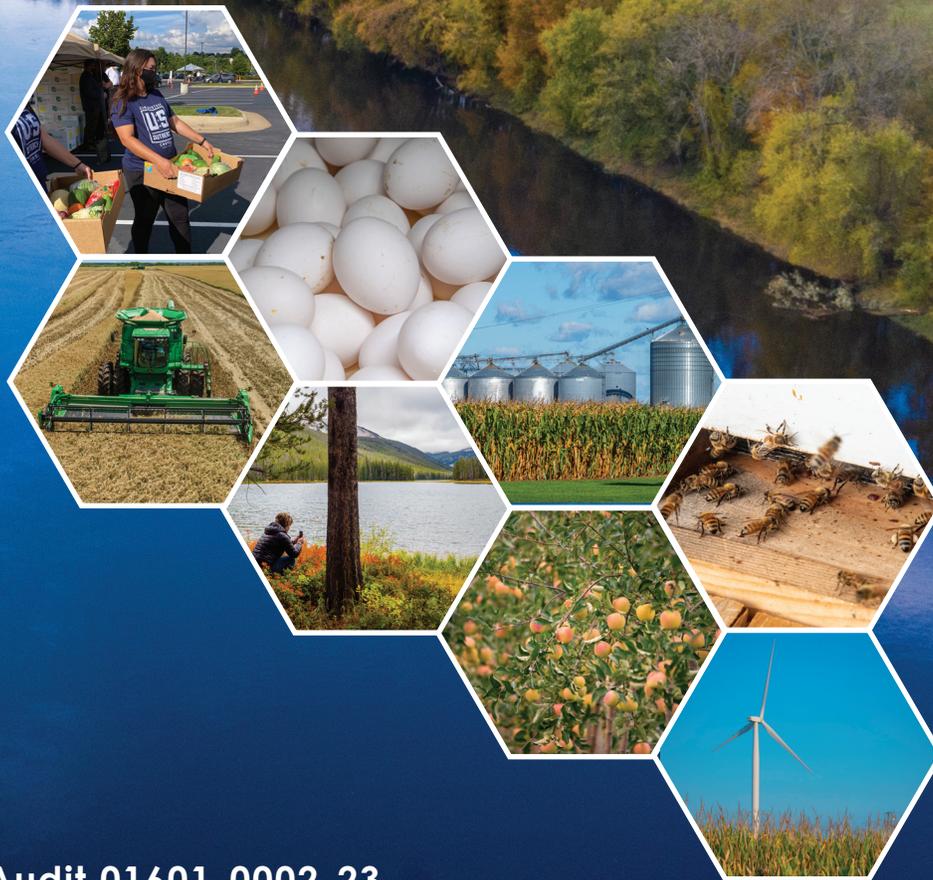


Agricultural Marketing Service Controls Over the Specialty Crop Block Grant Program



Audit 01601-0002-23

October 2020

OFFICE OF INSPECTOR GENERAL

IMPORTANT NOTICE

This report contains sensitive information that has been redacted for public release because it contains content that has been deemed privileged.

Agricultural Marketing Service Controls Over the Specialty Crop Block Grant Program

Audit Report 01601-0002-23

We identified and evaluated AMS' management controls over SCBGP.

OBJECTIVE

Our objectives were to identify and evaluate AMS' management controls over SCBGP.

Specifically, we evaluated the processes used by AMS to award and disburse grant funds to the States as well as AMS' and States' processes used to monitor the grants.

REVIEWED

We reviewed laws, regulations, policies, procedures, request for applications, State Plans, and SCBGP grant terms and conditions, as well as State financial management processes; interviewed relevant AMS national and State officials; and conducted site visits to the three State offices in our sample.

RECOMMENDS

We recommend that AMS strengthen existing controls over the grant program oversight process, obtain an Office of the General Counsel opinion regarding whether matching funds should be reported, ensure all States comply with SCBGP requirements, provide and reiterate guidance to the States about conducting reviews and risk assessments, and communicate to States the benefits of using administrative funds for oversight activities.

WHAT OIG FOUND

The mission of the Department of Agriculture's (USDA) Agricultural Marketing Service (AMS) is to facilitate the strategic marketing of the Nation's agricultural products in domestic and international markets. AMS works with a variety of organizations to support rural America and the Nation's agricultural sector by administering programs that improve domestic and international marketing opportunities, including the Specialty Crop Block Grant Program (SCBGP).

The Office of Inspector General (OIG) found that AMS awarded and disbursed SCBGP funds to the States, as required, to enhance the competitiveness of specialty crops. However, we found that both AMS and the States need to improve their processes used to monitor the grants. First, we found that AMS did not effectively oversee the States to ensure funds were expended in accordance with applicable laws and regulations. This occurred because AMS relied on the States to use their individual policies and procedures to identify grant issues instead of providing additional comprehensive Federal oversight. We also found that two of the three States in our sample did not adequately monitor SCBGP projects. Specifically, we found the two States did not perform risk assessments nor conduct reviews of the 20 projects in our sample. This occurred because the two States did not have any policies or procedures in place to perform risk assessments and conduct reviews. In addition, the two States had limited resources and elected not to use administrative funds to conduct the necessary monitoring.

AMS agreed with our recommendations, and we accepted management decision on the four recommendations.



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



DATE: October 6, 2020

AUDIT
NUMBER: 01601-0002-23

TO: Bruce Summers
Administrator
Agricultural Marketing Service

ATTN: Frank Woods
Chief, Internal Audits
Compliance Safety & Security Division

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Agricultural Marketing Service Controls Over the Specialty Crop Block Grant
Program

This report presents the results of the subject review. Your written response to the official draft is included in its entirety at the end of the report. We have incorporated excerpts from your response and the Office of Inspector General's (OIG) position, into the relevant sections of the report. Based on your written response, we are accepting management decision for all four audit recommendations in the report, and no further response to this office is necessary.

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 the Office of the Chief Financial Officer.

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 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 Department of Agriculture's (USDA) Agricultural Marketing Service (AMS) is to facilitate the strategic marketing of the Nation's agricultural products in domestic and international markets. AMS conducts its mission while ensuring fair trading practices and promoting a competitive and efficient marketplace to benefit producers, traders, and consumers of U.S. food and fiber products. AMS works with a variety of organizations to support rural America and the Nation's agricultural sector by administering programs that improve domestic and international marketing opportunities. The AMS Transportation and Marketing Program's Grants Division (Grants Division) oversees 10 grant programs, including the Specialty Crop Block Grant Program (SCBGP).

