



United States Department of Agriculture
Office of Inspector General





AMS Procurement and Inspection of Fruits and Vegetables

Audit Report 01601-0001-41

What Were OIG's

Objectives

Our objectives were to evaluate whether AMS had adequate internal controls to ensure that (1) processed fruits and vegetables were procured in compliance with Federal purchasing regulations, and (2) processing plants and products were timely and effectively inspected.

What OIG Reviewed

We reviewed processes for procurement and inspection in two divisions and one program within AMS. From March 2014 through May 2015, we performed fieldwork at the national office, at regional and field offices, and at 40 processing plants.

What OIG Recommends

AMS needs to close out completed CPS contracts, de-obligate nearly \$19.6 million, ensure that SCI conducts timely reviews of purchase order documentation, and review QAP's policies and procedures.

AMS needs to close out completed CPS contracts, de-obligate nearly \$19.6 million, ensure that SCI conducts timely reviews of purchase order documentation, and review QAP's policies and procedures.

What OIG Found

The Agricultural Marketing Service's (AMS) Commodity Procurement Staff (CPS) purchases fruits, vegetables, meat, poultry, eggs, and fish from farmers and companies located in the United States. These products are then provided to meet the needs of the Child Nutrition Programs and other domestic nutrition assistance programs. The Office of Inspector General (OIG) reviewed this program and found the following problems:

- 1,190 of 2,303 completed contracts issued by the Commodity Procurement Staff (CPS) during fiscal years (FY) 2011-2013 had not been closed out as required. AMS could not direct \$19.6 million to other uses.
- AMS could not provide assurance that commodities in 29 of 97 sampled purchase orders were of domestic origin, as required by the Buy American Act.
- AMS could not ensure that products for nutrition assistance programs met standards for the Department of Agriculture purchases because the Specialty Crop Inspection (SCI) Division did not conduct periodic file reviews and quality assessments. Our review disclosed incorrect, incomplete, and missing purchase order documentation.
- The Quality Assurance Program (QAP) has not been reviewed since its development in the 1970s. OIG found inconsistencies in the frequency of inspector rotation, maintenance of program documentation, and annual reporting.

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



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



DATE: February 16, 2016

AUDIT
NUMBER: 01601-0001-41

TO: Elanor Starmer
Acting Administrator
Agricultural Marketing Services

ATTN: Frank Woods
Audit Liaison Officer

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: AMS Procurement and Inspection of Fruits and Vegetables

This report presents the results of the subject review. Your written response to the official draft is included at the end of the report. Excerpts from the response and the Office of Inspector General's (OIG) position are incorporated into the relevant sections of the report. Based on your written response, we have accepted your management decision on all recommendations.

In accordance with Departmental Regulation 1720-1, final action is to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report. For agencies other than the Office of the Chief Financial Officer (OCFO), 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 publically available information and will be posted in its entirety to our website (<http://www.usda.gov/oig>) in the near future.

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Background and Objectives

Background

The mission of the Agricultural Marketing Service (AMS) is to facilitate the competitive and efficient marketing of domestic agricultural products. To accomplish the AMS mission, the Commodity Procurement Staff (CPS) purchases fruits, vegetables, meat, poultry, eggs, and fish from farmers and companies located in the United States. The products acquired are furnished to Food and Nutrition Service (FNS) to meet the needs of the Child Nutrition Programs and other domestic nutrition assistance programs.¹

In fiscal years (FY) 2013-2014, CPS purchased nearly \$3.1 billion in domestic agricultural products: \$1.4 billion for the Fruits and Vegetables program,² and \$1.7 billion for the Livestock, Poultry and Seed program. The CPS Division purchased over 150 different kinds of fruit and vegetable products, and about 87 percent of these products were considered processed.³ The remaining 13 percent were fresh products (i.e. apples, oranges, and carrots).

To purchase commodities, FNS submits orders to CPS based on its needs, and those of the respective State agencies, School Food Authorities⁴ and other domestic assistance programs. The contracting officials in CP then solicit bids, examine qualifications of the prospective processing plants, award contracts, and process payments to awarded contracts. CPS uses the Web-Based Supply Chain Management (WBSCM) system to track all of the contract data and they must ensure that all contracts awarded comply with the Federal Acquisition Regulation (FAR) and Departmental regulations. In accordance with FAR, all contracts must be closed out within six months of receiving evidence of receipt of goods and final payment and, as part of that process, excess funds must be de-obligated by agency officials and returned to the U.S. Treasury.⁵

The Specialty Crop Inspection (SCI) Division is responsible for ensuring that processing plants comply with the provisions of the contract. To that end, AMS quality standards, grading, certification, and inspection are tools that promote and communicate quality and wholesomeness to consumers. This includes verifying that the product is of domestic origin for each awarded contract. The master solicitation requires the processing plants to meet provisions of the Buy American Act. The Act protects domestic growers by ensuring products purchased for

¹ Child Nutrition Programs are the National School Lunch Program, School Breakfast Program, Child and Adult Care Food Program, and Summer Food Service Program. The other domestic nutrition assistance programs include: the Emergency Food Assistance Program, the Commodity Supplemental Feeding Program, the Food Distribution Programs on Indian Reservations and the Disaster Assistance.

² As of September 16, 2015, the Fruits and Vegetables Program's name was changed to the Specialty Crops Program.

³ Processed products include canned and frozen fruits and vegetables, juices, and dried fruits.

⁴ A School Food Authority is the governing body which is responsible for the administration of one or more schools and has the legal authority to operate a nonprofit school food service.

⁵ Federal Acquisition Regulation, "Closeout by the Office Administering the Contract." 4.804-1(a)(2) 4.804-5 (June 2011).

respective State agencies, School Food Authorities and other domestic assistance programs are of domestic origin.

There are two options available for ensuring product is of domestic origin: (1) the Domestic Origin Verification (DOV) Program and (2) a code trace-back for processing plants that do not participate in the DOV Program. The DOV Program, based on an AMS policy,⁶ is an audit-based program that provides a means for the applicant to develop an auditable process to verify the domestic origin of the product sold to the Department of Agriculture (USDA). The second option involves a code trace-back for plants that do not participate in the DOV Program. Under this option, AMS inspectors must verify the trace-back material submitted by the processing plant to support that the commodities are grown, produced, processed, and packaged in the United States.

Among many other responsibilities, AMS inspectors ensure: that graded samples of products meet quality and quantity specifications; and that sanitary conditions for processing plants and equipment adhere to established standards. To document the review of commodities, AMS inspectors record their results on AMS inspection forms (i.e., certificate of quality and condition, certificate of loading, etc.), and maintain these records for three years. The SCI Division performs all grading and issues certificates of approval on a manual basis.

The SCI Division is comprised of 420 full-time, permanent employees, and 319 part-time, intermittent or mixed-tour employees.⁷ SCI Division personnel are located throughout the United States, and in Puerto Rico; the national office in Washington, D.C., 2 regional offices, and 46 field locations. Chart 1 below shows the locations of all SCI's offices.

Chart 1: SCI Offices Nationwide



⁶ USDA Purchases Manual, “Domestic Origin Verification Requirement,” (May 2012).

⁷ Mixed tour employees’ work schedules may involve alternating periods of full-time, part-time and/or intermittent working during the year and are limited to 1280-hour annual appointments.

The primary responsibilities of regional SCI offices are to manage inspection work and perform field office reviews. Field offices consist of an Officer-In-Charge (OIC), inspectors and administrative staff. The duties of an OIC include supervising and implementing inspection programs and balancing the workload of inspectors and administrative staff. Inspectors determine the grade, quality, and condition of the products at the processing plants, or at the field office's for lot sampling inspections.

AMS also has the Quality Assurance Program (QAP), which was designed to allow approved plants to use their internal quality control programs to inspect and grade products in accordance with USDA policies. In turn, AMS is responsible for evaluating the plant's quality control program by verifying the work of the reviewers, and initiating corrective action where necessary. Currently, there are 20 approved QAP plants nationwide. AMS has three field offices that oversee the activities of these plants: 2 field offices in AMS' Western Region manage 6 processing plants, and 1 field office in AMS' Eastern Region manages 14 processing plants.

Objectives

Our objectives were to evaluate whether AMS has adequate controls to ensure that (1) processed fruits and vegetables are procured in compliance with Federal purchasing regulations and (2) processing facilities and products are timely and effectively inspected.

