligible for PLC payments in crop years 2015 through 2018.[6] More than 76 percent of base acres were enrolled under ARC-CO, whereas less than 23 percent and less than 1 percent were enrolled under PLC and ARC-IC, respectively.[7]

Under ARC-CO, benchmark revenue for each county is determined by multiplying the Olympic average county yield for the 5 most recent years, by the Olympic average market year average price for the 5 most recent years.[8] The ARC-CO guarantee equals 86 percent of the benchmark revenue figure. Actual crop revenue is calculated by multiplying the current year county average yield by the current year market year average price.[9] FSA issues ARC-CO payments whenever actual revenue is less than the guarantee for a covered commodity; the difference is called the payment rate.[10] The ARC-CO payment amount for a covered commodity is the base acres attributed to the commodity—the commodity's base acres plus any generic base acres attributed to the commodity—multiplied by 85 percent and the payment rate.

FSA issues PLC payments when the effective price of a covered commodity is less than the respective reference price for a covered commodity. The effective price equals the higher of the market year average price or the national average loan rate for the covered commodity. The difference between the reference price and the effective price then is the payment rate. The PLC payment amount for a covered commodity is the base acres attributed to the commodity multiplied by 85 percent, the payment rate, and the farm's PLC yield.

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[5] The formula for updating a PLC yield was calculated by multiplying 90 percent by the simple average of the actual yield between 2008 through 2012 for a covered commodity, excluding any year in which the commodity was not planted.

[6] The election period was between Nov. 17, 2014, and Apr. 7, 2015. All elections are considered to be in effect for the life of the 2014 Farm Bill, or crop years 2014 through 2018.

[7] Because ARC-IC accounted for such a small portion of the overall program (less than 1 percent of acres and only about $30 million), we excluded it from our review as we determined that it was lower risk compared to the other options available through the ARC/PLC program.

[8] For ARC-CO purposes, the Olympic averages exclude the highest and lowest yields and prices. The 5-year Olympic averages for yield and price are calculated separately prior to determining the benchmark revenue.

[9] If the current year market year average price is lower than the established national average loan rate for a covered commodity, then the national average loan rate is used to calculate actual crop revenue.

[10] The ARC-CO payment rate may not exceed 10 percent of the benchmark revenue figure.

ARC/PLC payments are issued October 1 or later of the following calendar year. For example, 2014 crop year payments were not issued until on or after October 1, 2015. Combined ARC-CO and PLC payments totaled over $5.2 billion and over $7.8 billion for crop years 2014 and 2015, respectively.[11]

The Federal crop insurance program began in 1938 and has been administered by Risk Management Agency (RMA) since 1996. RMA's overall mission is to provide effective, market-based risk management tools to strengthen the economic stability of producers. Since 2011, the agency has offered revenue protection insurance, which protects producers against revenue shortfalls by guaranteeing a certain level of revenue.[12] Under revenue protection insurance, RMA uses guarantees and actual revenues to determine payments called indemnities. The agency calculates revenue guarantees by multiplying the higher of the futures market price or the harvest price by the actual production history of a farm and the coverage level elected by the producer.[13] Actual revenue is computed by multiplying the harvest price by the actual yield produced on a farm during the current year. RMA pays an indemnity when actual revenue falls below the guarantee; the indemnity is equal to the difference between the two. In general, RMA issues revenue protection indemnities according to the specific insurable commodities and acres planted and insured under each insurance policy.[14] However, not all insurable commodities are eligible for indemnities. For example, a producer who plants an insurable commodity but does not purchase crop insurance is not eligible for an indemnity. Revenue protection indemnities totaled over $11.8 billion for crop years 2014 and 2015.

[11] These figures represent payment information as of Sept. 30, 2016, for crop year 2014, and as of Feb. 2, 2017, for crop year 2015. However, when we scoped our engagement FSA had issued ARC-CO and PLC payments totaling over $12.3 billion combined for crop years 2014 and 2015 as of Oct. 21, 2016.

[12] Prior to 2011, RMA offered similar crop insurance products, such as the crop revenue coverage and revenue assurance policies.

[13] The futures market price, for corn as an example, is determined during February by using the monthly average new-crop price for a corn December futures contract. Producers choose whether to include the harvest price as an option for calculating guarantees as well as a coverage level between 50 percent up to 85 percent. Actual production history is the simple average of four to ten years' worth of yields based on the availability of production records.