Congress established SCBGP in the Specialty Crops Competitiveness Act of 2004 (Act) and amended the program in the 2014 Farm Bill.^{1,2} The Act authorized AMS to award block grants to the States each fiscal year in order to carry out projects that enhance the competitiveness of specialty crops.^{3,4} In practice, the term "specialty crops" is generally used to describe all crops except those commodities that receive direct income support under the Farm Bill.⁵ The Act defines specialty crops as "fruits and vegetables, tree nuts, dried fruits, and horticulture and nursery crops (including floriculture)." Specialty crops account for roughly one-third of annual U.S. farm crop sales.

¹ Specialty Crops Competitiveness Act of 2004, Pub. L. No. 108-465, 118 Stat. 3882 (codified, in part, at 7 U.S.C. § 1621 note).

² Agricultural Act of 2014, Pub. L. No. 113-79, 128 Stat. 649 (2014 Farm Bill); subsequently amended in 2018 by the Agriculture Improvement Act of 2018, Pub. L. No. 115-334, 132 Stat. 4905.

³ A block grant is a sum of money from the Federal Government awarded to a State or local government to help fund a specific program. A State or local government may then use those funds at its discretion.

⁴ State officials at the departments of agriculture or the entities of government responsible for agriculture within the State or territory are responsible for carrying out SCBGP. This includes all 50 States, the District of Columbia, the Commonwealth of Puerto Rico, Guam, American Samoa, the United States Virgin Islands, and the Commonwealth of the Northern Mariana Islands (hereafter, "States").

⁵ Some of the commodities that receive direct income support include wheat, feed grains, rice, oilseeds, peanuts, and pulses.

For fiscal years (FY) 2014 through 2017, SCBGP provided over \$250 million in funds to over 2,900 projects.⁶ The following chart illustrates the breakdown of the organizations supporting and receiving SCBGP funding in our audit sample:

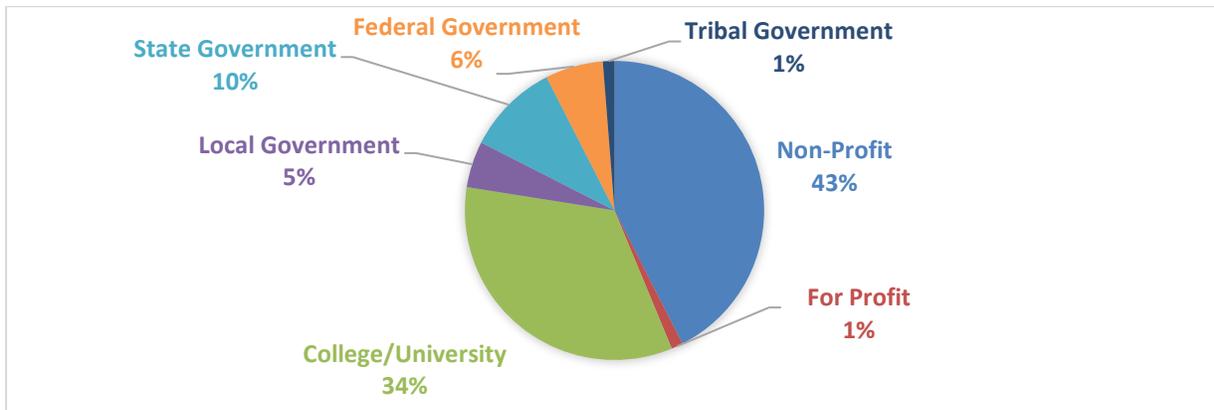


Figure 1. Types of Organizations⁷ Participating in our Audit Sample of SCBGP Projects

These projects include a range of initiatives that support specialty crops, including market promotion, plant pest and disease prevention, and food safety enhancement.

Federal Oversight

The Grants Division is responsible for the oversight and administration of SCBGP. Currently, AMS has six staff, primarily located in Washington, D.C., who are responsible for administering SCBGP.⁸ The Grants Division staff prepares the requests for application (RFA), awards grants, provides guidance and technical assistance to States, monitors States’ performance and financial progress, and performs onsite reviews of the States’ management process of the grant program. The Grants Division and State must both follow the provisions of the Office of Management and Budget’s (OMB) “Guidance for Grants and Agreements,” as well as the SCBGP regulations contained in Title 7 of the Code of Federal Regulations (C.F.R.) Part 1291.⁹

⁶ A project is a set of interrelated tasks with a cohesive, distinct, specified, and defined goal. It follows a planned, organized approach over a fixed period and within specific limitations (cost, performance, quality, etc.).

⁷ States are awarded all the funds and can choose to complete projects themselves or select other organizations.

⁸ During the scope of our audit (FYs 2014–2017), AMS SCBGP Grants Division only had three staff members who served in their positions throughout the 4-year period, due to staff turnover.

⁹ See Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 2 C.F.R. pt. 200.

The following chart illustrates the process the AMS National Grants Division follows for SCBGP:

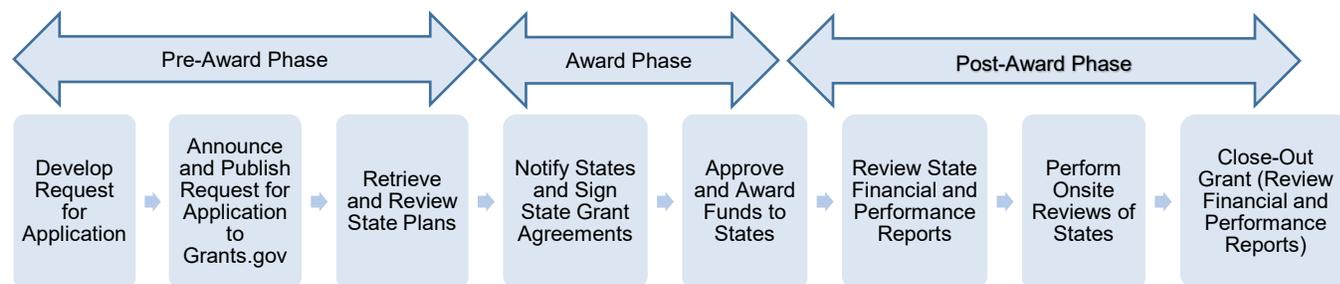


Figure 2. AMS National Grants Division Process for SCBGP

The Grants Division conducts onsite reviews of all States on a periodic basis and provides recommendations in onsite review reports to improve the implementation of SCBGP.¹⁰ During these reviews, the Grants Division reviews grant documentation, performs interviews with State officials, and provides technical assistance to ensure compliance with the grant agreements between AMS and the State.¹¹ AMS performs these reviews to: (1) enhance the performance of the recipient and grant program; (2) identify effective practices and outstanding program outcomes; (3) facilitate decision making by parties responsible for overseeing or initiating corrective action; (4) improve public accountability; and (5) prepare State officials for potential future audits.

