



IMPORTANT NOTICE

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

The subsequent sections of the report have been partially redacted
due to privacy concerns:

Exhibit A: Exceptions Noted for Sampled Purchase Orders (page 15);
Agency Response (page 19).

Food Purchase and Distribution Program

Audit Report 01601-0003-41

We reviewed AMS' controls over the FPDP and determined whether AMS purchased the type and quantity of commodities necessary to mitigate the impact from retaliatory tariffs.

OBJECTIVE

Our objective was to determine whether AMS had adequate controls in place to ensure that: (1) contracts for FPDP commodity purchases were awarded to eligible producers in compliance with the Federal Acquisition Regulation, and (2) AMS purchased the type and quantity of commodities that USDA determined necessary to mitigate the impact from retaliatory tariffs.

WHAT OIG FOUND

In March 2018, the United States imposed increased tariffs on certain imported products; several foreign trading partners responded with retaliatory tariffs. On July 24, 2018, the United States Department of Agriculture (USDA) announced that it would take action in response to retaliatory tariffs and authorized up to \$12 billion in financial assistance, including \$1.2 billion for the Food Purchase and Distribution Program (FPDP). On May 23, 2019, USDA announced it would be taking additional action and authorized up to \$16 billion in additional assistance, including \$1.4 billion for FPDP.

REVIEWED

We reviewed the pertinent laws, regulations, policies, and procedures; interviewed key personnel; ascertained the adequacy and effectiveness of AMS' oversight of FPDP; and selected and reviewed a statistical sample of purchase orders approved in fiscal years 2019 or 2020 and their corresponding contract files.

We found no reportable issues relating to the type and quantity of commodities that the Agricultural Marketing Service (AMS) purchased for FPDP. However, we found that, for 4 of the 30 purchase orders we reviewed, AMS did not verify that the origin of the commodity was domestic, as required. We also found that, for 5 of the purchase orders we reviewed where AMS verified that the commodity's origin was domestic, we could not readily determine AMS' verification process. Without an adequate, documented verification process, AMS lacks assurance that commodities purchased for FPDP are products of the United States.

RECOMMENDS

We recommend AMS ensure that the domestic origin of all commodities is adequately verified and documented in compliance with agency policy and guidance; establish formal guidance on how to complete and document the verification for all commodities; establish a formal review process covering the contracting process to include records management; enforce AMS policy requiring all related documentation be electronically filed; and require all contracting staff attend annual records management training.

We also found that AMS did not adequately monitor its contracting process for FPDP commodity purchases; as a result, AMS cannot ensure that contracts were properly completed, documented, and assessed. Finally, for all 30 purchase orders we reviewed, we found the contract files were missing at least one piece of key documentation. Without complete contract files, AMS cannot support the basis for its contract award decisions or provide information for reviews and investigations.

AMS agreed with our recommendations, and we accepted management decision for the six audit recommendations in the report.



OFFICE OF INSPECTOR GENERAL

United States Department of Agriculture



DATE: August 15, 2023

AUDIT

NUMBER: 01601-0003-41

TO: Bruce Summers
Administrator
Agricultural Marketing Service

ATTN: Kenneth Robinson
Branch Chief
Compliance, Audit, Risk and Safety
Office of the Administrator
Internal Controls and Audit Branch
Agricultural Marketing Service

FROM: Janet M. Sorensen
Assistant Inspector General for Audit

SUBJECT: Food Purchase and Distribution 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 position, into the relevant sections of the report. Based on your written response, we are accepting management decision for all six 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 only publicly available information will be posted to our website (<https://usdaoig.oversight.gov>) in the near future.

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Background and Objectives

Background

In March 2018, the United States imposed increased tariffs on certain imported products based on concerns over national security and unfair trade practices. Several of the affected foreign trading partners responded to these tariffs with their own tariffs targeting various American products, especially agricultural commodities.

On July 24, 2018, USDA announced that it would take action to assist producers in response to trade damage from retaliatory tariffs. Using Section 5 of the Commodity Credit Corporation (CCC) Charter Act,¹ USDA authorized up to \$12 billion in financial assistance, referred to as a trade aid package. The FPDP was one of three trade mitigation programs that USDA established to administer the trade aid package. The other two trade mitigation programs were the Market Facilitation Program, administered by the Farm Service Agency, and the Agricultural Trade Promotion Program, administered by the Foreign Agricultural Service.² The 2018 trade aid package included \$1.2 billion for FPDP to partially offset lost export sales of affected commodities.

On May 23, 2019, USDA announced it would be taking additional action to assist producers in response to trade damage from retaliatory tariffs. The President authorized up to \$16 billion in additional assistance to match the estimated impacts of retaliatory tariffs. This assistance included \$1.4 billion for FPDP, increasing the amount available to AMS to purchase surplus commodities to \$2.6 billion.