[14] For crop years 2014 and 2015, insurable commodities included barley, canola, corn, cotton, dry beans, dry peas, grain sorghum, peanuts, popcorn, rice, soybeans, sunflowers, and wheat. Producers are able to insure commodities they intend to plant and, if the planting of the commodity is prevented, receive an indemnity without ever planting the insured commodity.

## Objectives

Our objective was to evaluate FSA's required implementation of the ARC/PLC program established by the 2014 Farm Bill.  Specifically, we evaluated the adequacy of FSA's controls over the program, including the calculation of base acres and program payments.

# Section 1: FSA's Implementation of the ARC/PLC Program

## Finding 1: Unclear Statement of Goals for ARC-CO

We found that FSA issued documentation that may have incorrectly characterized ARC-CO as *revenue protection* when the Department characterizes the program as *income support*. This occurred because FSA did not have a process to coordinate with appropriate groups such as RMA, the Office of the Chief Economist (OCE), and Trade and Foreign Agricultural Affairs (TFAA) when implementing ARC-CO, including publishing program literature. As a result, the public may not understand the goal of the program clearly, which, in turn, could cause the public to draw comparisons between ARC-CO and RMA's revenue protection insurance.

According to the Office of Management and Budget's (OMB) Memorandum M-16-17, Federal leaders and managers are responsible for establishing and achieving goals and objectives, seizing opportunities to improve effectiveness and efficiency of operations, and maintaining compliance with relevant laws and regulations.[15] Additionally, the memorandum states, "stakeholders expect greater program integrity, efficiency, and transparency into government operations." Further, OMB M-17-06 notes that open and publicly accessible information can increase public participation in government, promote transparency and accountability, and increase government operations' efficiency and effectiveness.[16]

Considering FSA's publicly accessible information on ARC-CO educates prospective participants and the Government's current focus on transparency and efficiency, it is important that a program's goals and objectives be stated clearly and accurately. However, we found that FSA materials are potentially misleading, defining ARC-CO as revenue protection, while the Department considers ARC-CO income support. Specifically, according to FSA's strategic plan, one of the agency's goals is to "provide a financial safety net for America's farmers and ranchers to sustain economically viable agricultural production" with ARC associated with this goal.[17] The strategic plan goes on to say, "ARC offers coverage to producers who want revenue shortfall (yield times price) protection." However, multiple Department-level officials stated that ARC-CO actually offers *income support*.

A clear goal statement is particularly important to avoid the appearance of overlap between ARC-CO and similar programs. In particular, FSA's description of ARC-CO could appear similar to RMA's revenue protection insurance. RMA's stated mission is to provide effective, market-based risk management tools to strengthen the economic stability of producers. Since 2011, the agency has offered a line of insurance called revenue protection, which protects

[15] OMB, *OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control*, Memorandum M-16-17 (July 15, 2016).

[16] OMB, *Policies for Federal Agency Public Websites and Digital Services*, Memorandum M-17-06 (Nov. 8, 2016).

[17] USDA FSA, *Farm Service Agency Strategic Plan Fiscal Year 2016–2018 Update*, https://www.fsa.usda.gov/about-fsa/strategic-plan/index (last visited Apr. 26, 2018).

producers against revenue shortfalls by guaranteeing a certain level of revenue.[18] Department officials have argued that ARC-CO is distinctly different from revenue protection insurance. We do note that a major difference between the two programs is ARC-CO payments are generally linked to a farm's historical crop base acres—not the crops actually planted in a particular crop year—whereas revenue protection indemnities are primarily tied to actual planting decisions.[19] Clarifying ARC-CO's goal as income protection rather than revenue protection would make clear to the public that each program covers different functions.

Until FSA accurately characterizes the goal, the public may continue to draw comparisons between ARC-CO and revenue protection insurance. For example, during the course of our audit, we became aware that some stakeholders had noted similarities between ARC-CO and revenue protection insurance. Specifically, an FSA official informed us that extension service agents remarked on the similarities while training producers on details of the ARC/PLC program. Also, the same FSA official reported hearing that producers participating in ARC/PLC had enrolled in ARC-CO because of the similarities between it and revenue protection insurance, which they were already using. As such, FSA may need to re-educate stakeholders to ensure all parties fully understand ARC-CO.

FSA issued over $10.2 billion in ARC-CO payments and RMA issued over $11.8 billion in revenue protection indemnities for crop years 2014 and 2015. Given the scope and size of these programs, we believe it is imperative that FSA accurately describe its programs to avoid potentially incorrect comparisons with other programs and ensure the public has a clear description of the use of ARC-CO funds.