State Oversight

States are responsible for developing proposals and overseeing SCBGP-funded projects. This oversight includes ensuring that subrecipients maintain appropriate records and follow all applicable Federal statutes and regulations, as well as the grant agreement and the terms and conditions of award.¹² ¹³ States are required to use a competitive review process for selecting projects to participate in SCBGP. After approving the projects, each State develops a State Plan that outlines how it will utilize the SCBGP funds. This plan includes all approved projects; each project’s purpose, impact, and expected measurable outcomes; and budget details. AMS approves the State Plan and then awards the block grant to the States. Those States will offer

¹⁰ AMS can select States for an onsite review for a variety of reasons which include, but are not limited to: risk assessment results, geography, indication of problems, experience level, and agency priorities. The formal guidance does not specify the exact frequency of visits; however, Grants Division officials stated they conduct onsite reviews on a 3-year rotation, if staff are available.

¹¹ From 2014 to 2019, the Grants Division performed 52 onsite or desk reviews at 44 States, D.C., and 4 U.S. territories.

¹² Subrecipients could include non-profit organizations, government entities, colleges and/or universities, or for-profit organizations.

¹³ The terms and conditions of an AMS SCBGP award include generally applicable public laws and executive orders, OMB regulations and USDA’s implementation of them, and AMS-specific policies and procedures applicable to grants agreements.

¹⁴ If a competitive process is not used, the State must provide a justification with a reason. 7 C.F.R. § 1291.6.

portions of the block grant (“subawards”) to the subrecipients included in the State Plan. The subrecipient and the State will sign a subaward agreement.¹⁵

States are responsible for ensuring the subrecipients are meeting measurable outcomes and/or performance goals and are using the Federal funds as intended. The States establish a monitoring process aligned with the applicable regulations to ensure subrecipients meet the post-award requirements.¹⁶ These monitoring efforts include reviewing subrecipients’ advance and reimbursement requests and establishing a formal risk-based systematic approach for monitoring projects noted in their State Plan, which includes site visits and/or desk reviews.¹⁷ For each project, the States are required to conduct a risk assessment to determine the risk of subrecipient noncompliance with Federal statutes, regulations, and the terms and conditions of the grant.¹⁸

The chart below illustrates the State grant process:

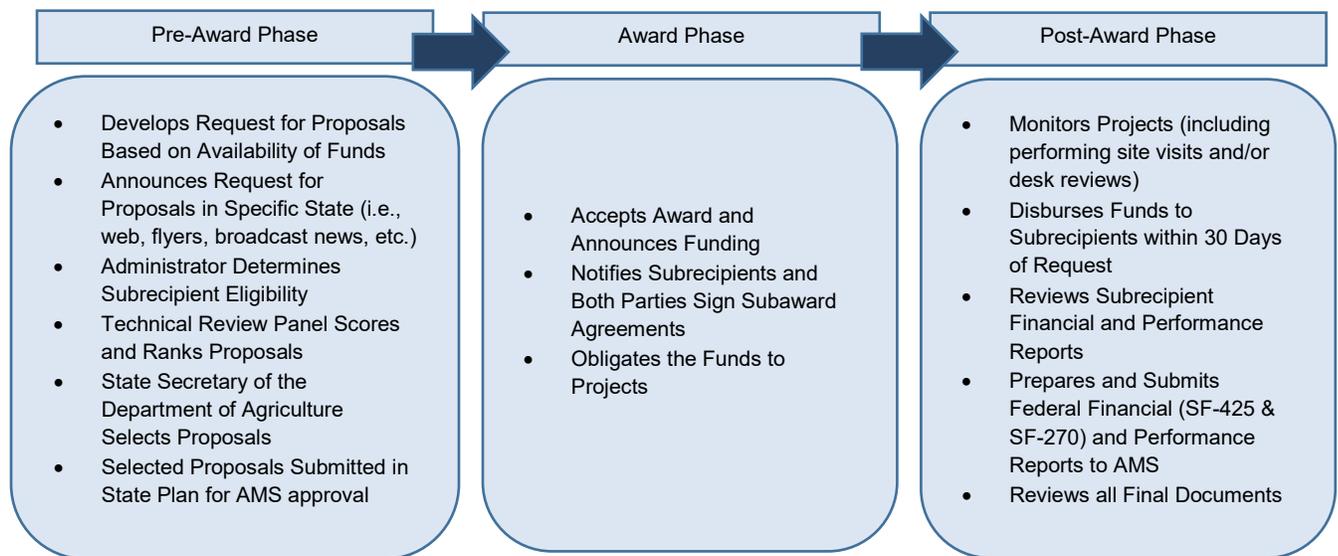


Figure 3. State Department of Agriculture SCBGP Process

As part of the State’s post-award process, a State is required to make payments to a subrecipient within 30 calendar days after receipt of the billing for expenses incurred for the operation of the project.¹⁹ Subrecipients request payments at least quarterly but no more than monthly. The payments are made to the subrecipient after the State reviews the invoice to ensure the costs are allowable, reasonable, and necessary.

¹⁵ A subaward is an award provided by a pass-through entity to a subrecipient for the subrecipient to carry out part of a Federal award received by the pass-through entity. It does not include payments to a contractor or payments to an individual that is a beneficiary of a Federal program. A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract. 2 C.F.R § 200.92.

¹⁶ 2 C.F.R. pt. 200 and 7 C.F.R. pt. 1291.

¹⁷ A desk review is a review of supporting documentation without a site visit.

¹⁸ 2 C.F.R. § 200.331(b).

¹⁹ 2 C.F.R. § 200.305.

Objectives

Our objectives were to identify and evaluate AMS' management controls over SCBGP. Specifically, we evaluated the processes used by AMS to award and disburse grant funds to States as well as AMS and States' processes used to monitor the grants.

We found AMS awarded and disbursed SCBGP funds to States, as required, to enhance the competitiveness of specialty crops. However, we found that both AMS and the States need to improve their processes used to monitor the grants.