USDA has not issued any separate regulations for FPDP. Rather, AMS uses its existing regulations for the Commodity Procurement Program to administer FPDP. FPDP's purpose is to buy commodities, which American farmers produce on American farms, through approved vendors who have proven that they can supply American-produced products.³ FPDP purchases

¹ 15 U.S.C. 714c (d). CCC is a Government-owned and -operated entity that was created to stabilize, support, and protect farm income and prices. CCC also helps maintain balanced and adequate supplies of agricultural commodities and aids in their orderly distribution. CCC has the authority to borrow up to \$30 billion from the Treasury at any one time to implement programs, while reserving a sufficient amount of its borrowing authority to cover its contracts with lending agencies and other obligations made through programs under CCC's purview. Congress replenishes CCC's borrowing authority each year by appropriating funding to cover CCC's net realized losses. CCC has no operating personnel; rather, its price support, storage, and reserve programs, and its domestic acquisition and disposal activities are carried out primarily through the personnel and facilities of agencies such as AMS.

² This report does not cover the Market Facilitation and Agricultural Trade Promotion Programs. For the Market Facilitation Program, see Audit Reports 03601-0003-31, *Market Facilitation Program*, March 2022, and 03601-0003-31(1), *Market Facilitation Program – Interim Report*, September 2020. These reports are available on OIG's website at: [03601-0003-31 \(oversight.gov\)](https://oig.dhs.gov/publication/03601-0003-31) and [03601-0003-31\(1\) \(oversight.gov\)](https://oig.dhs.gov/publication/03601-0003-31(1)). For the Agricultural Trade Promotion Program, see Audit Report 07601-0001-24, *Oversight of the Agricultural Trade Promotion Program*, August 29, 2022. This report is available on OIG's website at: [07601-0001-24 \(oversight.gov\)](https://oig.dhs.gov/publication/07601-0001-24).

³ AMS purchases a variety of domestically produced and processed commodity food products through its Commodity Procurement Program. The food products purchased support American agriculture by encouraging the consumption of domestic foods.

commodities that include a wide variety of fruits, vegetables, nuts, beef, pork, chicken, eggs, and dairy products. AMS purchases the surplus commodities, then the Food and Nutrition Service provides most of the commodities to States, which distribute them to food banks and food pantries participating in the Emergency Food Assistance Program (TEFAP).⁴ USDA determined the type and quantity of commodities to purchase under the FPDP based on economic analyses of the effect of tariffs.

AMS uses its Web-Based Supply Chain Management (WBSCM) system to administer FPDP commodity purchases. WBSCM is a fully integrated, web-based ordering and procurement system. All Federal food and commodity solicitations, offers, awards, orders, deliveries, invoices, and payments occur in WBSCM. AMS policy requires that personnel electronically file all documentation related to procurement under the Records Management section in WBSCM.⁵

Objectives

To determine whether AMS had adequate controls in place to ensure that: (1) contracts for FPDP commodity purchases were awarded to eligible producers in compliance with the Federal Acquisition Regulation, and (2) AMS purchased the type and quantity of commodities that USDA determined necessary to mitigate the impact from retaliatory tariffs.

Although the Office of Inspector General (OIG) found no reportable issues relating to the type and quantity of commodities that AMS purchased, it did have reportable issues relating to AMS' administration of the contracting process pertaining to monitoring, domestic origin verification, and records management.

⁴ TEFAP is a Federal program that helps supplement the diets of low-income Americans by providing them with emergency food assistance at no cost. USDA provides 100-percent American-grown USDA foods and administrative funds to states to operate TEFAP.

⁵ USDA AMS, *Required Documents to be Included in Records Management*, CPS-PM-006 (Sept. 2017).

Finding 1: AMS Needs to Adequately Verify and Document Its Domestic Origin Determinations

AMS did not verify the origin of the commodity for 4 of the 30 purchase orders reviewed, as required. This occurred because AMS either believed it was not required or could not support that it had verified the commodity's origin. We also found that, for 5 of the purchase orders we reviewed, we could not readily determine from the documentation provided how AMS verified the origin of the commodity. This occurred because AMS did not have adequate guidance on how to document the verification process. As a result, AMS lacks assurance that commodities purchased for FPDP are products of the United States, thereby potentially undercutting the purpose of the program.

The General Requirements for poultry state that "...the grader or supervisor shall review company records quarterly to verify domestic origin."⁶ They further state that "[t]he date, results, and initials of the reviewer shall be documented on the domestic origin certificate or as approved by the supervisor."

The *USDA Purchases Manual* for the Specialty Crops Program states that "AMS is responsible for ensuring all fruit, vegetable, and nut commodities purchased for USDA food assistance outlets are 100 percent grown in the United States."⁷ It further states that "[f]or contractors that do not participate in the DOV [Domestic Origin Verification] program...[a] trace-back is required for every purchase order awarded."⁸

We statistically selected 30 FPDP purchase orders for review.⁹ The purchase orders we selected came from four different programs, and each program has its own processes and procedures for verifying the origin of the commodities purchased. The AMS programs responsible for verifying the origin of the commodities in our sample are as follows:

⁶ *USDA Poultry FPPS [Federal Purchase Program Specification] General Requirements* (April 2020).