When we spoke to OCE officials, they stated that the Department needs to present ARC-CO's goals accurately. TFAA officials agreed, adding that USDA's agencies need to coordinate better to present information such as ARC-CO's goal in as consistent a manner as possible. We acknowledge that ARC/PLC is currently only authorized through crop year 2018; however, we still encourage FSA to coordinate with RMA, OCE, TFAA, and other relevant groups to ensure that information presented in guidance and other literature is accurate for ARC-CO and future programs.

[18] Prior to 2011, RMA offered similar crop insurance products, such as the crop revenue coverage and revenue assurance policies.

[19] Overall, ARC-CO payments generally decoupled from current production, meaning a producer is eligible for the payment without reference to the commodity currently planted and even if no commodity is currently planted. However, generic base acres are not decoupled because producers must plant a covered commodity to receive an ARC-CO payment. Conversely, revenue protection insurance coverage depends on a producer's current production; producers purchase revenue protection insurance based on what they intend to plant in that year and receive indemnities for losses associated with that production

## Recommendation 1

Coordinate with RMA, OCE, and TFAA to accurately describe the goal of ARC-CO and, if necessary, revise program guidance and related materials to ensure that this information is accurately presented and all interested stakeholders are properly re-educated.

## Agency Response

In its August 24, 2018, response FSA concurred with our recommendation. The regulation associated with the passage of the next farm bill will clearly identify that ARC-CO is an income support program. The regulation will not be issued until after the passage of the next farm bill. FSA expects to complete this regulation by August 31, 2019.

## OIG Position

We accept management decision for this recommendation.

## Recommendation 2

Establish a process to coordinate with RMA, OCE, and TFAA in the future when implementing programs to ensure program goals are accurately presented and all interested stakeholders are properly educated.

## Agency Response

In its August 24, 2018, response FSA concurred with our recommendation. Upon the approval of the regulation referenced in our answer to Recommendation 1 FSA will create a process to provide a document to RMA, OCE, and TFAA to assure shared knowledge of the specific purpose of this and future programs. This recommendation is expected to be completed by August 31, 2019.

## OIG Position

We accept management decision for this recommendation.

## Finding 2: FSA Should Revise the Basis of ARC-CO Payments

We found that FSA made ARC-CO payments based on each farm's administrative county rather than based on the county in which land is physically located.[20] This occurred because the agency carried forward the payment approach it has historically used rather than adequately considering whether physical location would be a more reasonable approach when implementing the 2014 Farm Bill. As a result, FSA issued payments to over 72,500 farms in 2014 and over 75,400 farms in 2015 based on the administrative county for these farms when at least part of each farm was physically located in another county.

The 2014 Farm Bill required ARC-CO payments to be made when a covered commodity's actual crop revenue falls below the ARC guarantee on a county-by-county basis. The payment rate for a covered commodity equals the difference between the ARC crop guarantee and the actual crop revenue for a county.[21] FSA implemented the 2014 Farm Bill through regulations that specified ARC-CO payments were to be based on the payment rate of each farm's administrative county.[22]

We found that there can be large discrepancies in ARC-CO payment rates between contiguous counties.[23] For example, in 2014, producers with farms administered in Hutchinson County, Texas, received $99.98 per acre for corn whereas farms administered in Carson County, Texas, (directly south of Hutchinson County) received $1.13 per acre. In another example, producers with farms administered in Union County, Iowa, received $55.22 per acre for soybeans in 2015 whereas farms administered in Adair County, Iowa (directly northwest of Union County) did not receive a payment at all.

Large payment rate differences among contiguous counties are particularly concerning because FSA allows producers until August 1 each year to switch administrative counties. Much of the yield and price information used to calculate ARC-CO guarantees is publicly available prior to August 1. As such, a producer could feasibly estimate the ARC-CO guarantee for each county in which his/her operation falls. The price component of figuring actual revenue is a fixed price nationwide; therefore, yield is the only variable component when calculating each county's ARC-CO actual revenue. Given, for example, that Texas producers can begin planting corn in early March and Iowa producers can begin planting soybeans in late April, the August 1 deadline is well after planting periods for some commodities in some parts of the country. Producers that operate in multiple counties could monitor the growing season and attempt to estimate what the average yield will be in each county where the producer has land. Then, barring a catastrophic event after August 1, the producer might have sufficient information to identify which county

[20] An administrative county performs administrative tasks, such as making determinations, handling official records, and issuing payments. A farm, or one or more tracts that make up a farm, may or may not be physically located in its administrative county.