Section 1: Procurement

Finding 1: AMS Did Not Close Out Contracts on Time

During FYs 2011-2013,⁸ the CPS did not close out 1,190 of the 2,303 completed fruit and vegetable contracts within 6 months of receiving evidence of receipt of goods and final payment as required. This occurred because the CPS did not have procedures in place to verify completed contracts were closed out according to its policy. As a result, completed contracts involving over \$9.7 million in excess funds from the Fruits and Vegetables Program and over \$9.9 million in excess funds from the Livestock, Poultry and Seed Program, were not closed out and excess funds were not de-obligated in a timely manner.⁹ This prevented the \$19.6 million in excess funds from being directed to other uses.

In June 2013, CPS initiated corrective action by establishing written standard operating policies for contract closeouts, which incorporated the de-obligation of funds. The policy states, in part, “The contract closeout policies identified herein are to be conducted by the CPS for all contracts...all contracts should be closed within six (6) months of receiving evidence of receipt of goods and final payment.”¹⁰ This policy is similar to FAR, which states that “Files for...contracts...should be closed within 6 months after the date on which the contracting officer receives evidence of physical completion.”¹¹

AMS implemented the Web-Based Supply Chain Management (WBSCM) system in FY 2011 to manage the procurement of commodities from solicitations, offers, awards, deliveries, invoices, and payments to processing plants. Currently, CPS uses the WBSCM system to process contracts. From FYs 2011-2013, the CPS awarded and processed over \$4.4 billion in commodity orders through the WBSCM system.

We asked CPS about the closeout of completed contracts within the WBSCM system, and how many contracts had excess funds that needed to be de-obligated. AMS provided us with a spreadsheet (using data pulled from WBSCM) for FYs 2011-2013 that identified 1,190 completed fruit and vegetable contracts with excess funds (totaling over \$9.7 million) that had not been de-obligated within 6 months. We asked CPS officials whether excess funds from completed Livestock, Poultry, and Seed Program contracts had also been de-obligated within the required timeframe. CPS confirmed the same issue occurred in the Livestock, Poultry, and Seed Program, and provided us with a list of 1,008 completed contracts with over \$9.9 million in excess funds that had not been de-obligated within the required 6 month time period.¹²

To validate the list of completed contracts for both programs,¹³ we selected a non-statistical sample of 10 percent of the contracts using a random number generator for each fiscal year. We

⁸ We expanded our review period to incorporate both FYs 2011-2012, the years since AMS implemented WBSCM.

⁹ AMS provided information noting that funds also needed to be de-obligated from 1,008 contracts under the Livestock, Poultry and Seed Program.

¹⁰ AMS Policy Memo, CPS-PM-001, “Guidance on Contract Closeout” (June 12, 2013).

¹¹ Federal Acquisition Regulation, “Closeout by the Office Administering the Contract,” 4.804-1(a) (2) (Mar 2005).

¹² CPS could not provide the universe of contracts for the Livestock, Poultry and Seed Program when requested.

¹³ Fruits and Vegetables Program and Livestock, Poultry and Seed Program.

validated that the information in our sample was correct by comparing the dollar amounts provided in the AMS spreadsheet to the amounts shown in WBSCM. Table 1 depicts by fiscal year the number of completed contracts not closed and the amount of funds that need to be de-obligated for the Fruits and Vegetables and the Livestock, Poultry and Seed Programs

Table 1: CPS Completed Contracts Not Closed – FYs 2011 - 2013

Programs	Fiscal Year	Completed Contracts Not Closed	Amount To Be De-obligated
Fruits and Vegetables	2011	119	\$2,306,942
	2012	647	\$4,994,113
	2013	424	\$2,404,034
Total		1,190	\$9,705,089
Livestock, Poultry and Seed	2011	33	\$ 743,633
	2012	351	\$4,874,753
	2013	624	\$4,328,623
Total		1,008	\$9,947,009
Total		2,198	\$19,652,098

CPS said that staffing shortages prevented contracting officers from adhering to the closeout policy.¹⁴ However, we also attributed the non-adherence to the lack of any procedures to monitor contract closeout. AMS officials confirmed that the funds could have been redirected for other purposes if the contracts were closed and the funds were de-obligated on time. CPS needs to ensure the \$19.6 million in excess funds is de-obligated and close out the 2,198 contracts awarded in FYs 2011 - 2013.¹⁵

Recommendation 1

Complete the closeout process for the 2,198 completed contracts cited in the finding, and de-obligate \$19,652,098 in funds associated with those contracts.

Agency Response

In its January 13, 2016, response, AMS stated:

The 2,198 contracts with \$19,652,098 in associated funds should be closed and the funds deobligated.

¹⁴ AMS Policy Memo, CPS-PM-001, “Guidance on Contract Closeout” (June 12, 2013).

¹⁵ In May 2015, we were informed by CPS that they initiated corrective actions by de-obligating the funds for all FY 2011 contracts.

AMS provided an estimated completion date of June 30, 2016, to close all outstanding contracts for FY 2012, and December 31, 2016, to close all outstanding contracts for FY 2013.

OIG Position

We accept management decision on this recommendation.

Recommendation 2

Establish a procedure to review completed contracts and ensure the required contract closeout actions are performed according to CPS-PM-001.

Agency Response

In its January 13, 2016, response, AMS stated that:

CPS will modify the current procedures in place to include verification that completed contracts are closed out according to its Policy Memo CPS-PM-001, Guidance on Contract Closeout. CPS Senior Contracting Officers will be responsible for ensuring that contract closeout progresses and providing the CPS Director a monthly status report regarding contract closeout activity.

In a subsequent response received on January 15, 2016, AMS stated they would complete this action by May 1, 2016.

OIG Position

We accept management decision on this recommendation.

Section 2: Inspection

Finding 2: AMS Could Not Trace Commodities Back to Domestic Producers

For FYs 2013 and 2014, AMS could not provide assurance that commodities for 29 of 97 sampled purchase orders were of domestic origin.¹⁶ This occurred because AMS had not obtained sufficient documentation, such as growers' list and scale tickets, to verify product origin. As a result, almost \$35 million of commodities purchased for USDA programs may not have been obtained in accordance with the Buy American Act.¹⁷

In order to bid on any AMS contracts, processing plants review the terms of the master solicitation and submit their bids accordingly.¹⁸ The master solicitation requires the processing plant to have a plant survey and a food defense plan prior to opening of bid for contracts. In addition, the master solicitation states

all products used in fulfilling purchase orders awarded must be of 100 percent domestic origin, meaning that they are produced and processed from products, including products which were produced, raised, and processed only in the U.S. ... the [processing plants] must ensure that [it] maintain[s] records such as invoices, or production and inventory records evidencing product origin, and make such records available for review by the Government.¹⁹

The USDA Purchases Manual states that AMS is responsible for ensuring that all fruit, vegetable, and nut commodities purchased for USDA food assistance programs are 100 percent grown in the United States.²⁰ AMS' OICs (or other designated staff) verify compliance with the domestic origin requirements by reviewing processing plants' supporting trace-back documentation to determine whether the commodities purchased were of domestic origin.

To verify compliance, the AMS inspector must select one production code that was used by the processing plant for each commodity and purchase order awarded, and prepare a "request for code trace-back" letter for the processing plant for the code selected by AMS.²¹ The request for trace-back is sent to the processing plant and requires that all of the supporting documentation demonstrate that the product used for the selected production code is of domestic origin. To verify that the submitted information supports that the product is of domestic origin, the OICs must perform the following:

¹⁶ We reviewed 97 of the 112 sampled purchase order folders that used the "code trace-back method."

¹⁷ Federal Acquisition Regulation, "Buy American Certification Act," 52-225.2(a), (Nov. 2012) requires that processing plants certify that product is of domestic origin.

¹⁸ The master solicitation is used to solicit bids and award contracts for various commodities for the National School Lunch Program and other Federal Food and Nutrition Programs.

¹⁹ Agricultural Marketing Service Master Solicitation for Commodity Procurements, "Domestic Products", (April 2014).

²⁰ USDA Purchases Manual, "Domestic Origin Requirements," (May 2012).

²¹ Production code is a unique identifier established by the processing plant to identify the products being processed on a particular day.

- Trace the product from the contractors' documentation describing the processing of a product from the production code back to the grower(s). For example, for trace-back of black-eyed peas, the documentation provided by the processing plant may include the cooker log, fill weight logs, raw product evaluations, production usage reports, receiving logs and grower list with addresses. Each document has a unique code or tracking number that allows the inspector to trace the product from one form to the next.
- Notify the processing plant in a letter if additional information is required or that the trace-back has been completed successfully and shipping of the product can begin.