Finding 1: AMS Needs To Provide Additional Oversight to the States

We found that AMS did not effectively oversee the States to ensure funds were expended in accordance with applicable laws and regulations. Specifically, we found issues with timely disbursement of funds and documentation of matching funds. This occurred because AMS relied on the States to use their own policies and procedures to identify issues rather than providing additional oversight. In addition, AMS' State onsite reviews were limited to only ensuring States had a process in place, rather than testing to ensure compliance with program requirements. As a result, AMS cannot provide reasonable assurance that the States disbursed over \$12.5 million in SCBGP project funds in compliance with program requirements. Based on our sample, we determined that 64 of the 80 projects reviewed had at least one or more exceptions.

According to regulations, the Federal awarding agency must manage and administer the award to ensure that funding is expended, and associated programs are implemented in full accordance with U.S. statutory and public policy requirements.²⁰ Regulations state that AMS will monitor the States, as it determines necessary, to ensure that projects are completed in accordance with the approved State Plan.²¹ The regulations also state that recipients must submit all financial and performance reports, as required by the terms and conditions of the Federal award.^{22, 23} States must process all their payments within the required timeframe of 30 calendar days.²⁴ If the award has specific cost-sharing or matching requirements, the recipient must comply with the applicable Federal administrative provisions and provide proper documentation for their compliance.^{25, 26} Furthermore, AMS terms and conditions allow grant recipients some ability to modify their budgets if needed; however, in some cases, recipients are required to request prior written approval from AMS in advance of a change or obligation of funds.²⁷

In order to evaluate whether AMS was adequately monitoring SCBGP, we interviewed AMS officials and reviewed the onsite review reports for the three States in our sample.^{28, 29} We found that AMS identified issues related to the project award process, such as missing documentation of suspension and debarment information and project selection.³⁰ We reached the same conclusions during our review, which consisted of a statistical sample of 80 project files from the three States.³¹

²⁰ 2 C.F.R. § 200.300.

²¹ 7 C.F.R. § 1291.10.

²² 2 C.F.R. § 200.343 and 7 C.F.R. § 1291.10(c).

²³ 2 C.F.R. § 200.328(b)(1).

²⁴ 2 C.F.R. § 200.305.

²⁵ "Cost-sharing" or "matching" refers to the portion of project costs not paid by Federal funds.

²⁶ 2 C.F.R. § 200.306.

²⁷ USDA AMS, FY 2015 *SCBGP General Terms and Conditions* (June 2015).

²⁸ AMS conducted site visits in November 2015, June 2016, and March 2017.

²⁹ We selected the States based on highest total SCBGP dollars received among three distinct groups—"high," "medium," and "low" funding.

³⁰ We will not be reporting on those issues in this audit since AMS already identified them during its onsite reviews.

³¹ We limited the audit universe to three States (California, Delaware, and Illinois), which included 343 SCBGP projects. We statistically selected 80 of the 343 projects to determine if States ensured projects met the intent of SCBGP and if all grant and program requirements were followed. Of the 80 projects, 15 projects were not fully completed.

We determined that AMS awarded and disbursed SCBGP funds to the States, as required, to enhance the competitiveness of specialty crops. All of the 80 projects we reviewed achieved the intent of SCBGP. However, we found that AMS did not effectively oversee the States to ensure funds were expended in accordance with applicable laws and regulations. While the Grants Division conducted onsite reviews in all three States to ensure compliance with the grant agreements between AMS and the State, we found the following issues with the award and post-award processes that Grants Division officials did not identify during their reviews of the States in our sample.

Payments Not Processed Timely

We found all three States in our sample did not always process payments within the required timeframe of 30 calendar days from the receipt of the subrecipient's request for reimbursement.^{32, 33} During the onsite review process, AMS did not ensure States made payments to subrecipients in a timely manner. AMS reviewed the State's financial management process, but this review did not include an analysis of payment timeliness. The State officials said payment timeliness issues are outside of their control. For example, one State official said the State Comptroller's office could take longer than the 30-day requirement to send the payments to the subrecipient. We recognize that some issues are outside of the control of the States' departments of agriculture; therefore, we only took an exception when 50 percent or more of the project payments were consistently late.³⁴ As a result, we concluded that 47 projects had payments that were consistently late, which ranged from 1 to 169 days late.³⁵ Based on our sample results, we estimate that 202 (58.75 percent) of the 343 projects in our audit universe may have payments that were consistently late.³⁶ Consistently late payments could potentially affect project timelines and results; therefore, AMS should establish additional controls to ensure States comply with the payment requirements.

Matching Funds Not Documented

We found 11 projects in our sample where the States did not document approved matching funds received from the subrecipients, as required.^{37, 38} This occurred because

³² A project could have multiple payments each year.

³³ 2 C.F.R. § 200.305.

³⁴ Throughout the course of a project, there are multiple payments requested and reimbursed. There may be times when one or two payments were not paid timely due to unique circumstances. Therefore, for the purposes of our work, we defined "consistently late" as 50 percent or more of the project payments were untimely according to requirements.

³⁵ We found 68 of the 80 projects in our sample had payments that were not processed within the required timeframe. As stated above, we only took exception to those projects when the State consistently made late payments to the recipients.

³⁶ We are 95 percent confident this applies to at least 172 (50.15 percent) of the 343 projects in our universe. This criterion only applies to 75 of the 80 projects in our sample (4 projects did not use the reimbursement method, and payment dates for 1 project could not be determined).

³⁷ This occurred with all three States.

³⁸ Matching funds are the portion of project costs not paid by Federal funds and comes in the form of cash and/or in-kind contributions. In-kind contributions means the value of non-cash contributions (for example, property or services) that: (a) benefit a Federally-assisted project or program; and (b) are contributed by a non-Federal entity,

AMS believed that, since SCBGP did not have a Federal cost-sharing or matching requirement, States did not have to document or report matching funds. We agree that matching funds were not required to participate in SCBGP. However, according to grant regulations, once AMS approves the matching funds in the State Plan budget, the State is then required to document the matching funds.³⁹ Furthermore, AMS' grant agreement terms and conditions require documentation for matching funds.⁴⁰ We took exception to the 11 projects in our sample that did not have supporting documentation as required by the regulatory and grant agreement provisions. However, AMS disagreed with our conclusion. Therefore, we recommend AMS obtain an Office of the General Counsel opinion regarding whether States should document matching funds if approved in the State Plan budget. Based on our sample results, we estimate that 47 (13.75 percent) of the 343 projects in our audit universe may not have documents supporting approved matching funds.⁴¹