[21] For example, if FSA calculated the ARC-CO guarantee of corn in a county to be $761.19 per acre and the actual revenue for corn in that county to be $702.00 per acre, then the payment rate for corn in that county would be $59.19 per acre.

[22] 7 C.F.R. § 1412.1(e).

[23] Additionally, other parties—such as members of Congress and the media—have expressed concerns about the discrepancies in payment rates between contiguous counties.

would maximize ARC-CO payments and use this information to switch administrative counties in an attempt to receive a higher payment.

While FSA acknowledged the above scenario was possible, it did not see it as likely because the agency had established policies and procedures for when producers are allowed to switch administrative counties. Specifically, we were told that producers could not change administrative counties each year unless there is a reason for the change. Also, county committees—comprised of local producers elected by their peers to help FSA administer its programs—are responsible for approving farm transfers, including preventing producers from switching administrative counties in an attempt to receive higher payments.

We note that FSA permitted producers with covered commodities enrolled under ARC-CO in crop years 2014 and/or 2015 to retroactively seek a waiver for farms with at least one tract that was not physically located in the farm's administrative county. The waiver allowed producers to calculate ARC-CO guarantees and actual revenues based on the physical location of land to determine ARC-CO payments.[24] If a producer did request a waiver, it applied to all covered commodities on the farm. There were 90,800 farms in crop year 2014 and over 89,500 farms in crop year 2015 that had at least one tract not physically located in its administrative county. We found that producers only opted to take the waiver on 18,211 farms in 2014 and 14,140 farms in 2015, or only about 20.0 percent and 15.7 percent of farms eligible for the waiver, respectively.

When we first discussed the decision to base ARC-CO payments on administrative county with the FSA national office, we were told that the agency had historically calculated payments using this approach. The officials asserted that legal counsel concurred that FSA's implementation of ARC-CO was appropriate via its approval of the ARC/PLC regulations. However, the officials acknowledged that if the 2014 Farm Bill had mandated payments based on physical location, then FSA could have done so because the agency largely had the necessary data.

While we acknowledge the 2014 Farm Bill did not specify which approach should be taken, we believe that basing ARC-CO payments on physical location would be more accurate than using administrative county. First, it would remove any opportunity producers may have to switch administrative counties in order to maximize program payments. Second, the 2014 Farm Bill called for ARC-CO payments to be made when actual crop revenue falls below the ARC guarantee. County average yields are used to calculate ARC-CO guarantees and actual revenue. As such, it seems reasonable to us that the most accurate approach would be to use the guarantee and actual revenue figures of the county where land is physically located.

Overall, FSA national office officials agreed that basing ARC-CO payments on physical location made more sense than administrative county. The officials stated that, unless there is contrary language in the next farm bill, the agency plans to make such payments according to physical location. FSA also plans to require all tracts that cross county lines to be split in order to create a separate tract for each county the land falls within.

[24] The waiver only applied to ARC-CO payments for crop years 2014 and 2015. For 2016 and subsequent crop years, no waiver opportunity will be provided. Therefore, in order for ARC-CO payments to reflect the physical location of land, producers would need to switch the administrative county for farms and tracts to the county where the farm and/or tract is physically located.

## Recommendation 3

Reassess whether issuing payments based on a farm's physical location would be a more reasonable approach than using administrative county when implementing the next Farm Bill.

## Agency Response

In its August 24, 2018, response FSA concurred with our recommendation. Absent specific language that directs FSA to implement the programs based on the physical location or administrative location of a farm, FSA will evaluate the language in the next Farm Bill and administer this aspect of the Farm Bill based on the discretion that is permitted to the Secretary. FSA anticipates passage of the next Farm Bill within the next year. Subsequent regulations will be published defining the administrative county/physical location county decision. FSA expects to complete this regulation by August 31, 2019.

## OIG Position

We accept management decision for this recommendation.