We concluded that 29 of 97 purchase order folders we reviewed lacked sufficient documentation to determine whether the commodity was of domestic origin.²² We reviewed up to 5 purchase order folders per each of the 30 processing plants we visited based on factors such as dollar value and types of commodities processed. Our review identified the following:

- For 2 of the 29 purchase order folders, there was no trace-back material.
- For one folder, the AMS inspector and his supervisor were unable to verify domestic origin using the trace back documentation in the purchase order folder.
- For the remaining 26 purchase order folders, we were not able to conduct the trace-back with the material that was in the folder. In each case, at least one piece of information was missing from each folder to tie the product specifically to a domestic grower (e.g., a scale ticket showing the grower's name, or a growers list showing the address of the grower).

We followed up with OICs and confirmed that in each case the missing information was needed to verify the commodities were of domestic origin. AMS could not explain why a trace-back was not completed or properly supported for these purchase orders. One OIC believed the inspectors were doing the trace-back with the material they had or thought the material was good enough based on their past experience.

AMS' OICs also had not documented the process used to trace production. During our review of trace-back documentation, we found that efficiency could improve if AMS inspectors develop a brief narrative stating how they completed the trace-back from the production code to the grower. In conclusion, AMS was unable to verify compliance with the Buy American Act for purchase orders valued at almost \$35 million. The AMS national office agreed that additional work on how to complete trace-back reviews is necessary, due to the inconsistencies we identified.

²² Nothing came to our attention to indicate that foreign product was used to fulfill the sample purchase orders we reviewed.

Recommendation 3

Require OICs to obtain documentation and include a narrative in the purchase order folder that supports AMS's trace-back determination. Also, ensure that documentation is maintained in the purchase order file.

Agency Response

In its January 13, 2016, response, AMS stated that:

AMS is strengthening enforcement of the 2010 Notice to The Trade by assigning SCI's Inspection Operations responsibility for ensuring that the contractors provide complete documentation. Any incomplete trace-backs will be returned to the contractor(s) by SCI for completion. If the contractor does not comply, SCI immediately will notify CPS, which will take action based on the guidance outlined in the Federal Acquisition Regulations, which could result in rejection of product.

AMS will also develop and deliver to SCI employees a Train-the-Tracer class that will cover: conducting thorough trace-backs; ensuring contractor compliance with trace-back responsibilities; reviewing trace-backs; and AMS' established process for conducting headquarters reviews of field trace-backs to support effective product traces. This will be mandatory training for SCI staff involved with the activities associated with commodity procurement.

In a subsequent response received on January 15, 2016, AMS stated they would complete this action by January 31, 2016.

OIG Position

We accept management decision on this recommendation.

Finding 3: AMS Needs to Strengthen Its Controls over the Fruits and Vegetables Program

AMS issued quality control policies that required periodic reviews of files and product quality assessments to ensure processing plants' compliance with purchase order stipulations. However, we found little evidence to support that the required periodic file reviews were performed, and our review of AMS' purchase order folders disclosed incorrect, incomplete, or missing documentation. Further, AMS field offices did not submit their quality assessment samples when required to ensure the national office performed its review in a timely manner. This occurred because AMS did not have procedures in place that detail the requirements for its file review and ensure the commodity samples were submitted and reviewed according to its policy. As a result, there is reduced assurance that products furnished to nutrition assistance programs met commodity standards for USDA purchases.

The USDA General Procedures Manual²³ states, in part, that AMS will continually evaluate the adequacy and effectiveness of its services.²⁴ To accomplish this, "AMS inspectors visit processing plants to sample goods—either before or after packaging—to ensure quality and compliance with purchase order stipulations." Inspectors send additional samples to AMS field offices, regional office, and the national office for verification of grading.

According to AMS policy, inspectors collect documents such as product codes, grading sheets, certificates of quality and condition, certificates of loading, and a purchase order checklist, to ensure the processing plants adhere to commodity specifications. Inspectors place these documents in purchase order folders, which are filed at AMS field offices or plant locations. The field offices are required to review approximately 25 percent of all purchase orders folders for accuracy and completeness.²⁵ This review ensures that the inspection process is completed according to the policies in the USDA Purchases Manual and that processing plants are complying with purchase order stipulations.

We interviewed AMS field office staff to determine how periodic reviews of USDA purchase order folders were conducted and documented, and whether product quality assessment reviews were performed in a timely manner. However, AMS officials could not provide documentation of their periodic file reviews. In addition, we examined purchase order folders from FYs 2013 and 2014, and found that some documentation was missing, incomplete, and inaccurate. We also determined that commodity samples were not shipped to the national office in a timely manner, which may have delayed verification of inspectors' grading practices.

²³ This manual refers to the Specialty Crop Inspection (SCI) Division, because in October 2012, AMS combined the Fresh and Processed Products Divisions into one division called the Specialty Crop Inspection Division. Per AMS personnel, the Processed Products Division manuals used by inspectors are current AMS policies, but do not reflect the October 2012 name change.

²⁴ USDA General Procedures Manual, "Review Programs," (July 2013).

²⁵ USDA Purchases Manual, "Documentation Reviews," (May 2012).

AMS Officials Did Not Perform the Required Periodic Reviews

Field offices are required to periodically review approximately 25 percent of USDA purchase order folders per year to ensure the files are complete and accurate.²⁶ We visited six AMS field offices to determine if the reviews of purchase order folders were completed for FYs 2013 and 2014. We found that five of the six offices did not adhere to the policy. The OICs at these five locations said they conducted the reviews; however, documentation was not provided to substantiate the actions the OICs performed. For example, one OIC stated that he conducted a visual review. Another OIC stated that he initialed and signed the purchase order checklist, but there was no evidence of his review of the files. In the absence of supporting documentation, we concluded the periodic reviews were not done according to policy for FYs 2013 and 2014.

In contrast, one field office was able to provide documentation of the required periodic file review; we were informed by the OIC at that location that procedures for documenting periodic file reviews had not been provided by the national office. Accordingly, the OIC developed his own methodology to clearly document the periodic file review.

Purchase Order Folders Contained Inaccurate, Incomplete, or Missing Documentation

Due to the lack of documentation to substantiate that the required periodic file reviews had been performed by the OICs, we reviewed a sample of 112 purchase order folders from FYs 2013 and 2014 to determine if the files were accurate and complete. We based the sample selection on factors such as dollar value and types of commodities processed by the plant. In 42 instances we found that files contained incorrect and incomplete documents. Specifically, we found 30 files that contained incorrect certificates of quality and condition and/or certificates of loading, and another 12 files that had incorrect and incomplete grading sheets. In addition, we found 9 of these folders were missing documentation to support: (1) trace-back determinations (2) score sheets and (3) that review samples were submitted.

The certificate of quality and condition shows that the product has been graded by AMS to the contract specifications and is ready for shipping. The certificate of loading shows that the product has been shipped based on a certificate of quality and condition. The USDA Certification Manual states that it is essential that all documents and records from which certificates are prepared are complete, legible, and accurate because inspection certificates can be used as prima facie evidence²⁷ in courts of law.²⁸ The absent or faulty documents could cause problems for AMS should legal issues arise.

²⁶ USDA Purchases Manual, "Documentation Reviews," (May 2012).

²⁷ The term "prima facie evidence" means such evidence will be sufficient for the proof of a particular fact until contradicted by superior evidence.

²⁸ Certification Manual, "Source of Information," (July 2012).

AMS Officials Did Not Perform the Required Quality Assessment Reviews in a Timely Manner

For every USDA purchase order, field office inspectors are required to submit two review sample units (e.g., two cans of applesauce) to the national office at the beginning of the shipping period.²⁹ Once the sample is received, the national office grades the product to determine if the product was graded correctly by the original inspector. In cases of non-concurrence, a written explanation of the finding is sent to the field offices for corrective action. In our review of 46 of the 112 purchase order folders in our sample, we found that review samples had been submitted anywhere from 1 month to 19 months after the order's shipping period had started. We also determined that documentation was missing to support that review samples had been submitted.

Specifically, we found that in 16 of the 46 purchase order folders, the commodity review samples were submitted after the scheduled shipping period. For example, a review sample of frozen peaches was still at the field office 19 months after the beginning of the shipping period. The field office staff stated that it planned to ship the product within the next week. For the other 15 cases, based on information contained in the check-loading ledger, we determined the review sample submittal had been sent to the national office at least 1 month after the beginning of the shipping period.