Disbursements and Funds Not Properly Accounted For

We found that, on six projects, the States either made disbursements for unapproved budget items, did not have invoices to support disbursements, and/or made disbursements for more than the obligated amount.^{42, 43} Additionally, one State did not obtain prior written approval from AMS to transfer funds from multiple FY 2015 projects to a single project. AMS did not identify any of these issues during its onsite reviews. Overall, AMS agreed with these concerns and indicated it would provide additional oversight to the States. Based on our sample results, we estimate 26 (7.50 percent) of the 343 projects in our audit universe may not properly account for disbursement of Federal funds.⁴⁴

Reports Not Properly Submitted

The financial and/or performance reports submitted by subrecipients are an essential part of monitoring SCBGP projects since the reports illustrate progress made toward completion of projects, goals, objectives, and outcomes; show the overall financial status of the grant; and serve as important vehicles for sharing award findings and success with the public. However, we found the States did not receive financial and/or performance reports from the subrecipients for 13 projects, as required by regulations.⁴⁵ Based on our sample results, we estimate 56 project subrecipients (16.25 percent) may not have

without charge, to a non-Federal entity under a Federal award. Matching funds and/or in-kind contributions will be referred to in this report as "matching funds" only.

³⁹ 2 C.F.R. § 200.306.

⁴⁰ USDA AMS, *Agricultural Marketing Service (AMS) Grants Division, General Terms and Conditions*, OMB No. 0581-0240 (Aug. 2017).

⁴¹ We are 95 percent confident this applies to at least 29 (8.45 percent) of the 343 projects. This criterion applies to only 40 of the 80 projects in our sample that required matching funds and/or in-kind contributions.

⁴² This occurred at all three States.

⁴³ 2 C.F.R. § 200.302.

⁴⁴ We are 95 percent confident this applies to at least 12 (3.50 percent) of the 343 projects.

⁴⁵ All three States did not receive the reports as required by 2 C.F.R. § 200.328(b)(1). Financial reports were required quarterly. However, the regulation did not specify the frequency for performance reports. The State grant agreements with the subrecipients noted the required performance report frequency. Each State established their own requirements on the frequency of reviews.

provided the States with financial and performance reports.⁴⁶ In addition, seven project subrecipients did not submit the required final financial reports.⁴⁷ Based on our sample results, we estimate that 30 (8.75 percent) of the 343 projects in our audit universe may not have submitted the required final financial reports.⁴⁸

Overall, we identified that 64 out of 80 SCBGP projects had issues that AMS neither identified nor addressed during the onsite reviews.⁴⁹ Both AMS and the States generally agreed with our findings. AMS officials agreed to develop processes and procedures to improve the overall controls for the program and are working with the States to improve their controls. For example, one State official said that the State had limited staffing and resources; however, the State official plans to work with AMS to ensure the State complies with the terms and conditions for the program. As a result, AMS cannot provide reasonable assurance that the States in our sample used over \$12.5 million in SCBGP-disbursed project funds in compliance with program requirements. Although our review was limited to three States, many of these issues could be occurring in other States.⁵⁰ Therefore, AMS needs to strengthen its existing controls over SCBGP to ensure all States monitor their projects more effectively.

Recommendation 1

Strengthen existing controls over the grant program process, including testing State policies and/or processes during onsite reviews to ensure all States monitor their SCBGP projects.

Agency Response

In its September 24, 2020, response, AMS stated:

The SCBGP was the first grant program in the AMS Grants Division to implement a site visit program (in FY 2011), with a goal of visiting each State every 3 years. Based on this experience, in 2018, AMS established Grant Division policies and procedures for site visits applicable to all its grant programs, which include a Site Visit Checklist developed in accordance with 2 CFR §200. This Site Visit Checklist helps AMS ensure proper oversight of Federal funds.

AMS will update the Site Visit Checklist by adding an item to the section on *Financial Management* requiring grants management specialists to test State financial system entries and demonstrate that payments are made within 30 days of the funding request.

AMS will enhance subrecipient monitoring by adding an item under the *Project and Results Management* section of the Site Visit Checklist, confirming that the state has an

⁴⁶ We are 95 percent confident this applies to at least 36 (10.50 percent) of the 343 projects.

⁴⁷ 2 C.F.R. § 200.343 and 7 C.F.R. § 1291.10(c).

⁴⁸ We are 95 percent confident this applies to at least 16 (4.66 percent) of the 343 projects.

⁴⁹ We did not make a statistical projection on all 64 projects because there was a diverse variety of exception types, and some of these types are based on criteria that applied to very few projects.

⁵⁰ Based on our statistical selection methodology, our projection only applied to the three selected States; however, the issues identified could be occurring at other States.

established tracking system that ensures reports are submitted accurately and completely by the due date stated in the applicable State Department of Agriculture Award Terms and Conditions.

The AMS Site Visit Checklist will also be updated to include a section addressing subrecipient site visits/reviews to establish that States are performing and documenting physical visits or desk reviews to ensure SCBGP subrecipient projects are achieving measurable performance outcomes.

The estimated completion date is March 31, 2021.

OIG Position

We accept management decision on this recommendation.

Recommendation 2

Obtain an Office of the General Counsel opinion regarding whether matching funds should be reported, based on Federal regulations and the *Agricultural Marketing Service (AMS) Grants Division General Terms and Conditions* (AMS Terms and Conditions) and take the appropriate actions based on the advice received.

Agency Response

In its September 24, 2020, response, AMS stated that [REDACTED] [REDACTED] AMS has decided that it will continue asking in the RFA that SCBGP applicants **not** include any Federal cost-sharing or matching funds information in their application materials, and that they remove this information if included in the budget narrative.

The final completion date was August 31, 2020.

OIG Position

We accept management decision on this recommendation.