⁷ *USDA Purchases Manual* (August 2016). The *USDA Purchases Manual* pertains only to the Specialty Crops Program.

⁸ The DOV program is an audit-based program to verify contractors', subcontractors', suppliers', or processors' procedures for ensuring that the commodities sold to USDA are 100-percent of U.S. origin. The contractor for the purchase order we reviewed did not participate in the DOV program; therefore, the *Purchases Manual* requires that AMS perform a trace-back.

⁹ We reviewed 30 statistically selected purchase orders totaling over \$140 million. Our sample universe consisted of all purchase orders valued at over \$1 million approved on or before June 5, 2020. There were 448 purchase orders totaling over \$1.8 billion that met our criteria. As noted in the Scope and Methodology section of this report, we initially selected a sample of 84 purchase orders to review, but only reviewed the first 30 selected purchase orders using the stop-or-go option. Under the stop-or-go option, we only reviewed the first 30 purchase orders since that was sufficient to support our findings and recommendations in this report. Purchase orders reviewed included the following commodities: beef, pork, chicken, turkey, apples, oranges, grapefruit, raisins, pistachios, pecans, beans, corn, cheese, and rice.

- *Livestock and Poultry Program*¹⁰—beef, pork, chicken, and turkey
- *Specialty Crops Program*¹¹—apples, oranges, grapefruit, raisins, pistachios, pecans, beans, and corn
- *Dairy Program*¹²—cheese
- *Federal Grain Inspection Service*¹³—rice

AMS Did Not Verify the Origin of Its Commodity Purchases as Required

We identified four purchase orders—totaling more than \$9.4 million—where AMS did not verify the origin of its commodity purchases as required. Specifically:

- For 3 of the 30 purchase orders we reviewed there was no documentation in the purchase order folder to support that AMS verified that the origin of the commodities was domestic.¹⁴ According to AMS, the agency personnel should have performed the trace-backs for the chicken and turkey purchases during its quarterly reviews for poultry commodity purchases to verify the origin of the commodities purchased.¹⁵ However, AMS noted that the results of the quarterly reviews are not always documented.¹⁶ As a result, we were unable to verify that the reviews were actually conducted.
- For the remaining purchase order we reviewed, AMS did not conduct a trace-back to verify the origin of the commodity, as required.¹⁷ This occurred because the AMS contract specialist did not believe a trace-back was necessary as AMS’ Master Solicitation for Commodity Procurements for Domestic Food Distribution Program Purchases did not require it.¹⁸ However, because the vendor for the purchase order we reviewed did not participate in the DOV, the *USDA Purchases Manual* required AMS to conduct a trace-back. As discussed above, for contractors that do not participate in the DOV a trace-back is required for every purchase order awarded.

¹⁰ The Livestock and Poultry Program is responsible for livestock, poultry, meat, fish, and feedstuffs.

¹¹ The Specialty Crops Program is responsible for fruits and vegetables, tree nuts, culinary herbs and spices, and medicinal plants, as well as nursery, floriculture, and horticulture crops.

¹² The Dairy Program is responsible for milk and dairy products such as butter and cheese.

¹³ The Federal Grain Inspection Service is responsible for barley, canola, corn, flaxseed, oats, rye, sorghum, soybeans, sunflower seed, triticale, wheat, mixed grain, rice, and pulses.

¹⁴ The commodities purchased were poultry from the Livestock and Poultry Program.

¹⁵ AMS’ trace-backs consist of a review of contractors’ trace-back documents substantiating the domestic origin of the commodities purchased.

¹⁶ AMS acknowledged that a quarterly review may not have been specifically performed or specifically documented for these purchase orders. According to AMS, sometimes they are just documenting the review at the bottom of the domestic origin certificate or the paperwork that was provided. AMS did provide a copy of the domestic origin certificate from the contractor and copies of the Poultry Products Grading Certificates; however, none of the documents indicated that a quarterly review or trace-back was performed for the purchase orders we reviewed.

¹⁷ The commodity purchased was fruit from the Specialty Crops Program.

¹⁸ *AMS Master Solicitation for Commodity Procurements for Domestic Food Distribution Program Purchases Commercial Item, Sealed Bidding* (effective Apr. 12, 2017). We noted the Master Solicitation stated that “[t]he Contractor must ensure that the Contractor and any subcontractor(s) maintain records such as invoices, or production and inventory records evidencing product origin, and make such records available for review by the Government...” This provision in the Master Solicitation enabled AMS to obtain the documentation it needed to complete the trace-backs required by the *USDA Purchases Manual*.