For the remaining 30 purchase order folders, we could not verify whether samples had been submitted at all, because the review sample submittal sheets were missing from the purchase order folder, contrary to the requirements of the purchase order checklist.

Field office staff stated that staff shortages and office workloads were the primary reasons for the delayed submissions. However, we attributed the delays to the lack of adequate procedures that could alert the national office to overdue samples. The national office had no method to determine when review samples were due; therefore, it could not follow up when review samples were missing or late.

The commodity sample reviewed by the various offices is an important control to ensure consistency in grading among inspectors. If not performed on time, it could undermine AMS' quality assurance policy for the provision of quality products to recipients. We believe that AMS needs to develop a method to document when commodity samples are due, and when samples are late.

AMS policies require inspectors to conduct periodic file reviews and product quality assessment reviews to ensure compliance with purchase order stipulations. However, we found that a majority of the field offices we visited did not have any evidence to support that these reviews occurred. The lack of defined procedures reduces assurance that products furnished to nutrition assistance programs comply with commodity standards for USDA purchases. We recommend that AMS develop procedures to ensure these controls are working as the policies intended.

²⁹ USDA Purchases Manual, "Submittal of Review Samples," (May 2012).

Recommendation 4

Require AMS to develop procedures to ensure OICs are documenting their review of the purchase order folders including the corrective action taken when documentation is incorrect, incomplete, or missing.

Agency Response

In its January 13, 2016, response, AMS stated that:

SCI will institute a new process for the SCI national office to conduct quarterly reviews of at least 25 percent of all contract folders annually. These reviews will include ensuring that OICs correctly and fully document their reviews of purchase order folders, including corrective actions taken when documentation is incorrect, incomplete, or missing.

SCI will also develop and deliver a training module to SCI managers, senior managers, and OICs on how to conduct and document reviews. Through the above-cited Train-the-Tracer training and the new management review process, SCI will re-educate OICs about the procedures for carrying out and documenting reviews, which are set forth in the USDA Purchases Manual, “Domestic Origin Requirements,” pages 5-8. SCI will conduct a review of all USDA contract folders (underway), and use the findings of the review to develop training that will address the specific areas that are in need of improvement.

AMS provided an estimated completion date of August 2016 for these actions.

OIG Position

We accept management decision on this recommendation.

Recommendation 5

Require AMS to develop procedures to ensure inspectors in the field offices send the commodity samples for assessment reviews when due and develop a flag system at the national level to detect when commodity samples have not been sent in.

Agency Response

In its January 13, 2016, response, AMS stated that:

SCI is enhancing its SP site to include a folder for each area office that will contain the results of the national office reviews and necessary follow-up actions, including timeframes for the latter. Each Regional Branch Chief will be required to follow-up if discrepancies are found. In addition, SCI will revise the USDA Purchases Manual, “Submittal of Review Samples,” pages 47-50, to clearly delineate sample submittal

timeframes that coincide with the increased levels of production. The revised instruction in the USDA Purchases Manual will include procedures for verifying proper sample submission and for notifying headquarters of non-compliances. This process will be included in the annual reviews of 25 percent of all contract folders.

AMS provided an estimated completion date of May 2016 and November 2016 for these actions.

OIG Position

We accept management decision on this recommendation.

Section 3: Quality Assurance Program

Finding 4: AMS Needs to Improve Its Oversight of the Quality Assurance Program

AMS field offices did not adequately oversee QAP processing plants which led to inconsistencies in the frequency of inspector rotation, maintenance of documentation, and annual reporting. This occurred because the AMS national office had not evaluated the program to determine whether field office staff adhered to monitoring procedures or identified deficiencies and areas of improvement. If AMS does not strengthen its oversight of the program, it increases the risk that products processed at QAP processing plants may not meet USDA standards.

The intent of QAP is to reduce the personnel needed by AMS by increasing its reliance on the results of an approved processing plant's internal quality control program that is designed to ensure the safety and uniformity of its products.³⁰ QAP is unique from other AMS inspection services in that processing plant employees—rather than AMS inspectors—determine the grade, quality, and condition of commodities. Plant employees also conduct regular inspections of the facilities for safety and sanitation. An AMS on-site inspector is stationed at each processing plant to provide program oversight and conduct spot checks of the plant's inspection activities.

AMS has controls in place to ensure QAP operates effectively, such as periodic rotation of inspectors, verification work plans,³¹ annual reporting, and contract agreements with plant management. One of AMS' goals is uniformity in applying rules, procedures, and standards;³² however, through our review of the three field offices managing the 20 QAP processing plants nationwide, there were inconsistencies in the monitoring of these plants, which are discussed below.

AMS Did Not Periodically Rotate Inspectors

The AMS manual requires that inspectors assigned to a processing facility continuously for five years or longer have their assignment location evaluated annually by the field office's OIC and submitted to the regional office for approval. If an extension is not granted, then the inspector will be reassigned to another duty station. If field offices elect not to rotate their inspectors, the annual justification requires the field office to provide specifics on how increased supervision or verification of the inspectors' work will be accomplished.³³

³⁰ Quality control is the process of establishing, securing, and maintaining a level of quality of a product that is satisfactory, adequate, dependable, and economical. Quality control programs involved in the program are required to meet USDA standards.

³¹ A verification work plan provides specific instructions for the processing plant's QAP policies.

³² USDA AMS, Fruit and Vegetable Program Processed Products Branch Management Procedures, "Supervisory Visits and Reviews" (July 2011).

³³ USDA Fruit and Vegetable Programs Processed Products Branch Manual, "Approval for In-Plant Assignments of Five Years or Longer" (January 2011).

Periodically rotating inspectors to other job assignments and duty stations helps ensure objectivity and independence; however, we found that inspectors stationed in the six QAP processing plants in the Western Region were not rotated to new duty stations.³⁴ For example, one inspector had been assigned to the same processing plant for over 18 consecutive years, without changing duty stations. Furthermore, if inspectors are not rotated, the annual justification requires increased supervision of inspectors' work. For the six Western Region processing plants there was no evidence of increased oversight by the field offices.

When we asked staff at the Western Region field offices why they did not rotate inspectors, they stated that relocation is cost prohibitive and that inspectors working at QAP plants develop skill sets that other inspectors do not have. Regional office staff stated that they typically concur with the field offices' justifications because they are more knowledgeable about the plants and inspectors. However, the Western Region field offices did not provide any specifics on how monitoring would increase, and the annual justifications were approved by the regional office without ensuring this.

AMS inspectors assigned to QAP processing plants work on year-round assignments that can last for several years. If inspectors are not periodically rotated, it could result in objectivity or independence issues, perceived or actual.³⁵ Rotation of duties also provides cross training, which aids in succession planning. As permanent reassignment may be costly, increased oversight by the field and regional offices should be a priority. Therefore, AMS should strengthen its oversight by adding procedures requiring field offices that do not rotate its inspectors, to provide an action plan of detailing how monitoring will increase and requiring the regional office to verify that this was accomplished.

AMS Inspectors Did Not Review Verification Work Plans

The Quality Assurance Program Manual requires the AMS on-site inspector to review the verification work plan periodically and submit changes to the AMS field and regional offices for approval.³⁶ However, the six QAP processing plants in the Western Region did not have a documented review of the verification work plans and in one instance, a processing plant did not have a verification work plan at all.

The on-site AMS inspector develops the processing plant's verification work plan and sends it to the field and regional offices for review. These work plans must be continuously reviewed and updated by AMS to ensure uniformity and proper monitoring of the program. However, there were no records to indicate that the verification work plans for the Western Region plants had been updated by the on-site inspector or

³⁴ Our review of the 14 processing plants in the Eastern Region revealed that on-site inspectors were rotated at least every 5 years.

³⁵ AMS inspectors are expected to make decisions based on sound judgement and consistent application of criteria and/or standards. A third party receiving an unfair advantage or preferential treatment is a potential risk when inspectors are not periodically rotated.

³⁶ USDA Quality Assurance Program Manual, "Guide for QAP Verification Work Plan" (July 2012).

undergone a review at the field or regional offices for the past several years. This occurred because AMS has no procedures in place to ensure that inspectors and field offices adhere to the policy. If verification work plans are not periodically reviewed and tested for accuracy, inspectors could potentially use outdated instructions that do not comply with current standards.

To ensure compliance, the Eastern Region field office requires inspectors to annually certify to the field and regional offices that they reviewed the verification work plan and that all the information is current. This certification provides assurance that changes to the plan are documented and submitted to the field and regional office for approval. When changes are made to the plan, a copy is sent to the field office for review.