Finding 2: States Need To Develop a Formalized Monitoring Process for Subrecipients

We found that two of the three States in our sample did not adequately monitor SCBGP projects during the scope of our audit.⁵¹ Specifically, we found two States neither performed risk assessments nor conducted reviews of the 20 projects in our sample.^{52, 53} This occurred because AMS did not ensure the two States had policies or procedures in place to perform risk assessments or conduct reviews. In addition, the two States had limited resources and elected not to use administrative funds to conduct the necessary monitoring.⁵⁴ As a result, these States may be unable to ensure that their SCBGP projects achieved measurable performance outcomes and that subrecipients used \$739,355 in project funds in accordance with Federal regulations and AMS' terms and conditions.⁵⁵

Federal regulations require States to monitor each subrecipient, as necessary, to ensure that Federal subawards are used for authorized purposes in compliance with Federal statutes, regulations, and the terms and conditions of the subawards.⁵⁶ These regulations also require States to verify that subrecipients achieve their subaward performance goals and outcomes. In addition, States are responsible for evaluating the subrecipients' risk of noncompliance with Federal statutes, regulations, and terms and conditions of the subaward, as well as determining how subrecipients should be monitored. Based on the required risk assessment results, the State entity may perform onsite reviews of the subrecipients' program operations, and/or agreed-upon procedures to ensure subrecipients are accountable, compliant with requirements, and achieve performance goals.⁵⁷ The State may use up to 8 percent of its allocation for administrative expenses.⁵⁸ Furthermore, AMS terms and conditions for the SCBGP grant indicated that the State departments of agriculture must comply with the requirements of 2 C.F.R. § 200.331.⁵⁹

One of the States in our sample implemented procedures for performing risk assessments and conducting reviews of the subrecipients' SCBGP projects. The State was able to identify noncompliances and/or areas of concern, such as errors resulting in over billing, and control weaknesses with accounting and timekeeping records. Thus, this State illustrates how conducting risk assessments and reviews are beneficial to the monitoring process at the

⁵¹ The two States were Delaware and Illinois.

⁵² The two States in our sample had a total of 20 projects.

⁵³ A review can include onsite or desk reviews.

⁵⁴ States can use block grant funds to pay for administrative costs. Administrative costs are indirect costs which represent the expenses of doing business that are not readily identified with a particular grant, contract, project function, or activity, but are necessary for the general operation of the organization and the conduct of activities it performs.

⁵⁵ In Exhibit A, we are questioning the remaining \$77,782 of project funds disbursed by one State, which were not already questioned in Finding 1.

⁵⁶ 2 C.F.R. § 200.331.

⁵⁷ A risk assessment assesses the likelihood of a subrecipient not complying with regulations, policies, and the terms and conditions of the grant. Thus, a determination of higher risk may require additional guidance, communication and follow-up, additional site visits, requests for source documentation, or imposition of additional requirements.

⁵⁸ 2014 Farm Bill, Pub. L. No. 113-79, § 10010(4), 128 Stat. 649, 950.

⁵⁹ USDA AMS, *Agricultural Marketing Service (AMS) Grants Division, General Terms and Conditions*, OMB No. 0581-0240 (Aug. 2017).

subrecipient level.⁶⁰ However, the other two States in our sample did not establish a formal risk-based, systematic approach for monitoring projects at the subrecipient level or conduct site visits and/or desk reviews. Therefore, these two States did not review or identify the issues we found for 8 of the 20 projects we reviewed. The eight SCBGP project files did not contain all the required source documents.⁶¹ For example, one of the projects did not have the required supporting documentation for \$27,626 in expenditures on the project.

During interviews with State officials, one State official informed us that the State performs informal site visits, including meeting with subrecipients, at the State's annual agricultural conference. However, these reviews were not documented, nor did the State have any written procedures for conducting these reviews. The State recently developed a site visit checklist to aid in this process.⁶² At the second State, the official said the State did not conduct reviews due to a lack of budget and staff resources. We noted that the law allows States to use administrative funds to conduct these reviews. In addition, this official informed us the State established a new system in 2016 that, once fully implemented, would address these issues; however, the State has not implemented this part of the process at this time. By not establishing a formal monitoring process, States are unable to identify control weaknesses and provide the necessary corrective actions to ensure Federal SCBGP funds are spent appropriately.

During AMS' onsite reviews, the national officials also noted that neither State performed risk assessments nor conducted reviews of subrecipients and recommended in their onsite review report, that States conduct reviews and maintain documentation of the reviews.⁶³ However, during our audit, we found these two States had not yet implemented AMS' recommendations. Therefore, AMS needs to ensure the States establish policies and procedures for performing risk assessments and conducting SCBGP reviews.

Overall, both AMS and the States agreed with the issues we found. AMS officials stated that they have taken steps to address some of these issues, such as holding conferences with States to discuss AMS guidance. In addition, AMS officials stated that they would provide best practices during conference calls with States. According to AMS officials, States have limited resources and many elect not to use administrative funds.⁶⁴ These two States elected not to use administrative funds to perform reviews or risk assessments. The other State in our sample that performed reviews requested and used administrative funds. Therefore, in order to assist States in oversight efforts, we recommend that AMS communicate the benefits of utilizing administrative funds.

⁶⁰ This State had projects included within our exceptions in Finding 1; however, we noted that their established review process could be used as an example of a best practice.

⁶¹ Supporting documentation required by the subaward agreement, such as detailed receipts, timesheets, etc.

⁶² The first and only documented site visit performed by the State was on April 18, 2018. This site visit was not for a project in our sample.

⁶³ The site visits conducted for these two States were in June 2016 and March 2017.

⁶⁴ When States elect to not use administrative funds, those funds can be used for program purposes.

Recommendation 3

Ensure all States create and implement policies and procedures for performing risk assessments and conducting reviews of subrecipients, and provide guidance on the information that must be included. Specifically, the process should include ensuring funds are used in accordance with Federal regulations and AMS' terms and conditions.

Agency Response

In its September 24, 2020, response, AMS stated:

AMS will update the Site Visit Checklist to augment the monitoring plan and risk assessment requirements.

AMS will conduct outreach to the States (via written correspondence and in-person technical assistance) to provide guidance on what must be included for risk assessments, site visits/reviews, as well as monitoring plans. The *Subrecipient Monitoring & Management* section of the Terms and Conditions will be updated to include:

- Additional information on assessing subrecipient risk referring to 2 CFR 200.331; and
- Requirement to establish a monitoring plan including risk assessment OR to submit the plan and/or assessment if one is already actively in use at that State Department of Agriculture. This will be reviewed and tracked to ensure compliance.

AMS will update the Grant Administration Template, used to apply to the SCBGP, to include additional language on necessity to allocate a portion of the Grant Administration funding for site visits and subrecipient project monitoring.

The estimated completion date is March 31, 2021.

OIG Position

We accept management decision on this recommendation.

Recommendation 4

Communicate to States the benefits of expending their administrative funds to conduct the necessary monitoring.

Agency Response

In its September 24, 2020, response, AMS stated:

AMS will update the RFA section on *Funding Restrictions* to include the benefit of using administrative funds to ensure that the States sufficiently monitor subrecipients' accountability, compliance with regulations and requirements, and achievements.

AMS will highlight this recommendation during annual RFA and Terms and Conditions calls conducted by SCBGP with the States.