AMS Did Not Adequately Document Its Domestic Origin Determinations

We also identified 5 purchase orders—totaling more than \$7.3 million—where AMS verified that the origin of the commodity was domestic; however, we could not use the documentation in the purchase order folder maintained outside of WBSCM to readily determine how AMS conducted trace-backs to verify the commodity’s origin. Of these five purchase orders, three were for poultry from the Livestock and Poultry Program and two were for fruit from the Specialty Crops Program.^{19, 20} For the two purchase orders for fruit, AMS did not specify in the purchase order folder the documents it used to conduct the trace-backs or specify how it performed the trace-backs. For the three poultry purchase orders, AMS completed a memo to document its review of the purchase orders; however, it did not specify in the memo how it verified the origin of the commodity was domestic.²¹

This occurred because AMS did not have adequate guidance on how to document the verification process. For specialty crops, AMS agreed that contractors must provide complete documentation related to trace-backs. However, AMS officials did not agree that a narrative describing how the officials conducted the trace-backs is necessary. Specifically, AMS stated that the documentation “could include a narrative, but more often, the most efficient means of fully documenting the trace is through the provision of a table of contents that fully outlines the documents included in the trace and the purposes of each, including flow charts of the contractor’s processes and facility operations. So, while an actual written narrative may be part of the documentation, such a document is generally extraneous, providing no additional information than is contained in the outline and trace-back documents themselves.”

While a table of contents would be an efficient means to document the trace-back process, only the Specialty Crops Program uses a table of contents. Nevertheless, the two Specialty Crops Program purchase orders noted above did not contain a table of contents.^{22, 23} Furthermore, even the purchase order folders we reviewed that did contain a table of contents could have benefited from additional narrative explaining how AMS verified domestic origin. The added narrative would more fully explain how AMS used the documents listed in the table of contents to verify the commodity’s origin.

AMS acknowledged that it needs to develop formal written guidelines on how to verify and document its domestic origin determinations for all AMS commodities. AMS also noted that it was in the process of developing formal guidance for those commodities under the Livestock and

¹⁹ According to an AMS official, the Livestock and Poultry Program primarily uses a combination of reviews and audits, along with commodity trace-backs, depending on the commodity.

²⁰ The Specialty Crops Program also used commodity trace-backs to verify domestic origin.

²¹ As was previously noted, the General Requirements for poultry require that the results of the review be documented. It does not adequately address the level of specificity needed to document how the reviewer verified the origin of the commodity was domestic.

²² We noted that the *USDA Purchases Manual* for the Specialty Crops Program did not contain adequate guidance on how to document the verification process, nor did it discuss the use of a table of contents.

²³ In lieu of a table of contents, one of the two purchase orders did include a flow chart of the contractor’s processes and facility operations. However, the flow chart did not outline the documents included in the trace and the purposes of each.

Poultry Program, and the agency planned to consolidate and streamline its verification processes for these commodities.²⁴

The purpose of FPDP is to assist American producers suffering from foreign trade retaliatory tariffs. However, without an adequate verification process where AMS sufficiently documents the results, the agency cannot ensure that commodities purchased for FPDP are from American producers. If AMS cannot demonstrate that agricultural commodities are from the United States, it undercuts the purpose of the program.

To ensure that all commodities purchased for USDA food assistance programs were grown and produced domestically, we recommend that AMS ensure the domestic origin of all commodities is adequately verified and documented in compliance with agency policy and guidance. We also recommend that AMS establish formal guidance for all commodities specifying how to document in the purchase order folder maintained outside of WBSCM that the commodities purchased are of domestic origin. At a minimum, the guidance should require a brief narrative that supports the domestic origin determination.

Recommendation 1

Ensure that the domestic origin of all commodities is adequately verified and documented in compliance with agency policy and guidance.

Agency Response

AMS has developed and implemented enhancements to the domestic origin verification requirements and procedures per OIG's recommendation. Furthermore, AMS amended its purchase manual on December 3, 2020, to include first-time domestic origin verification requirements for fresh commodities. AMS will continue to evaluate operational procedures that ensure compliance with agency policy and guidance. Through the December 2020 revision, AMS is enhancing the verification procedures for commodity purchases.

OIG Position

We accept management decision for this recommendation.

Recommendation 2

Establish formal guidance for all commodities specifying how to document in the purchase order folder maintained outside of WBSCM that the commodities purchased are of domestic origin. At a minimum, the guidance should require a brief narrative that supports the domestic origin determination.

²⁴ According to an AMS official, for most of AMS' history, the program overseeing livestock was separate from the program overseeing poultry. The two programs were combined into the Livestock and Poultry Program in 2013.

Agency Response

AMS will develop a standard procurement workflow that includes process alignment to CPP processes, policies, and organizational structure. The standard workflow and documentation of a formal contract review process will be completed by October 31, 2023, with full implementation by December 31, 2023.

OIG Position

We accept management decision for this recommendation.

Finding 2: AMS Needs to Adequately Monitor the Contracting Process for Commodity Purchases

AMS did not adequately monitor its contracting process for FPDP commodity purchases. Specifically, AMS did not conduct periodic reviews of the contracting process for its commodity purchases. This occurred because the agency believed that these types of reviews were neither required nor needed. Reviews are a critical internal control to monitor contracts to ensure they comply with applicable laws and regulations and that contract files contain all the necessary documentation. Because AMS did not adequately monitor contracts, the agency cannot ensure that contracts were properly completed, documented, and assessed, and AMS may not have been fully aware of the deficiencies found during our audit.