To improve QAP oversight, AMS needs to add procedures to the Quality Assurance Program Manual to ensure that verification work plans are reviewed consistently. This can be accomplished by requiring a documented annual work plan certification by inspectors stationed at QAP plants and submitting any updates or revisions to field and regional offices for review. In addition, the National office should conduct spot checks to test that verification work plans are in place and have undergone the required review.

AMS Did Not Ensure All Annual Reports Were Submitted or Contained Sufficient Information

Annual reports provide information on how well processing plants' quality control programs worked during the previous year. The AMS on-site inspector is required to submit an annual report to the field, regional, and national offices shortly after the end of the calendar year. In our review of the 2012 and 2013 annual reports from the 20 QAP plants, we discovered that 3 reports from 2 plants in the Western Region had not been submitted.

Although these reports are required annually, AMS does not have procedures to ensure that these reports are submitted timely or at all. When asked about the missing reports, AMS field office staff stated that the inspectors assigned to the plants had retired and did not submit annual reports for those years.

Furthermore, one of the most important elements of the QAP annual report is its summary of deviations.³⁷ We found that 32 of the 37 submitted annual reports did not supply the dates of major deviations that occurred throughout the year or any other identifying information.³⁸ This omission prevents a reviewer from easily researching the problem and obtaining more information from the QAP daily inspection forms.³⁹ Although it is not required by the Quality Assurance Program Manual, access to this

³⁷ Deviations are the differences between the AMS inspector's inspection results and those of the processing plant's internal quality control program.

³⁸ We reviewed 37 annual reports submitted by in-plant inspectors at the 20 QAP plants for 2012 and 2013.

³⁹ AMS on-site inspectors complete daily inspection forms that list deviations, their causes and the plant's corresponding corrective action.

information is important; the type, severity, and frequency of deviations could result in putting the plant on probationary status or removal from QAP.

To improve the effectiveness of the annual reports, AMS needs to add procedures to the Quality Assurance Program Manual to ensure that all annual reports are submitted and reviewed by field, regional, and national offices. In addition, AMS should require that dates of major deviations be added to the summary of deviations section of the annual report.

Contract Agreements with Plant Management Were Outdated

AMS contract agreements with plant management define each party's roles and responsibilities. These contracts are maintained by the AMS field office and renewal is required every 3 years, at minimum.⁴⁰ Our review of the 20 QAP contract agreements with plant management revealed that the six Western Region processing plants were using outdated contracts with terms ranging from 4 years to indefinite periods. One contract agreement had been signed over 25 years ago, without any subsequent updates. Another contract had been expired for over a year when we performed our initial review.⁴¹

The two field offices managing those plants were not using the current Quality Assurance Program Contract Agreement Instructions released in August 2012. One Officer-In-Charge (OIC), responsible for two plants, stated that he was unaware of the current instructions and was using outdated contracts from May 1986 and February 2005. The other OIC, responsible for four plants, was using an outdated contract from March 2005.

QAP processing plants have more responsibilities than a typical plant in that AMS places more reliance on their internal quality control programs. In return, AMS must ensure that plant management understands their contractual obligations as a participant, such as ensuring that they follow food safety regulations and good manufacturing practices. Therefore, AMS needs to review the QAP contract agreement instructions and distribute updated guidance that incorporates periodic reviews by regional office staff to ensure consistency. In addition, as part of the annual reporting process, AMS should require field offices to ensure that contract agreements with plant management are up-to-date.

It is AMS' policy to continually evaluate the adequacy and effectiveness of its services.⁴² Although QAP was established in the 1970s, the AMS national office has not performed an assessment to determine if QAP was operating as intended. Periodically evaluating its inspection services is important, especially for QAP processing plants; if these plants are not adequately monitored, there is the inherent risk that plant management could pressure its staff to make determinations based on the best interests of the company. Therefore, AMS must ensure that the

⁴⁰ Form FV-370E, "Application and Contract for Pack Certification Service" (August 2012).

⁴¹ This contract was subsequently renewed after our initial review. However, the field office used an incorrect template that had been released in March 2005.

⁴² USDA General Procedures Manual, "Review Programs," (July 2013).

processing plants' quality control programs remain independent and objective or there is the risk that products processed at QAP processing plants may not meet commodity USDA standards.

AMS national officials agreed with our findings and stated that oversight can be improved to ensure consistency. In addition, they stated that they had intended to conduct an evaluation of QAP in 2012; however, due to other priorities, such as the reorganization of the Fresh and Processed Products Divisions, the review was not performed.

In conclusion, any inspection program, especially one that relies on a company's internal quality control program, should have effective controls that are consistently administered. Our audit of QAP revealed that oversight needs to be strengthened and consistently applied across the program. Therefore, AMS needs to perform an assessment of QAP to ensure uniformity in the application of rules, procedures, and standards and identify deficiencies and areas of improvement. In addition, AMS needs to develop procedures to improve its monitoring of inspector rotation, verification work plans, annual reporting, and contract agreements.

Recommendation 6

Perform a review of the Quality Assurance Program (QAP) to ensure uniformity in the application of rules, procedures, and standards. Identify deficiencies and areas for improvement.

Agency Response

In its January 13, 2016, response, AMS stated that:

SCI will complete a review of the QAP Manual to ensure uniformity and consistency in the nationwide application of the program. In addition, SCI will establish a team comprised of headquarters and field staff to review locations currently under QAP contracts to identify any issues related to program implementation. This review will include, but not be limited to, assessing uniformity of inspection procedures, recordkeeping, contractual agreements, annual reporting, and inspector rotation.

AMS provided an estimated completion date of November 1, 2016, for these actions.

OIG Position

We accept management decision on this recommendation.

Recommendation 7

Develop procedures that require field offices that do not rotate their inspectors to provide an action plan of how monitoring will be increased and for the regional office to verify that this was accomplished.

Agency Response

In its January 13, 2016, response, AMS stated that:

SCI will revise the Employee Rotation Policy to include specific criteria and reporting requirements for OICs' annual assessments of the performance of inspectors who are not rotated. In addition, SCI will establish a database of inspection personnel that will include their tenure at each work location to ensure appropriate rotation of personnel.

AMS provided an estimated completion date of June 2016 for these actions.

OIG Position

We accept management decision on this recommendation.

Recommendation 8

Develop procedures that require documented annual certifications of inspectors' review of verification work plans with updates or revisions submitted to the field and regional offices for approval. Include spot checks by the national office to test that verification work plans are in place and have undergone the required review.

Agency Response

In its January 13, 2016, response, AMS stated that:

Procedures are needed to document and verify annual certification of inspectors' reviews of verification work plans. The Quality Assurance Program Manual (July 2012), pages 71-95, contains current procedures for documenting annual certifications of inspectors' review of its verification of work plans. SCI will incorporate these procedures into the revised QAP Manual to promote uniformity of field, regional, and national offices.

AMS provided an estimated completion date of August 2016 for this action.

OIG Position

We accept management decision on this recommendation.

Recommendation 9

Develop procedures to ensure that all annual reports are submitted and reviewed by field, regional, and national offices.

Agency Response

In its January 13, 2016, response, AMS stated that:

AMS concurs that procedures are needed to ensure that all annual reports are properly submitted and reviewed. As reiterated in a March 10, 2015, internal memorandum, QAP requires that each facility's QAP manual and verification plan be updated through the year with applicable changes, and copies be sent to SCI management. The memorandum also reiterated SCI's policy requiring reviews of current QAP work plans, manuals, and documented required approvals to ensure uniformity and proper monitoring of the program. The above information is certified in writing by SCI inspectors. SCI will finish revising instructions that will update reporting guidance for both fresh and processed products.

AMS provided an estimated completion date of August 2016 for this action.

OIG Position

We accept management decision on this recommendation.

Recommendation 10

Develop procedures specific to QAP annual reports that require documentation of dates for each major deviation throughout the year.

Agency Response

In its January 13, 2016, response, AMS stated that:

SCI will develop and include in the QAP manual a procedure for documenting recorded major deficiencies in QAP annual reports.

AMS provided an estimated completion date of August 2016 for this action.

OIG Position

We accept management decision on this recommendation.

Recommendation 11

Review QAP contract agreement instructions and distribute updated guidance that incorporates periodic reviews by regional office staff to ensure consistency.

In its January 13, 2016, response, AMS stated that:

SCI will incorporate and implement updated criteria, timelines, and formats of periodic regional office reviews of the program. SCI is establishing a team of technical and management experts to review the QAP Program and provide recommendations for improvement, including how to incorporate regional office reviews into the program.