AMS will engage States that do not use administrative funds in this way to determine if they provide adequate monitoring and may determine that a more frequent site visit schedule is necessary for such States.

AMS will update the Grant Administration Template to emphasize the same message.

The estimated completion date is March 31, 2021.

OIG Position

We accept management decision on this recommendation.

Scope and Methodology

The scope of this audit focused on AMS' management controls over SCBGP, which included evaluating the process used by AMS to award and disburse grant funds to States, as well as AMS' and the States' processes used to monitor the grants. Our fieldwork consisted of visiting the AMS headquarters in Washington, D.C., and three State departments of agriculture.⁶⁵ We conducted our fieldwork from July 2018 through January 2020.

The period of our review covered FY 2014 through FY 2017.⁶⁶ During this time, AMS disbursed a total of over \$252.8 million in grant funds in support of 2,965 SCBGP projects across the 50 States, D.C., and five U.S. Territories. To meet our objectives, the Office of Inspector General (OIG) Office of Analytics and Innovation (OAI) stratified all the States into three distinct groups—"high," "medium," and "low"—based on each State's total SCBGP dollars received, and selected the States with the highest totals in each distinct group. Our sample universe from the three States consisted of 343 SCBGP projects, totaling over \$78.5 million. Of the 343 SCBGP projects, we reviewed 80 projects statistically selected by OAI, totaling over \$20.5 million.

To accomplish our objectives, we:

- Reviewed laws, regulations, policies, procedures, RFAs, State Plans, and SCBGP grant terms and conditions;
- Interviewed the appropriate AMS national officials to gain an understanding of SCBGP;
- Conducted site visits with the three State offices in our sample and reviewed each subrecipient's supporting documentation such as invoices, checks, project budgets, project proposals, financial and performance reports, disbursement reports, and other documents as necessary;
- Interviewed the appropriate State officials to gain an understanding of their processes for administering SCBGP, including their roles and responsibilities, policies, and procedures;
- Reviewed supporting documentation to evaluate States' selection process such as scoring sheets, requests for proposals, press releases, etc.;
- Performed a walk-through of the ezFedGrants management system and SCBGP Access database and interviewed the necessary personnel to gain an understanding of how the SCBGP team used these systems for the program;⁶⁷
- Reviewed the States' financial management processes for SCBGP funds, including performing a walkthrough of the financial management systems used to track expenditures; and
- Interviewed AMS national and State officials and reviewed documentation to determine their outreach efforts for SCBGP.

⁶⁵ California, Delaware, and Illinois.

⁶⁶ To be eligible for a grant, the project(s) must be completed within 3 calendar years after the grant agreement between AMS and the State is signed. Therefore, our audit scope needed to extend far enough to encompass all phases of the projects.

⁶⁷ ezFedGrants is a USDA web-based grants management system used to manage grants.

During the course of our audit, we did not solely rely on information from the ezFedGrants management system and the AMS SCBGP Access database system. We did not test the information system as part of this audit, but we did rely on a prior OIG audit that conducted a review of the data.⁶⁸ In the prior audit, OIG assessed the reliability of grant data by reviewing AMS' system security roles and reviewed security access documentation.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient and 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.

⁶⁸ Audit Report 01601-0001-24, *AMS Oversight of the Farmers Market and Local Food Promotion Program*, March 2020.

Abbreviations

AMS.....	Agricultural Marketing Service
C.F.R.....	Code of Federal Regulations
FY	fiscal year
OAI	Office of Analytics and Innovation
OMB	Office of Management and Budget
OIG	Office of Inspector General
RFA.....	request for application
SCBGP	Specialty Crop Block Grant Program
U.S.C.....	United States Code
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	Description	Amount	Category	Recommendation
1	AMS needs to provide reasonable assurance that the States used funds appropriately.	\$12,597,287	Questioned Costs, No Recovery Recommended	1
2	Two States did not have policies or procedures in place to perform risk assessments or conduct reviews.	\$77,782 ⁶⁹	Questioned Costs, No Recovery Recommended	3
Total		\$12,675,069		

⁶⁹ The total amount of project funds disbursed for two States in our sample was over \$700,000. However, to prevent duplication, we subtracted those amounts questioned in Finding 1.

Exhibit B: Sampling Methodology for AMS Controls Over Specialty Crop Block Grant Program

Objective

This statistical sample was designed by OAI to support OIG Audit 01601-0002-23. The objectives were to identify and evaluate AMS' management controls over SCBGP. Specifically, we evaluated the process used by AMS to award and disburse SCBGP funds to States, as well as both AMS and the States' processes used to monitor the grants.

To help achieve these objectives, we developed a representative random statistical sample of projects.

Audit Universe

To achieve an optimal balance between maximizing universe representation and minimizing travel expenses, the universe was limited to 3 States with 343 projects awarded during FYs 2014–2017.

Sample Design

We considered various sample designs and ultimately chose to audit 80 projects, randomly selected without replacement, from those in the audit universe.

The sample size was determined based on the following factors:

- Audit universe: 343 projects.
- Confidence level: we are reporting lower limits with 95 percent confidence.
- Precision: we wanted to report lower limits no more than 10 percent below corresponding point estimates.
- Expected exception rates: we did not have reliable historical information to help estimate these rates but determined 80 selections would result in our desired precision regardless of the actual exception rates we would find.

Results

The results in the table below are projected to the audit universe of 343 projects. Due to the relatively small population, sample, and some relatively low exception rates (e.g., 6 of 80), the lower limits for the number of projects in the universe are based on the hypergeometric distribution.⁷⁰

⁷⁰ For example, the following Excel code produces 96.29 percent: =HYPGEOM.DIST (6-1,80,12,343,TRUE). That is, if 12 of the 343 projects in the audit universe had an exception, there was a 96.29 percent probability of finding less than 6 in 80 selected randomly without replacement.