Office of Management and Budget (OMB) guidance states that management is responsible for establishing and maintaining internal controls to achieve effective and efficient operations and to achieve compliance with applicable laws and regulations.²⁵ OMB's Office of Federal Procurement Policy has further specified guidelines related to internal controls over the acquisition function. The guidelines address effectively managing the acquisition process throughout contract performance and close-out, and monitoring and providing oversight to achieve desired outcomes.²⁶ OMB's Office of Federal Procurement Policy emphasizes the importance of monitoring and providing oversight on a continuous basis to achieve desired outcomes.

We found that AMS did not adequately monitor its contracting process for FPDP by conducting periodic reviews of the contracting process for its commodity purchases. Periodic reviews of the contracting process for commodity purchases ensure that the contract files contain all the necessary documentation and that the contracting actions taken comply with the applicable laws and regulations. AMS' National Office is required to conduct quarterly reviews of at least 25 percent of all fruit and vegetable purchase order folders to ensure that the documentation is complete and accurate; AMS' regional and field offices are also required to periodically review purchase order folders for proper documentation. However, these reviews primarily covered the inspection process and purchase order folders maintained outside of the WBSCM system.²⁷ In addition, these reviews were specific to fruits and vegetables and were not expanded to other commodity groups.

This occurred because the agency believed that these types of reviews were neither required nor needed. AMS acknowledged that some contracting offices perform these types of reviews and the agency could see them as valuable if they had major systems acquisitions or high-dollar, long-term IT contracts; however, the agency noted it purchases items with very defined specifications, and awards firm-fixed-price contracts it considers very low-risk to the Government.

²⁵ OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (July 2016).

²⁶ Office of Federal Procurement Policy, *Guidelines for Assessing the Acquisition Function* (May 2008).

²⁷ The purchase order folder maintained outside of WBSCM contains documentation related to the inspection process such as verification of domestic origin, certificates of quality and condition, loading reports, and condition of container examination sheets.

While FPDP commodity purchases are not IT contracts, many are nonetheless high-dollar purchases. For example, 42 percent of the FPDP commodity purchases made between October 1, 2018, and June 9, 2020, were valued at over \$1 million, with the largest being valued at over \$44 million. The dollar value of all FPDP commodity purchases during this period totaled over \$2 billion.

Without periodic reviews of the contracting process, AMS cannot ensure its personnel are following its standard operating procedures for repetitive procurements. Furthermore, had AMS conducted periodic reviews of the contracting process as required, the agency could have timely detected and corrected deficiencies—including those outlined in Findings 1 and 3 of this report.

To ensure contracts are properly administered in compliance with applicable laws and regulations, and that contract files maintained in WBSCM contain all the required documentation, we recommend AMS establish a formal review process covering the contracting process for all commodity purchases. The reviews should also include records management in WBSCM.

Recommendation 3

Establish a formal review process covering the contracting process for commodity purchases similar to the one conducted for the inspection process.

Agency Response

AMS will document and implement a formal contract review process. The documentation of a formal contract review process will be completed by October 31, 2023, with full implementation by December 31, 2023.

OIG Position

We accept management decision for this recommendation.

Recommendation 4

Ensure that the reviews conducted in Recommendation 3 cover records management in WBSCM.

Agency Response

AMS will document and implement a formal contract review process that reviews a random sample of purchase orders to ensure the completeness and accuracy of electronic records in WBSCM. The standard workflow and documentation of a formal contract review process will be completed by October 31, 2023, with full implementation by December 31, 2023.

OIG Position

We accept management decision for this recommendation.

Finding 3: Contract Files in WBSCM Missing Required Documentation

We found that the contract files in WBSCM, AMS' system of record, for all 30 purchase orders we reviewed, were missing at least one piece of key documentation. Although AMS was able to ultimately locate many of the missing documents, we were unable to determine whether the remaining missing documents were misplaced, discarded, or not prepared by the contracting personnel. This occurred due to lack of monitoring and training. Without complete contract files, AMS cannot support the basis for its contract award decisions or provide information for reviews and investigations in the event of litigation and Congressional inquiries. Furthermore, the agency risks paying for products or services that were not received or receiving future claims from contractors.

The Federal Acquisition Regulation (FAR) states that “[t]he head of each office performing contracting, contract administration, or paying functions shall establish files containing the records of all contractual actions”²⁸ It further states that “[t]he documentation in the files shall be sufficient to constitute a complete history of the transaction...”²⁹ To comply with FAR, AMS policy requires that all documentation related to procurement shall be electronically filed under Records Management in WBSCM.³⁰

Our review of 30 statistically selected purchase orders disclosed that all the WBSCM contract files we reviewed were missing required FAR documentation.³¹ For example, the WBSCM contract files for 27 of the purchase orders we reviewed were missing a bid memorandum, evidence of a bid session review,³² or verification of funds. In addition, none of the purchase orders we reviewed contained proof of final payment.