AMS provided an estimated completion date of August 2016 for this action.

OIG Position

We accept management decision on this recommendation.

Recommendation 12

As part of the annual reporting process, require field officers to ensure that contract agreements with plant management are up-to-date.

Agency Response

In its January 13, 2016, response, AMS stated that:

SCI currently is reviewing all contracts with the industry. Upon completion of this review, SCI will revise and update all contracts with the industry as necessary. Subsequent to this initial review, SCI will require regional and/or National-level reviews of contracts annually.

In a subsequent response received on January 15, 2016, AMS stated they would complete this action by January 2017.

OIG Position

We accept management decision on this recommendation.

Scope and Methodology

We conducted an audit of AMS' CPS and SCI Division's processes related to the Fruits and Vegetables Program during FYs 2013 - 2014.⁴³ We reviewed CPS to evaluate its management of procurement contracts and funds; the SCI Division to evaluate its inspection policies; and the QAP Division to evaluate its management and oversight practices. We performed fieldwork at the AMS national office, 2 regional offices, 6 field offices, and 30 processing plants. In addition, we visited 3 field offices and 10 processing plants for the QAP program. We conducted fieldwork from March 2014 through May 2015.

The CPS awarded 2,153 procurement contracts totaling nearly \$1.4 billion for the Fruits and Vegetable Program in FYs 2013 and 2014. From these contracts, we non-statistically selected 32 purchase orders, worth a total of nearly \$20.4 million, to determine if contracts were procured according to USDA standards. We selected the purchase orders using a random number generator applied to each fiscal year. We then sorted the data by random numbers from smallest to largest and selected the first 16 smallest random numbers from each year.

We non-statistically selected 6 SCI field offices based on the following: (1) dollars processed by each field office, (2) number of purchase orders, and (3) geographical location. We visited 30 processing plants (all operated under the purview of our 6 selected field offices) based on operating activities. At these field offices we non-statistically selected for review 112 purchase orders folders from FYs 2013-2014, worth \$118.2 million, to ensure inspection policies were followed. In selecting up to five purchase orders we considered factors such as dollar value and types of commodities.

In addition, we reviewed and analyzed supporting documentation pertaining to all 20 QAP processing plants nationwide to evaluate AMS' management and oversight of the program.⁴⁴ We performed fieldwork at the 3 field offices that managed QAP processing plants, and based on production schedules, selected 10 of the 20 QAP processing plants for site visits—6 QAP plants in the Western Region and 4 active plants in the Eastern Region.

To accomplish our audit, we performed the following steps and policies:

- **Reviewed criteria:** We reviewed pertinent laws, regulations, and policies that govern the AMS Fruits and Vegetable Program. This included the Federal regulations governing AMS' Processed Fruits and Vegetables Program, the FAR, Agriculture Acquisition Regulation, Office of Management and Budget policies, and AMS procurement and inspection policies.
- **Interviewed AMS officials:** We interviewed national, regional, and field office staff, and inspectors in the field to gain understanding of AMS' procurement and inspection processes and to determine if AMS' controls were adequate.

⁴³ For the closing of contracts, we expanded our scope to include data from WBSM since its launch which included FYs 2011 and 2012.

⁴⁴ The 20 QAP facilities represented the entire universe of facilities participating in the QAP program.

- **Reviewed WBSCM:** We reviewed the commodity procurement information system to understand its access controls and to determine whether the data were accurate and updated in a timely manner. We also included Livestock, Poultry and Seed Program in the scope of Finding 1, since timely de-obligation of funds is integral to AMS system of procurement (WBSCM) and is required by Federal budgetary practices. We obtained read-only access to WBSCM to verify the universe of purchase orders. OIG did some testing on the general and application controls to ensure that WBSCM was working properly, but did not do a complete general and application control review. We did not find any issues.
- **Analyzed regional offices management reviews:** We analyzed management reviews of field offices to assess its oversight of the inspection processes.
- **Analyzed 32 purchase orders (CPS):** Using a number generator, we randomly selected and analyzed documentation of 32 purchase orders from a universe of 1,452 purchase orders, which were awarded for Fruits and Vegetable Program in FYs 2013-2014 to determine if procurement staff properly awarded, monitored, and closed out the purchase orders in accordance with FAR and contract stipulations.
- **Analyzed 112 purchase order files (SCI):** At the field offices, we analyzed documentation supporting 112 purchase order folders to determine if inspectors (1) timely and effectively inspected the processing plants and products (2) accurately reported the inspection results in the certificates and (3) maintained inspection records.
- **Visited 30 processing plants:** We visited and conducted a walk-through in 30 of 127 processing plants to assess if the plants' sanitation procedures adhered to the industry's good manufacturing practices.⁴⁵ In addition, we observed the AMS inspector conducting sanitation inspections, grading inspections, and check-loading inspections verifying that the quality and quantity of the product met contract requirements.
- **Visited 10 QAP processing plants:** We visited and conducted a walk-through in 10 of 20 QAP plants. We interviewed the AMS inspectors on QAP related matters and collected supporting documentation for further analysis.
- **Analyzed 20 QAP plants supporting documentation:** We analyzed the QAP processing plant files for each of the 20 plants nationwide which included contracts between AMS and plant management, verification work plans, and annual reports submitted by inspectors for FYs 2012-2013. We also reviewed AMS inspectors' assignment logs and field office justifications for inspectors being assigned to the same location for over 5 years.
- **Reviewed field office billing process:** Through interviews and review of supporting documentation, we gained understanding of AMS inspection division billing processes.

⁴⁵ There were 127 processing plants that had USDA purchase orders in FY 2013 and/or 2014.

- **Reviewed prior OIG reports:** We reviewed prior OIG audit reports relating to AMS procurement and inspection processes to follow up on prior audit findings.
- **Reviewed inspectors' training records:** We reviewed inspectors' training records and training requirements to determine whether inspectors received the mandatory basic level of inspection training as required by AMS policy.

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.

During the course of our audit, we (1) verified information in WBSCM electronic information systems and (2) tested internal controls to ensure that processed fruits and vegetables were procured in compliance with Federal purchasing regulations, and processing plants and products were timely and effectively inspected.

We make no representation regarding the adequacy of any agency computer system or the information generated from it. Also, nothing came to our attention to indicate that internal controls were not operating as prescribed.

Abbreviations

AMS.....	Agricultural Marketing Service
CPS.....	Commodity Procurement Staff
DOV.....	Domestic Origin Verification Program
FAR.....	Federal Acquisition Regulation
FY.....	Fiscal Year
FNS.....	Food and Nutrition Service
OIC.....	Officer-in-Charge
OIG.....	Office of Inspector General
QAP.....	Quality Assurance Program
SCI.....	Specialty Crop Inspection Division
USDA.....	United States Department of Agriculture
WBSCM.....	Web-Based Supply Chain Management

Exhibit A: Summary of Monetary Results

Finding Number	Recommendation Number	Description	Amount	Category¹
1	1	CPS did not conduct closing procedures and de-obligate excess funds.	\$19,652,098	FTBPTBU: De-obligations
2	3	Purchase orders with inadequate or no documentation to support domestic origin.	\$34,730,513	Questioned Costs – No Recovery
Total Monetary Results			\$54,382,611	
¹ FTBPTBU is “funds to be put to better use.”				

Exhibit B: Audit Sites Reviewed

Organization	Location
AMS National Office (Headquarters)	Washington, DC
AMS Regional Offices Western Regional Office Eastern Regional Office	Fresno, CA Glen Ellyn, IL
AMS Field Offices 1 2 3 4 5 6	Fresno, CA Covina, CA Yakima, WA College Park, GA Hunt Valley, MD Oshkosh, WI
Processing Plant Sites 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30	Fresno, CA Fresno, CA Fresno, CA Atwater, CA Watsonville, CA Santa Maria, CA Indio, CA Riverside, CA Ontario, CA Phoenix, AZ Yakima, WA Royal City, WA Pasco, WA Weston, OR Stayton, OR Hendersonville, NC Effingham, SC Gaston, SC Alma, GA Newman, GA Hanover, PA Biglerville, PA Northumberland, PA Lebanon, PA Cambridge, MD Beaver Dam, WI Ripon, WI Plover, WI Markesan, WI Plover, WI

AMS Field Offices – QAP Program	
1	Winter Haven, FL
2	Stockton, CA
3	Yakima, WA
Quality Assurance Plant Sites	
1	Oroville, CA
2	Woodland, CA
3	Lodi, CA
4	Modesto, CA
5	Ellensburg, WA
6	Vancouver, WA
7	Lake Wales, FL
8	Auburndale, FL
9	Auburndale, FL
10	Lake Wales, FL

**USDA'S
AGRICULTURAL MARKETING SERVICE'S
RESPONSE TO AUDIT REPORT**



1400 Independence Avenue, SW
Room 3071-S, STOP 0201
Washington, DC 20250-0201

DATE: January 13, 2016

TO: Steve Rickrode
Deputy Assistant Inspector General for Audit
Office of Inspector General

FROM: Erin Morris /s/
Associate Administrator, Chief Operating Officer

SUBJECT: Agricultural Marketing Service (AMS) Response to OIG Audit #01601-0001-41:
“AMS Procurement and Inspection of Fruits and Vegetables”

We have reviewed the subject audit report and agree with the recommendations. Our detailed response, including actions to be taken to address the recommendations, is attached.