Statistical Estimates

Criteria	80 in Sample, Projects with an Exception	Of 343 Projects in Universe		Precision	Standard Error	Coefficient of Variation
		Estimated with an Exception	95% Confident at Least This Many			
Disbursement and Funds Not Properly Accounted For	6	26	12			3.53
As a %		7.50%	3.50%	4.00%	2.59%	
Interpretation: Based on our sample results, we estimate 26 (7.50 percent) of the 343 projects in our audit universe have an exception to at least one of these criteria. We are 95 percent confident this applies to at least 12 (3.50 percent) of these 343 projects.						
Reports Not Properly Submitted	13	56	36			2.28
As a %		16.25%	10.50%	5.75%	3.63%	
Interpretation: Based on our sample results, we estimate 56 projects (16.25 percent) in our audit universe have an exception to at least one of these criteria. We are 95 percent confident this applies to at least 36 (10.50 percent) of these 343 projects.						
Final Financial Report Not Submitted	7	30	16			3.25
As a %		8.75%	4.66%	4.09%	2.78%	
Interpretation: Based on our sample results, we estimate 30 (8.75 percent) of the 343 projects in our audit universe have an exception to this criterion. We are 95 percent confident this applies to at least 16 (4.66 percent) of these 343 projects.						
Note: This criterion applied to only the 65 of 80 projects in the sample that were completed by the end of our field work.						
Matching Funds and/or In-Kind Contributions Not Sufficiently Documented	11	47	29			2.52
As a %		13.75%	8.45%	5.30%	3.39%	
Interpretation: Based on our sample results, we estimate 47 (13.75 percent) of the 343 projects in our audit universe have an exception to this criterion. We are 95 percent confident this applies to at least 29 (8.45 percent) of these 343 projects.						
Note: This criterion applied to only the 40 of 80 projects in the sample that required matching funds and/or in-kind contributions.						
Payment Not Processed Timely	47	202	172			0.84
As a %		58.75%	50.15%	8.60%	4.85%	
Interpretation: Based on our sample results, we estimate 202 (58.75 percent) of the 343 projects in our audit universe have an exception to this criterion. We are 95 percent confident this applies to at least 172 (50.15 percent) of these 343 projects.						
Note: This criterion applied to only 75 of 80 projects (4 did not use the reimbursement method and payment dates for 1 could not be determined).						

**AGENCY'S
RESPONSE TO AUDIT REPORT**



1400 Independence Avenue, SW
Room 2055-S, STOP 0201
Washington, D.C. 20250-0201

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

FROM: Bruce Summers /s/
Administrator

SUBJECT: Agricultural Marketing Service's Response to Office of Inspector General
Audit #01601-0002-23: AMS Controls Over the Specialty Crop Block Grant
Program

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

**Agricultural Marketing Service's Response to Office of Inspector General (OIG) Audit
#01601-0002-23: AMS Controls Over the Specialty Crop Block Grant Program**

The U.S. Department of Agriculture's (USDA) Agricultural Marketing Service (AMS) Transportation and Marketing Program agrees with the Office of Inspector General (OIG) findings and recommendations in the *AMS Controls Over the Specialty Crop Block Grant Program, Audit #01601-0002-23*.

Please find AMS' responses to OIG's recommendations below.

Finding 1: AMS Needs to Provide Additional Oversight to the States

Recommendation 1

Strengthen existing controls over the grant program process, including testing State policies and/or processes during onsite reviews, to ensure all States monitor their Specialty Crop Block Grant Program (SCBGP) projects.

Agency Response:

- The SCBGP was the first grant program in the AMS Grants Division to implement a site visit program (in fiscal year (FY) 2011), with a goal of visiting each State every 3 years. Based on this experience, in 2018, AMS established Grant Division policies and procedures for site visits applicable to all its grant programs, which include a Site Visit Checklist developed in accordance with 2 CFR §200. This Site Visit Checklist helps AMS ensure proper oversight of Federal funds.
- AMS will update the Site Visit Checklist by adding an item to the section on *Financial Management* requiring grants management specialists to test State financial system entries and demonstrate that payments are made within 30 days of the funding request.
- AMS will enhance subrecipient monitoring by adding an item under the *Project and Results Management* section of the Site Visit Checklist, confirming that the state has an established tracking system that ensures reports are submitted accurately and completely by the due date stated in the applicable State Department of Agriculture Award Terms and Conditions.
- The AMS Site Visit Checklist will also be updated to include a section addressing subrecipient site visits/reviews to establish that States are performing and documenting physical visits or desk reviews to ensure SCBGP subrecipient projects are achieving measurable performance outcomes.

Estimated Completion Date: By FY 2021 Request for Applications (RFA) Issuance (estimated March 2021)

Recommendation 2

Obtain an Office of the General Counsel (OGC) opinion regarding whether matching funds should be reported, based on Federal regulations and the *AMS Grants Division General Terms and Conditions* and take the appropriate actions based on the advice received.

Agency Response:

████████████████████ AMS has decided that it will continue asking in the RFA that SCBGP applicants **not** include any Federal cost-sharing or matching funds information in their application materials, and that they remove this information if included in the budget narrative.

Completion Date: August 2020

Finding 2: States Need to Develop a Formalized Monitoring Process for Subrecipients

Recommendation 3

Ensure all States create and implement policies and procedures for performing risk assessments and conducting reviews of subrecipients, and provide guidance on the information that must be included. Specifically, the process should include ensuring funds are used in accordance with Federal regulations and AMS' Terms and Conditions.

Agency Response:

- AMS will update the Site Visit Checklist to augment the monitoring plan and risk assessment requirements.
- AMS will conduct outreach to the States (via written correspondence and in-person technical assistance) to provide guidance on what must be included for risk assessments, site visits/reviews, as well as monitoring plans. The *Subrecipient Monitoring & Management* section of the Terms and Conditions will be updated to include:
 - Additional information on assessing subrecipient risk referring to 2 CFR 200.331; and
 - Requirement to establish a monitoring plan including risk assessment OR to submit the plan and/or assessment if one is already actively in use at that State Department of Agriculture. This will be reviewed and tracked to ensure compliance.
- AMS will update the Grant Administration Template, used to apply to the SCBGP, to include additional language on necessity to allocate a portion of the Grant Administration funding for site visits and subrecipient project monitoring.

Estimated Completion Date: By FY 2021 RFA Issuance (estimated March 2021)

Recommendation 4

Communicate to States the benefits of expending their administrative funds to conduct the necessary monitoring.

Agency Response:

- AMS will update the RFA section on *Funding Restrictions* to include the benefit of using administrative funds to ensure that the States sufficiently monitor subrecipients' accountability, compliance with regulations and requirements, and achievements.
- AMS will highlight this recommendation during annual RFA and Terms and Conditions calls conducted by SCBGP with the States.
- AMS will engage States that do not use administrative funds in this way to determine if they provide adequate monitoring and may determine that a more frequent site visit schedule is necessary for such States.
- AMS will update the Grant Administration Template to emphasize the same message.

Estimated Completion Date: By FY 2021 RFA Issuance (estimated March 2021)



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