AMS was ultimately able to locate many but not all of the missing documents. For example, AMS was able to locate the bid memorandum, evidence of a bid session review, or verification of funds for 21 of the purchase orders, but all of the purchase orders reviewed were still missing proof of final payment. We project that of the 448 purchase orders in our sample universe, at least 406 were missing at least one piece of key documentation in WBSCM.³³

²⁸ 48 C.F.R., Section 4.801(a), *General*.

²⁹ 48 C.F.R., Section 4.801(b), *General*.

³⁰ USDA AMS, *Required Documents to be Included in Records Management*, CPS-PM-006 (Sept. 2017).

³¹ We reviewed 30 statistically selected purchase orders totaling over \$140 million. Our sample universe consisted of all purchase orders valued at over \$1 million approved on or before June 5, 2020. There were 448 purchase orders totaling over \$1.8 billion that met our criteria. As noted in the Scope and Methodology section of this report, we initially selected a sample of 84 purchase orders to review, but only reviewed the first 30 selected purchase orders using the stop-or-go option. Purchase orders reviewed included the following commodities: beef, pork, chicken, turkey, apples, oranges, grapefruit, raisins, pistachios, pecans, beans, corn, cheese, and rice.

³² AMS uses the Bid Evaluation & Optimization Solution (BEOS) System to analyze vendor offers and to stratify the offers based upon lowest land cost (i.e., lowest combined price for the commodity and transportation to the destination). The purpose of the Bid Session Review is to review the bids, determine price limits, award orders based on the bids, and create a plan for any unawarded orders (i.e., cancellation of orders or rescheduling of the solicitation). The Bid Memorandum documents the awarded orders determined from BEOS and the Bid Session Review.

³³ Our sample universe consisted of all purchase orders valued at over \$1 million approved on or before June 5, 2020. We are 95-percent confident that at least 406 of the 448 purchase orders in our sample universe were missing at least one piece of key documentation. See Exhibit B for the sampling methodology and results.

This occurred due to lack of monitoring and training. When we interviewed an AMS official about the missing documentation, that person stated that they upload documents, such as the bid memoranda, manually into WBSCM. However, AMS acknowledged that no one at AMS checks whether all of the required documents are uploaded to WBSCM. Additionally, AMS officials stated that some documents are likely stored on shared drives and not uploaded to WBSCM. Although AMS provides annual training on records management, which could address the deficiencies we identified, it is not mandatory.

According to AMS, the agency reaffirmed the importance of accurate records management. Specifically, the Branch Chiefs discussed the importance of saving required documents in WBSCM in a team meeting held in either December 2020 or January 2021.

To ensure that the contract files are properly maintained and secured, and represent a complete and accurate history of the contracting actions taken, we recommend that AMS enforce its policy requiring that all documentation related to procurement be electronically filed under Records Management in WBSCM. We also recommend that all contracting staff be required to attend the annual records management training.

Recommendation 5

Enforce AMS policy requiring that all documentation related to procurement be electronically filed under Records Management in WBSCM.

Agency Response

Fiscal year 2024 contract specialist performance plans will be updated to more clearly reflect the requirement to adhere to contracting policies, including records management policies. In subsequent correspondence, AMS provided a completion date of December 31, 2023, for this action.

OIG Position

We accept management decision for this recommendation.

Recommendation 6

Require that all contracting staff attend the annual records management training.

Agency Response

All AMS contracting staff will complete annual records management training by October 31, 2023.

OIG Position

We accept management decision for this recommendation.

Scope and Methodology

We conducted an audit of AMS' FPDP. The scope of our audit covered commodity purchases approved in FYs 2019 or 2020. To accomplish our objectives, we performed fieldwork at AMS' national office in Washington, DC. Following our initial visit to the AMS national office, the remainder of our fieldwork was performed remotely due to the coronavirus pandemic. We performed our fieldwork from March 2020 through February 2023.

To assess AMS' controls surrounding commodity purchases for FPDP, we statistically selected a sample of 84 purchase orders to review totaling over \$321 million. Our universe consisted of all purchase orders exceeding \$1 million approved on or before June 5, 2020. There were 448 purchase orders totaling over \$1.8 billion that met our criteria. We statistically selected the purchase orders we reviewed so that any conclusions drawn from the sample would be representative of the universe. Please see Exhibit B for further details on our sampling methodology.

After reviewing the first 30 statistically selected purchase orders totaling over \$140 million, we exercised the stop-or-go sampling option. Stop-or-go sampling involves the evaluation of each sample taken from a population to see if it fits a certain condition. The audit reviews the sample of purchase orders until there is sufficient support for the condition. Rather than reviewing all 84 purchase orders that were statistically selected for review, we only reviewed the first 30 purchase orders since that was sufficient to support our findings and recommendations in this report.