## Section 2: FSA's Controls over the ARC/PLC Program

### Finding 3: FSA Needs to Improve its Internal Controls to Ensure Program Yield and Payment Accuracy

Based on our review of production records and historical FSA records for 30 PLC yields, we found that 10 were incorrect. This occurred because, in some cases, PLC yields were calculated incorrectly. In other cases, FSA's spot check review process was not robust enough to identify inaccurate PLC yields that were carried forward. As a result, FSA made improper payments of $109,580 based on the 10 yields we found to be incorrect.[25]

The 2014 Farm Bill provided producers with a one-time opportunity to either retain the 2013 payment yields (now called PLC yields) or update them. If a producer chose to update PLC yields, the actual yields for the covered commodities planted on the farm in crop years 2008 through 2012 were used.[26] FSA allowed producers to certify yields of covered commodities planted for this period and did not require production records to be submitted. Instead, producers were to maintain production records through the 2018 crop year in the event a yield was selected for review. FSA guidance states that PLC yields found to be incorrect will be corrected and overpayments must be refunded, if applicable.

According to Federal internal control standards, FSA management is directly responsible for the design, implementation, and effectiveness of internal controls. One control implemented by the agency was a county office spot check review of PLC yields in each respective county that were 25 percent or more above their respective county average PLC yield to ensure production records supported actual yields that producers had certified. FSA guidance specifically excluded any 2013 payment yield carried forward as the PLC yield from being reviewed through this process.

FSA provided us with a list of over 273,500 PLC yields nationwide that were 25 percent or more above their respective county average PLC yield. In order to maximize the relevancy of our review, we focused on those yields that were (1) 150 percent or more above their respective county average PLC yield, and (2) associated with a commodity that received a PLC payment in crop years 2014 and/or 2015.[27] We identified 456 PLC yields that met these parameters and non-statistically selected 30 of the yields based on the total payments issued for crop years 2014 and 2015. Producers received over $1.6 million based on the universe of 456 PLC yields—over $717,000 of which was associated with the 30 yields that we sampled.

For each of the 30 PLC yields we sampled, we obtained and reviewed supporting documentation related to each yield. This documentation included production records for commodities planted between crop years 2008 and 2012 as well as historical FSA records pertaining to program

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[25] Specifically, we found nine overpayments totaling $107,794 and one underpayment of $1,786 in crop year 2015.

[26] The formula for updating a payment yield was calculated by multiplying 90 percent by the simple average of the actual yield between 2008 through 2012 for a covered commodity, excluding any year in which the commodity was not planted.

[27] We specifically excluded ARC-CO from our potential sample because PLC yields are not used to calculate ARC-CO payments.

payment yields. Our review found that 10 PLC yields were incorrect because of 3 main issues: (1) not all producer-certified yields were supported by production records; (2) not all yields were included in the yield update calculation; and (3) FSA did not have a control in place to ensure 2013 payment yields were accurate if a producer elected to not update the PLC yield.

*Inaccurate Yields Were Used in the Yield Update Calculation*

Producers who elected to update PLC yields were required to certify the actual yields for each covered commodity that was planted on a farm during crop years 2008 through 2012. We found that 4 of the 30 PLC yields we reviewed were calculated incorrectly because producers provided inaccurate yields to FSA. In all four cases, the PLC yields should have been lower based on our review of production records. Overall, FSA issued $17,661 in overpayments based on inaccurate PLC yields.

For example, in one instance a producer certified sorghum yields of [redacted] and [redacted] bushels in 2008 and 2009, respectively, leading to a PLC yield of 131 bushels. Based on production records, we determined the sorghum yields should have been 66 bushels in 2008 and 79 bushels in 2009 and the PLC yield should have been 65 bushels. FSA issued an overpayment of $14,691 in this case.

*Yields Were Not Included in the Yield Update Calculation*

The only years to be excluded when updating a PLC yield were those in which the covered commodity was not planted. However, we found that 3 of the 30 PLC yields we reviewed were calculated incorrectly because a yield for at least 1 year in which the covered commodity was planted was excluded from the PLC yield update calculation. In two cases, the PLC yields should have been lower by including all years in which the applicable covered commodities were planted. In one case, the PLC yield should have been higher. Overall, FSA issued $8,818 in improper payments ($7,032 in overpayments and $1,786 in underpayments) based on inaccurate PLC yields.

In one instance a producer planted sorghum in 2009 and 2012 with yields of [redacted] and [redacted] bushels, respectively. However, only the 2012 yield was considered in the update calculation leading to a PLC yield of 85 bushels. By using both yields, we determined the sorghum PLC yield should have been 74 bushels. FSA issued an overpayment of $5,246 in this case.