If you have any questions or need further information, please contact Frank Woods, Internal Audits Branch Chief, at 202-720-8836.

Attachment

AMS Response to Office of Inspector General (OIG) Audit #01601-0001-41: AMS Procurement and Inspection of Fruits and Vegetables

The Agricultural Marketing Service (AMS) appreciates the OIG's thorough assessment of USDA's process for procuring and inspecting fruits and vegetables for the National School Lunch Program and other feeding programs. AMS is pleased to note that OIG did not identify any food safety incidents or cases in which USDA did not purchase products of domestic origin. In addition, AMS has already begun implementing some of OIG's recommendations.

We have reviewed the Official Draft OIG report. AMS agrees with the OIG's recommendations, which will enhance the oversight of the inspection programs and other management processes. Responses to each OIG recommendation, and AMS's action plan to develop and implement the cited improvements, are outlined in this document.

Background:

AMS's mission is to facilitate the competitive and efficient marketing of domestic agricultural products. The Agency's Commodity Procurement Program supports that mission by providing an outlet for surplus products and encouraging domestic consumption of domestic foods. AMS purchases a variety of food products in support of the National School Lunch Program and other food assistance programs. AMS also conducts contracting activities on behalf of the Food and Nutrition Service (FNS), which works to combat hunger and strengthen our nation's food and nutrition safety net. AMS Commodity Procurement Staff (CPS) purchases fruits, vegetables, meat, poultry, eggs and fish from farmers and companies located in the United States.

In fiscal year (FY) 2013-2014, CPS purchased nearly \$3.1 billion in domestic agricultural products: \$1.4 billion of fruits and vegetables; and \$1.7 billion of livestock, poultry, and other products. CPS procured more than 150 different kinds of fruit and vegetable products alone; 87 percent were processed products (e.g., canned, frozen, bottled juice and dried fruits), and the remaining 13 percent were fresh products (e.g. apples, oranges, and carrots)¹. To make these purchases, AMS works with and provides inspection services for 95 vendors who receive contracts to provide different fruit and vegetable items, including canned fruits and vegetables, fruit juices, frozen fruits, vegetable juices, frozen vegetables, dried vegetables, dried fruits, dry beans, and fresh fruits and vegetables.

AMS's Specialty Crops Inspection Division (SCI) provides a variety of services that support the Agency's fruit and vegetable purchases, including inspecting the fruits and vegetables AMS purchases, developing product specifications, conducting food safety audits, and verifying domestic origin. SCI was established in 2012 by merging previously independent fresh and processed products inspection organizational units. Since its inception, SCI has been methodically reviewing, consolidating, and streamlining its organizational procedures, policies, and even structure to improve service delivery and efficiency. As part of the evolution of this

¹ The Farm Service Agency's Domestic Division was merged into AMS CPS on July 24, 2015. The Domestic Division purchased dairy, grains, peanuts, and oils for the same Food and Nutrition Service nutrition programs. This consolidation added over 110 more products and \$450 million in yearly procurements to AMS CPS.

new organization, AMS is currently revising a broad range of administrative and technical procedures, including those highlighted in the OIG's report.

As OIG noted, SCI's activities in support of USDA's Commodity Procurement Program for Federal feeding programs, including the National School Lunch Program, have grown considerably in recent years. SCI is committed to continually improving its organizational structure, programs, and services to meet these expanding needs and our customers' expectations.

Finding 1: AMS Did Not Close Out Contracts Timely

Recommendation 1

Complete the closeout process for the 2,198 completed contracts cited in the finding, and de-obligate \$19,652,098 in funds associated with those contracts.

Agency response:

Current Status: AMS acknowledges that the 2,198 contracts with \$19,652,098 in associated funds should be closed and the funds de-obligated, and is taking appropriate measures to do so. The contracts were not closed in a timely fashion due to staffing shortages and the fact that the Federal Acquisition Regulation (FAR) procedures for contract closeout do not take into consideration the sheer volume of individual contracts / purchase orders that CPS generates on a yearly basis.

Action Items:

CPS will close the open contracts for FY 2011 through 2013 based on the following schedule:

- No later than June 30, 2016, close all outstanding contracts for FY 2012.
- No later than December 31, 2016, close all outstanding contracts for FY 2013.

Recommendation 2

Establish a procedure to review completed contracts and ensure the required contract closeout actions are performed according to CPS-PM-001.

Agency response:

Current Status:

AMS acknowledges that a procedure is needed to review completed contract closeout actions are performed according to CPS-PM-001.

Action Items:

- CPS will modify the current procedures in place to include verification that completed contracts are closed out according to its Policy Memo CPS-PM-001, Guidance on Contract Closeout.

- CPS Senior Contracting Officers will be responsible for ensuring that contract closeout progresses and providing the CPS Director a monthly status report regarding contract closeout activity.

Finding 2: AMS Could Not Trace Commodities Back to Domestic Producers

Recommendation 3

Require Officers-in-Charge (OICs) to obtain documentation and include a narrative in the purchase order folder that supports AMS's trace-back determination. Also, ensure that documentation is maintained in the purchase order file.

Agency response:

Current Status: AMS acknowledges that more consistent documentation and procedures are needed to trace commodities back to domestic producers. At the same time, AMS notes that OIG did not find any cases in which products were shown to be of foreign origin. AMS procedures already require verification of domestic origin, but the agency will do more to ensure these practices are fully implemented. SCI requires its OICs to obtain documentation that supports AMS' trace-back determinations in compliance with the guidance set forth in the USDA Purchases Manual (May 2012), "Domestic Origin Requirements," pages 3-9, which states, in part:

"Code trace-back" is the documentation from contractors, subcontractors, and/or suppliers describing the processing of a product from the production code back to the grower(s). The contractor must have a system in place with adequate documentation to substantiate that the commodity delivered was derived from crops solely grown and processed in the United States. Verification of code trace-back is the review of the contractors trace-back documents substantiating the domestic origin of commodities intended for delivery of USDA purchase orders... The responsibility for compliance is the contractors, regardless of whether the product was processed in their facility or if it originated from other sources (subcontractors and suppliers).

In 2010, the CPS and the former Processed Products Branches (which is now part of SCI) met to discuss contractors' lack of cooperation with SCI inspectors on trace-back issues. As a result of this meeting, AMS issued a Notice to the Trade, Domestic Origin Requirement (September 16, 2010), that states:

"The burden of proof of compliance to the domestic origin requirement is on the contractor. ... It is the contractor's responsibility to submit a complete and detailed domestic origin trace to the government in a timely manner. The trace must be organized and contain a written explanation of each document, or group of documents. The trace and explanation must be presented in a logical sequence for the selected finished product lot code. The trace must present documentation that will go from the product code to the grower(s). Only documents relevant to the trace should be submitted."

Action Items:

- Effective immediately, AMS is strengthening enforcement of the 2010 Notice to The Trade by assigning SCI's Inspection Operations responsibility for ensuring that the contractors provide complete documentation. Any incomplete trace-backs will be returned to the contractor(s) by SCI for completion. If the contractor does not comply, SCI immediately will notify CPS, which will take action based on the guidance outlined in the Federal Acquisition Regulations, which could result in rejection of product.
- By late spring 2016, AMS will develop and deliver to SCI employees a Train-the-Tracer class that will cover: conducting thorough trace-backs; ensuring contractor compliance with trace-back responsibilities; reviewing trace-backs; and AMS' established process for conducting headquarters reviews of field trace-backs to support effective product traces. This will be mandatory training for SCI staff involved with the activities associated with commodity procurement.