In developing the findings for this report, we also performed the following steps and procedures:

- Reviewed the pertinent laws, regulations, policies, and procedures relating to FPDP;
- Interviewed key personnel to gain an understanding of their roles and responsibilities relating to FPDP;
- Ascertained AMS' process for determining the type and quantity of commodities to purchase for FPDP;
- Ascertained AMS' process for determining applicants' eligibility to purchase commodities for FPDP;
- Ascertained AMS' processes for soliciting, bidding, and awarding commodity purchase contracts for FPDP;
- Ascertained AMS' process for ensuring the commodities purchased were domestically grown and processed;
- Ascertained AMS' outreach efforts for FPDP;
- Ascertained the adequacy and effectiveness of AMS' oversight of FPDP; and
- Selected and reviewed a statistical sample of purchase orders and assessed the corresponding contract files in WBSCM for completeness and compliance with FAR requirements.

During the course of the audit, we obtained and reviewed information from WBSCM. This included statistically selecting our sample of purchase orders to review from WBSCM and reviewing the documentation stored in WBSCM pertaining to the sample. To ascertain the reliability of the data in WBSCM, agency officials walked us through the controls surrounding

WBSCM for data entry and document storage, as WBSCM is the agency’s system of record for commodity purchases.³⁴ Our Office of Analytics and Innovation also did limited testing of the data before statistically selecting the sample of purchase orders to review. The testing consisted of generating control totals from a weekly trade report and reconciling the totals from the weekly trade report to AMS’ universe data from WBSCM for FYs 2019 and 2020. From these efforts, we believe that our sample was sufficiently reliable for this report. We also make no representation regarding the adequacy of any agency computer systems, or the information generated from them, because evaluating the effectiveness of information systems or information technology controls was not one of the audit’s objectives.

We assessed internal controls significant to the audit objectives. In particular, we assessed:

Component	Principle
Control Activities	Management should design control activities to achieve objectives and respond to risks.
Control Activities	Management should implement control activities through policies.
Information and Communication	Management should use quality information to achieve the entity’s objectives.
Monitoring	Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

Because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

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.

³⁴ During the audit, AMS gave OIG temporary access to WBSCM so that OIG could review the information in the system to determine whether the required documents were timely uploaded to WBSCM.

Abbreviations

AMS	Agricultural Marketing Service
BEOS	Bid Evaluation & Optimization Solution
CCC	Commodity Credit Corporation
C.F.R.	Code of Federal Regulations
CI	confidence interval
FAR	Federal Acquisition Regulation
FGIS	Federal Grain Inspection Service
FPDP	Food Purchase and Distribution Program
OAI	Office of Analytics and Innovation
OIG	Office of Inspector General
OMB	Office of Management and Budget
TEFAP	The Emergency Food Assistance Program
U.S.C.	United States Code
USDA	United States Department of Agriculture
WBSCM	Web-Based Supply Chain Management

Exhibit A: Exceptions Noted for Sampled Purchase Orders

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

Sample Number	Commodity Purchased	Amount Purchased	Finding 1		Finding 3
			Domestic Origin Not Verified	Verification Inadequately Documented	Documents Missing In WBSCM
1	Pork				X
2	Apples		X		X
3	Chicken			X	X
4	Turkey		X		X
5	Pork				X
6	Beef				X
7	Oranges				X
8	Pork				X
9	Raisins			X	X
10	Rice				X
11	Chicken			X	X
12	Beans				X
13	Corn				X
14	Pork				X
15	Pistachios and Pecans				X
16	Chicken		X		X
17	Oranges				X
18	Pork				X
19	Grapefruit				X
20	Cheese				X
21	Fruit and Nuts				X
22	Pork				X
23	Rice				X
24	Chicken			X	X
25	Pork				X
26	Grapefruit			X	X
27	Chicken		X		X
28	Pork				X
29	Beef				X
30	Pork				X
Number of Exceptions		\$140,263,585	4	5	30

Exhibit B: Sampling Methodology

Agricultural Marketing Service Food Purchase and Distribution Program Audit 01601-0003-41

Background:

The objective of this audit is to determine whether AMS had adequate controls in place to ensure that: (1) contracts for FPDP commodity purchases were awarded to eligible producers in compliance with the Federal Acquisition Regulation, and (2) AMS purchased the type and quantity of commodities that USDA determined were necessary to mitigate the impact from retaliatory tariffs.

Universe Information:

The universe consists of all purchase orders/contracts (POC) exceeding \$1,000,000 approved on or before June 5, 2020. There are 448 of these.

Sample Design:

For each POC selected, we will determine if AMS either did or did not perform a required procedure applicable to that POC; i.e., each applicable attribute's observation will be coded either yes or no when estimating the count and proportion in the universe of 448 POC over \$1,000,000. (No estimation will be reported regarding POCs less than \$1,000,000). We intend to randomly select, without replacement, 84 (n) of these 448 POC based on the following:

- Universe size = 448 POC.
- Intending to report 95-percent, two-tailed confidence intervals (CI).
- Wanting CI no wider than 20 percent (e.g., precision of ± 10 percent if CI's midpoint = point estimate).
- Assuming exception rates might be near or equal to 50 percent since the closer to 50 percent, the less precise the CI for a given n (or alternatively, the larger the n needed to achieve a given precision). To be conservative, we assume this because there are no reliable data for predicting these exception rates in advance.³⁵