*FSA Did Not Have Adequate Spot Check Procedures*

FSA implemented a spot check review of PLC yields that were 25 percent or more above their respective county average PLC yield, but specifically excluded any 2013 payment yield that was carried forward as the PLC yield from being reviewed. During our audit, we found 3 of the 30 PLC yields we reviewed were incorrect despite being carried forward from 2013 payment yields. In all three cases, the PLC yields should have been lower based on our review of historical FSA records. Overall, FSA issued $83,101 in overpayments based on inaccurate PLC yields.

> For example, in one instance a producer had a PLC yield of 375 bushels for sorghum when our review revealed the PLC yield should have been 31 bushels. We found that the producer's cotton yield had incorrectly been applied to sorghum during a farm reconstitution in 2011.[28] FSA issued an overpayment of $65,397 in this case.

Overall, we believe FSA's internal controls could be strengthened. While the agency's spot check review process may have ultimately identified some of the issues we found, it was not robust enough to identify them all. As such, we believe FSA should incorporate a review of retained payment yields into the agency's current control structure. Additionally, under the spot check procedures PLC yields that appear unusually high (such as 250 percent or more above their respective county average PLC yield) are not subject to a mandatory review. We believe FSA's internal controls would be improved if such a mandatory review were to be put in place.

We communicated with FSA national officials about each of the 10 improper payments we identified. The officials generally agreed with our analysis and began the process of correcting payments to producers, including establishing receivables for overpayments. We also discussed with these officials our thoughts on bolstering the agency's current spot check review. An official agreed the process could be improved and mentioned FSA was already looking into ways for doing so, such as requiring a review of all yields that are above a to be determined upper limit for each commodity.

## Recommendation 4

Review and correct the 10 PLC yields we found to be incorrect.

## Agency Response

In its August 24, 2018, response FSA concurred with our recommendation. The FSA has corrected the 10 PLC yields and appropriate documentation of the correction will be provided by October 30, 2018.

## OIG Position

We accept management decision for this recommendation.

## Recommendation 5

Review and recover improper overpayments of $107,794 due to incorrect PLC yields.

[28] A farm reconstitution is a change in a farm as the result of combining or dividing tracts or farms. Some reasons a reconstitution may be performed include a change in landowner or a change in the individual that operates the land.

## Agency Response

In its August 24, 2018, response FSA concurred with our recommendation. FSA has reviewed and recovered most of the improper overpayments to incorrect PLC yields. Additional collection action will continue as provided in applicable regulations. Documentation verifying the collection action to date will be provided by October 30, 2018.

## OIG Position

We accept management decision for this recommendation.

## Recommendation 6

Review and issue improper underpayments of $1,786 due to incorrect PLC yields.

## Agency Response

In its August 24, 2018, response FSA concurred with our recommendation. FSA has reviewed and issued improper underpayments for the identified producers and will provide documentation of those payments no later than October 30, 2018.

## OIG Position

We accept management decision for this recommendation.

## Recommendation 7

Revise the current spot check process utilized for reviewing PLC yields. In particular, FSA could consider including retained payment yields in the review process and/or requiring a mandatory review of any PLC yield that appears unusually high, as defined by the agency.

## Agency Response

In its August 24, 2018, response FSA concurred with our recommendation. FSA has conducted a yield audit to assess whether or not an individual yield is an outlier relative to its county, state, or national yield. An excerpt from the study document Outlier PLC Yield Detection, available upon request, states:

> *"The algorithm detected 7,150 yields that are unambiguously outliers (less than 0.2 percent of all PLC yields) and 598,779 "indeterminate" yields that could be regarded as outliers based on at least one metric (see Table A-1). Of these indeterminate yields, 49,006 yields are highly suspect (see Table A-2), out of a total of 56,156 outlier or highly suspect yields (see Table A-3)."*

FSA intends to check all 7,150 yields that were identified as outliers.  Any county with a significant number of errors will have additional yields selected to be reviewed.  FSA expects this to be completed by April 30, 2019.

## OIG Position

We accept management decision for this recommendation.

## Scope and Methodology

We conducted our audit at the FSA national office in Washington, D.C., Iowa and Texas State FSA offices, and five FSA county offices (see Exhibit B). Our audit covered ARC-CO and PLC payments for the 2014 and 2015 crop years.[29] As of October 21, 2016, FSA had issued ARC-CO and PLC payments totaling over $12.3 billion combined for this period.[30] We performed fieldwork between November 2016 and February 2018.