Finding 3: AMS Needs to Strengthen Its Controls over the Fruits and Vegetables Program***Recommendation 4***

Require AMS to develop procedures to ensure OICs are documenting their review of the purchase order folders, including the corrective action taken when documentation is incorrect, incomplete, and missing.

Agency response:

Current Status: AMS acknowledges that we need to improve our procedures to ensure documentation of the review of purchase order folders, including corrective actions, when appropriate.

In accordance with the USDA Purchases Manual, OICs review each purchase order folder for every AMS-purchased product at field offices, inspection points, and plant locations, and document these reviews prior to signing and distributing any Certificates of Loading. This documentation is either an approved Code Trace-back Request Letter along with its supporting traceability documentation for those not participating in the Domestic Origin Verification (DOV) program, or a copy of an approved, current DOV certificate for those in the program.

In terms of oversight, a 2012 Memorandum of Understanding (MOU) with CPS gave SCI responsibility for all domestic origin reviews (among other responsibilities). SCI reviews all USDA purchase order folders for proper documentation, and SCI senior management reviews a random sample of 25 percent of all purchase order folders annually to ensure OICs properly review, document, and follow up on purchase order folders.

Action Items:

- By August 2016, SCI will institute a new process for the SCI national office to conduct quarterly reviews of at least 25 percent of all contract folders annually. These reviews will include ensuring that OICs correctly and fully document their reviews of purchase order

folders, including corrective actions taken when documentation is incorrect, incomplete, or missing.

- By August 2016, SCI will develop and deliver a training module to SCI managers, senior managers, and OICs on how to conduct and document reviews. Through the above-cited Train-the-Tracer training and the new management review process, SCI will re-educate OICs about the procedures for carrying out and documenting reviews, which are set forth in the USDA Purchases Manual, “Domestic Origin Requirements,” pages 5-8. SCI will conduct a review of all USDA contract folders (underway), and use the findings of the review to develop training that will address the specific areas that are in need of improvement.

Recommendation 5

Require AMS to develop procedures to ensure inspectors in the field offices send the commodity samples for assessment reviews when due and develop a flag system at the national level to detect when commodity samples have not been sent in.

Agency response:

Current Status: AMS concurs that the procurement process would be strengthened by clearer sample review procedures.

Sample submittal data currently are captured on an AMS SharePoint (SP) site, which notifies area offices when review samples have been examined and the disposition of that examination. All regional and area office supervisors are notified when the determinations are complete and review the posted information.

Action Item:

- By November of 2016, SCI will revise the USDA Purchases Manual, “Submittal of Review Samples,” pages 47-50, to clearly delineate sample submittal timeframes that coincide with the increased levels of production. The revised instruction in the USDA Purchases Manual will include procedures for verifying proper sample submission and for notifying headquarters of non-compliances. This process will be included in the annual reviews of 25 percent of all contract folders.
- In addition, SCI is enhancing its SP site to include a folder for each area office that will contain the results of the National Office reviews and necessary follow-up actions, including timeframes for the latter. Each Regional Branch Chief will be required to follow-up if discrepancies are found. The final enhancements to the SP site are expected by May 2016.

Finding 4: AMS Needs to Improve Its Oversight of the Quality Assurance Program

Recommendation 6

Perform a review of the Quality Assurance Program (QAP) to ensure uniformity in the application of rules, procedures, and standards. Identify deficiencies and areas for improvement.

Agency response:

Current Status: AMS concurs that a review of QAP is needed at this time, especially since SCI was previously two separate branches (fresh and processed) but is now a single division. SCI reviewed and revised the QAP in 2006, 2009, 2011 (when the program documentation was reformatted for posting on the Division's SP site), and, most recently, in 2012 to strengthen procedures for disqualifying a facility from the program.

Action Items:

- By November 1, 2016, SCI will complete a review of the QAP Manual to ensure uniformity and consistency in the nationwide application of the program.
- By November 1, 2016, SCI will establish a team comprised of headquarters and field staff to review locations currently under QAP contracts to identify any issues related to program implementation. This review will include, but not be limited to, assessing uniformity of inspection procedures, recordkeeping, contractual agreements, annual reporting, and inspector rotation.

Recommendation 7

Develop procedures that require field offices that do not rotate their inspectors to provide an action plan of how monitoring will be increased and require the regional office to verify that this was accomplished.

Agency response:

Current Status: AMS acknowledges that procedures are needed to ensure field offices rotate inspectors as required. SCI updated its Employee Rotation Policy in March 2015. The policy requires supervisors to “ensure that Agricultural Commodity Graders (ACGs) assigned to in-plant inspections, terminal market inspections and area office labs as well as State inspectors assigned to shipping points are rotated on a regular basis.” In terms of documentation and monitoring, the policy specifies:

ACGs assigned to a processing facility continuously for five years or longer must have their duty point (i.e., their in-plant assignment) evaluated annually by the Officer-in-Charge (OIC) and submitted to the appropriate Regional Branch Chief and then the Associate Director for Inspection Operations for approval. Any request for an extension beyond five years at one facility must be submitted by the OIC no later than January 31st of each year.

Action Items:

- By June 2016, SCI will revise the Employee Rotation Policy to include specific criteria and reporting requirements for OICs' annual assessments of the performance of inspectors who are not rotated.
- By June 2016, SCI will establish a database of inspection personnel that will include their tenure at each work location to ensure appropriate rotation of personnel.

Recommendation 8

Develop procedures that require documented annual certifications of inspectors' review of verification work plans, with updates or revisions submitted to the field and regional offices for

approval. Include spot checks by the national office to test that verification work plans are in place and have undergone the required review.

Agency response:

Current Status: AMS acknowledges that procedures are needed to document and verify annual certifications of inspectors' reviews of verification work plans. The Quality Assurance Program Manual (July 2012), pages 71-95, contains current procedures for documenting annual certifications of inspectors' reviews of verification work plans:

The Officer-In-Charge is responsible for preliminary approval of the work plan. If acceptable, the work plan is forwarded with a cover sheet documenting dates and appropriate signatures to the Regional Branch Chief for final approval. If the work plan fails to meet the criteria established, it will be returned to the field office for revision. The Regional Branch Chief will send a sample of the proposed work plans to the Division Director in the national office for spot checking (i.e. review and comment).

Action Item:

- By August 2016, SCI will incorporate the procedure outlined above into the revised QAP Manual to promote uniformity of field, regional, and national offices.

Recommendation 9

Develop procedures to ensure that all annual reports are submitted and reviewed by field, regional, and national offices.

Agency response:

Current Status: AMS concurs that procedures are needed to ensure that all annual reports are properly submitted and reviewed. As reiterated in a March 10, 2015, internal memorandum, QAP requires that each facility's QAP manual and verification plan be updated through the year with applicable changes, and copies be sent to SCI management. The memorandum also reiterated SCI's policy requiring reviews of current QAP work plans, manuals, and documented required approvals to ensure uniformity and proper monitoring of the program. The above information is certified in writing by SCI inspectors.

Action Item:

- By August 2016, SCI will finish revising instructions that will update reporting guidance for both fresh and processed products.

Recommendation 10

Develop procedures specific to QAP annual reports that require documentation of dates for each major deviation throughout the year.

Agency response:

Current Status: AMS concurs that additional documentation requirements in QAP annual reports will improve program oversight.

Action Item:

- By August 2016, SCI will develop and include in the QAP manual a procedure for documenting recorded major deficiencies in QAP annual reports.

Recommendation 11

Review QAP contract agreement instructions and distribute updated guidance that incorporates periodic reviews by regional office staff to ensure consistency.

Agency response:

Current Status: AMS concurs that a review of QAP contract agreement instructions is warranted.

Action Item:

- By August 2016, SCI will incorporate and implement updated criteria, timelines, and formats of periodic regional office reviews of the program. SCI is establishing a team of technical and management experts to review the QAP Program and provide recommendations for improvement, including how to incorporate regional office reviews into the program.

Recommendation 12

As part of the annual reporting process, require field offices to ensure that contract agreements with plant management are up-to-date.

Agency response:

Current Status: AMS concurs that field offices should ensure annually that contract agreements with plant management are up to date. We will strengthen this process by undertaking the following action items:

Action Items:

- SCI currently is reviewing all contracts with industry. Upon completion of this review, SCI will revise and update all contracts with industry as necessary.
- Subsequent to this initial review, SCI will require regional and/or National-level reviews of contracts annually.

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