³⁵ Either *hypersampleplan.CL (84, 42, 448)* in R or the Excel code below can be used to compute a 94.893-percent CI from 179 (39.9554 percent) to 269 (60.0446 percent) if 42 (50 percent) with an exception are found in 84 randomly selected from 448. This is because each of the following would have a 2.5535-percent probability, and thus the chance of finding both = 94.8930 percent (= $1 - 2 \times 2.5535$ percent):

- 42 (50 percent) or more in 84 randomly selected from 448 if 179 (39.9554 percent) of these 448 have this exception, based on this Excel code: =1-HYPGEOM.DIST(42-1,84,179,448,TRUE)
- 42 (50 percent) or less in 84 randomly selected from 448 if 269 (60.0446 percent) of these 448 have this exception, using this Excel code: =HYPGEOM.DIST(42,84,269,448,TRUE)

A slightly more precise 95-percent CI would result if based on the following normal approximation:

$$50 \text{ percent} \pm 9.8394 \text{ percent} = \frac{42}{84} \pm \frac{t \text{ with } 84-1 \text{ df}}{1.98895978} \times \sqrt{\left(\frac{448-84}{448}\right) \times \frac{42}{84} \times \left(1 - \frac{42}{84}\right)}$$

Results:

The audit team in conjunction with the Office of Analytics and Innovation (OAI) employed a “stop-or-go” data collection strategy to stop after finding 100-percent errors upon review of 30 purchase orders. As a result, the final number of reviewed purchase orders is 30.

OAI computed the following statistical projections using the “Samplingbook” R statistics package based on binary observations randomly selected. For each question, a 95-percent one-tail confidence interval was calculated using the hypergeometric distribution upon request from the audit team.

	Lower Bound
Rate (Percent)	90.62 percent
Number	406

Achieved Precision: 9.38 percent

Interpreting the results:

Interpretation: We project with a 95-percent confidence level that the percentage of purchase orders valued at over \$1 million issued on or before June 5, 2020, that are missing at least 1 piece of key documentation in WBSCM is at least 90.62 percent. The corresponding number of purchase orders valued at over \$1 million issued on or before June 5, 2020, that are missing at least one piece of key documentation in WBSCM, is at least 406.

**Agricultural Marketing Service's
Response to Audit Report**

Subject: Agricultural Marketing Service's Response to Office of Inspector General Audit Food Purchase and Distribution Program (No. 01601-0003-41)

To: Janet M. Sorensen, [REDACTED]@oig.usda.gov
Assistant Inspector General for Audit, Office of Inspector General

From: Bruce Summers, Bruce.Summers@usda.gov / S /
Administrator, Agricultural Marketing Service

The U.S. Department of Agriculture's (USDA) Agricultural Marketing Service (AMS) Commodity Procurement Program agrees with the Office of Inspector General (OIG) recommendations 1-6 in the Food Purchase and Distribution audit report # 01601-0003-41.

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

Recommendation 1: Ensure that the domestic origin of all commodities is adequately verified and documented in compliance with agency policy and guidance.

Recommendation 2: Establish formal guidance for all commodities specifying how to document in the purchase order folder maintained outside of WBSCM that the commodities purchased are of domestic origin. At a minimum, the guidance should require a brief narrative that supports the domestic origin determination.

Recommendation 3: Establish a formal review process covering the contracting process for commodity purchases similar to the one conducted for the inspections process.

Recommendation 4: Ensure that the reviews conducted in Recommendation 3 cover records management in WBSCM.

Recommendation 5: Enforce AMS policy requiring that all documentation related to procurement be electronically filed under Records Management in WBSCM.

Recommendation 6: Require that all contracting staff attend the annual records management training.

Agency Response: AMS has developed and implemented enhancements to the domestic origin verification requirements and procedures per OIG's recommendations. Furthermore, 10 months after OIG initiated the audit, AMS amended its purchase manual on December 3, 2020 to include first-time domestic origin verification requirements for fresh commodities.

When Purchase Order (PO) [REDACTED] was processed, the USDA Specialty Crop Purchase Manual required domestic origin verification for processed specialty crops products and did not include such requirements for fresh specialty crops products, e.g., the [REDACTED] cited PO [REDACTED]. As such, PO [REDACTED] would have been subject to the requirements of the AMS Master Solicitation for Commodity Procurements (dated April 2017). Nevertheless, through the December 2020 revision, AMS is enhancing the verification procedures for commodity purchases.

AMS will continue to evaluate operational procedures that ensure compliance with agency policy and guidance. AMS will develop a standard procurement workflow that includes process alignment to CPP processes, policies, and organizational structure. Post alignment, AMS will document and implement a formal contract review process that reviews a random sample of purchase orders to ensure the completeness and accuracy of electronic records in WBSCM. The standard workflow and documentation of a formal contract review process will be completed by October 31, 2023, with full implementation by December 31, 2023. Fiscal year 2024 contract specialist performance plans will be updated to more clearly reflect the requirement to adhere to contracting policies, including records management policies. All AMS contracting staff will complete annual records management training by October 31, 2023.

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