During our audit, we non-statistically selected two States and five counties to visit. These States and counties were selected primarily based on the total combined ARC-CO and PLC payments issued for crop years 2014 and 2015. Total ARC-CO and PLC payments of over $2.1 billion went to the two States and over $172.3 million went specifically to the five counties. Within each county, we non-statistically selected producer payments primarily based on the total combined ARC-CO and PLC payments issued for crop years 2014 and 2015. In total, we reviewed payments that totaled over $3.9 million.

We also sampled PLC yields to review. We found that there were 456 PLC yields that were (1) 150 percent or more above their respective county average PLC yield, and (2) associated with a commodity that received a PLC payment in crop years 2014 and/or 2015.[31] Producers received over $1.6 million based on these 456 PLC yields. We non-statistically selected PLC yields based on the total PLC payments issued for crop years 2014 and 2015. Overall, we reviewed 30 PLC yields that provided producers over $717,000 in PLC payments for the associated commodities.

To accomplish our objectives, we performed the following audit procedures:

- reviewed applicable laws, regulations, and agency handbooks concerning the administration of the ARC/PLC program;
- interviewed FSA officials to gain a sufficient understanding of the ARC/PLC program and its implementation;
- interviewed FSA officials and reviewed agency guidance to ascertain the internal controls over the ARC/PLC program;
- reviewed FSA files related to the over $3.9 million in producer payments we selected to ensure the accuracy of base acres and PLC yields on 217 farms across 22 producers;

[29] ARC-IC payments for crop years 2014 and 2015 totaled about $30 million, whereas ARC-CO and PLC payments during this period were over $10.2 billion and over $2.0 billion, respectively. Considering this, as well as the fact that less than 1 percent of acres were enrolled in it, we determined that ARC-IC was lower risk compared to the other options available through the ARC/PLC program and excluded it from our review.

[30] Since Oct. 21, 2016, FSA has issued additional ARC-CO and PLC payments for crop years 2014 and 2015 and total outlays now stand at over $13.0 billion.

[31] First, FSA provided a list of over 273,500 PLC yields from across the nation that were 25 percent or more above their respective county average PLC yield. For example, if a farm had a PLC yield for wheat of 56 bushels and the county average PLC yield for wheat was 34 bushels then the farm's yield was about 64.7 percent above the county average and included in FSA's list. Then, to maximize the relevancy of our review, we focused on the parameters listed above to arrive at our universe of 456 PLC yields. We specifically excluded ARC-CO from our potential sample because PLC yields are not used to calculate ARC-CO payments.

- reviewed production records provided by FSA and producers as well as historical FSA records related to the 30 PLC yields we selected to determine whether the yields could be substantiated;
- compared the ARC/PLC program to other USDA programs to identify potential duplication or overlap;
- interviewed FSA officials and communicated with RMA officials to determine the cause of deficiencies noted during our review; and
- assessed the accuracy and completeness of FSA payment data by performing manual recalculations of payments to producers and comparing summary totals to publicly available payment information.

During the course of our audit, we did not perform any tests to determine the overall reliability of any individual agency information system because evaluating the effectiveness of information systems was not one of our engagement objectives. Therefore, we make no representation as to the adequacy of any agency information systems. We do not believe the lack of systems testing had an impact on our audit as we did assess the accuracy and completeness of payment data produced by an FSA information system, as stated above.

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.

## Abbreviations

ARC .......................................Agriculture Risk Coverage
ARC-CO ................................ARC—county coverage
ARC-IC ..................................ARC—individual coverage
FSA ........................................Farm Service Agency
OCE........................................Office of the Chief Economist
OMB ......................................Office of Management and Budget
PLC ........................................Price Loss Coverage
RMA ......................................Risk Management Agency
TFAA .....................................Trade and Foreign Agricultural Affairs
USDA.....................................United States Department of Agriculture

## Exhibit A: Summary of Monetary Results

Exhibit A summarizes the monetary results for our audit report by finding and recommendation number.

| Finding | Recommendation | Description | Amount | Category |
|---|---|---|---|---|
| 3 | 5 | FSA overpayments of PLC benefits to producers | $107,794 | Questioned Costs, Recovery Recommended |
| 3 | 6 | FSA underpayments of PLC benefits to producer | $1,786 | Underpayments and Collections |
| **Total** | | | $109,580 | |

# Exhibit B: Locations Visited or Contacted

The table below shows the FSA locations and offices visited or contacted during fieldwork.

| Location | Office | Visited or Contacted |
|---|---|---|
| Washington, DC | National office—Washington, D.C. | Visited |
| Iowa | State office—Urbandale, IA | Visited |
| | Kossuth County office—Algona, IA | Visited |
| | Cedar County office—Tipton, IA | Visited |
| | Clinton County office—De Witt, IA | Visited |
| Texas | State office—College Station, TX | Contacted |
| | Gaines County office—Seminole, TX | Visited |
| | Wharton County office—Wharton, TX | Visited |

# AGENCY’S
# RESPONSE TO AUDIT REPORT

Farm
Production and
Conservation

Farm
Service
Agency

Office of the
Administrator

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

Voice: 202-720-3467
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**DATE:** August 24, 2018

**TO:** Gil H. Harden
Assistant Inspector General for Audit
Office of Inspector General

**FROM:** Perry L. Thompson, Director /s/ Perry L. Thompson
Operations Review and Analysis Staff

**SUBJECT:** Response to Audit 03601-0002-31, Agriculture Risk Coverage and Price Loss Coverage Programs

The Farm Service Agency (FSA) appreciates your willingness to engage in numerous discussions leading to this draft report. The responses to the recommendations are listed below:

**Recommendation 1:** Coordinate with Risk Management Agency (RMA), Office of the Chief Economist (OCE), and Trade and Foreign Agricultural Affairs (TFAA) to accurately describe the goal of Agriculture Risk Coverage county coverage (ARC-CO) and, if necessary, revise program guidance and related materials to ensure that this information is accurately presented and all interested stakeholders are properly re-educated.

***Response:*** The regulation associated with the passage of the next farm bill will clearly identify that ARC-CO is an income support program. The regulation will not be issued until after the passage of the next farm bill. FSA expects to complete this regulation by August 31, 2019.

**Recommendation 2:** Establish a process to coordinate with RMA, OCE, and TFAA in the future when implementing programs to ensure program goals are accurately presented and all interested stakeholders are properly educated.

***Response:*** Upon the approval of the regulation referenced in our answer to Recommendation 1 FSA will create a process to provide a document to RMA, OCE and TFAA to assure shared knowledge of the specific purpose of this and future programs. This recommendation is expected to be completed by August 31, 2019.

**Recommendation 3:** Reassess whether issuing payments based on a farm's physical location would be a more reasonable approach than using administrative county when implementing the next Farm Bill.

***Response:*** Absent specific language that directs FSA to implement the programs based on the physical location or administrative location of a farm, FSA will evaluate the language in the next farm bill and administer this aspect of the Farm Bill based on the discretion that is permitted to the Secretary. FSA anticipates passage of the next farm bill within the next year. Subsequent regulations will be published defining the administrative county/physical location county decision. FSA expects to complete this regulation by August 31, 2019.

**Recommendation 4:** Review and correct the 10 Price Loss Coverage (PLC) yields we found to be incorrect.

***Response:*** The FSA has corrected the 10 PLC yields and appropriate documentation of the correction will be provided by October 30, 2018.

**Recommendation 5:** Review and recover improper overpayments of $107,794 due to incorrect PLC yields.

***Response:*** FSA has reviewed and recovered most of the improper overpayments to incorrect PLC yields. Additional collection action will continue as provided in applicable regulations. Documentation verifying the collection action to date will be provided by October 30, 2018.

**Recommendation 6:** Review and issue improper underpayments of $1,786 due to incorrect PLC yields.

***Response:*** FSA has reviewed and issued improper underpayments for the identified producers and will provide documentation of those payments no later than October 30, 2018.

**Recommendation 7:** Revise the current spot check process utilized for reviewing PLC yields. In particular, FSA could consider including retained payment yields in the review process and/or requiring a mandatory review of any PLC yield that appears unusually high, as defined by the agency.

***Response:*** FSA has conducted a yield audit to assess whether or not an individual yield is an outlier relative to its county, state, or national yield. An excerpt from the study document <u>*Outlier PLC Yield Detection*</u>, available upon request, states:

> *"The algorithm detected 7,150 yields that are unambiguously outliers (less than 0.2 percent of all PLC yields) and 598,779 "indeterminate" yields that could be regarded as outliers based on at least one metric (see Table A-1). Of these indeterminate yields, 49,006 yields are highly suspect (see Table A-2), out of a total of 56,156 outlier or highly suspect yields (see Table A-3)."*

FSA intends to check all 7,150 yields that were identified as outliers. Any county with a significant number of errors will have additional yields selected to be reviewed. FSA expects this to be completed by April 30, 2019.

If you have any questions contact Perry L. Thompson at (202) 720-9831.

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