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Report to the Administrator, Foreign
Agricultural Service, U.S. Department of
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INTERNATIONAL TRADE

Export Enhancement Program Bonus Overpayments



National Security and
International Affairs Division

B-237921

February 7, 1990

Mr. R.E. Anderson Jr., Administrator
Foreign Agricultural Service
Department of Agriculture

Dear Mr. Anderson:

At the request of several Members of Congress we are currently reviewing the Export Enhancement Program (EEP). Under EEP, surplus government-owned agricultural commodities are made available as bonuses to U.S. exporters to expand sales in specific markets. These bonuses enable exporters to lower the prices of U.S. agricultural commodities and make them competitive with subsidized foreign agricultural exports. One phase of our review is an examination of the process used to distribute generic commodity certificates as bonuses to U.S. exporters. Our objectives in this phase were to determine (1) whether adequate internal controls were in place for the bonus payment process, and (2) whether any overpayments had been made.

Results in Brief

Our review indicated that internal controls over the bonus payment process were not adequate to ensure that bonus payments were properly made. We identified eight cases in which unauthorized overpayments totaling about \$635,000 had apparently been made.

Background

Under EEP, the Foreign Agricultural Service (FAS) approves a commodity sales agreement between an exporter and a participating country for a specified quantity of agricultural goods that can be exceeded by up to 5 percent. Once the exporter has satisfactorily completed the shipment and provided proof of performance, the Agricultural Stabilization and Conservation Service (ASCS) in Kansas City, Missouri, awards generic commodity bonus certificates to the exporter. The amount of the bonus awarded is based on the quantity shipped. However, if the quantity shipped exceeds 105 percent of the approved sales quantity, the excess is not eligible for a bonus. Any bonus awarded for these excess quantities shipped is considered an overpayment.

Over \$2.6 billion worth of surplus U.S. agricultural commodities have been made available as bonuses to eligible U.S. exporters from the inception of the program in 1985 through October 26, 1989. These bonuses

were spread among 105 initiatives (country/commodity pairings) targeting 65 countries and 12 commodities. An additional 144 quantity allocations were approved and announced under these initiatives through September 29, 1989.

Inadequate Internal Controls Allow Overpayments

Our review showed that FAS had not established the controls necessary to alert ASCS that a bonus payment ceiling has been reached or to verify that payments made are in accordance with contract figures. FAS had not provided ASCS with written guidelines or procedures to be followed in making EEP bonus payments. Because ASCS had not consistently kept an accurate tally of the amount shipped under a particular contract and continually compared that figure to the approved sales quantity, the ASCS did not routinely know if the 105-percent ceiling had been exceeded. Further, bonus payment calculations were not independently reviewed by anyone.

The Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512 (b)) requires executive agencies to establish and maintain systems of internal control which are to be consistent with the Comptroller General's Standards for Internal Controls in the Federal Government. These standards call for internal controls to provide reasonable assurance that the use of resources is consistent with applicable laws, regulations, and policies; resources are safeguarded against waste, loss, or abuse; and reliable data are maintained and fairly reported. The standards recognize that the cost of internal control should not exceed the benefits to be derived and that judgment needs to be exercised in determining the extent of control needed.

Before our review, FAS officials were aware that the bonus payment process lacked an adequate internal control system. The Export Credits section of FAS had submitted a proposal to establish such internal controls to the FAS Information Systems Management Division for review. The purpose of the proposal was to greatly reduce the possibility of overpayments by strengthening ASCS's ability to determine and monitor the amount of payment required.

According to FAS officials, this proposal was approved for inclusion in the Information Resources Management Plan for fiscal years 1990 to 1994 and given priority over other FAS proposals. However, the priority was reduced after review by FAS management. At the time of our review, the proposal had not been implemented.

Extent of Bonus Overpayments

We obtained an FAS database which contained EEP contract information. Using a computer program, we examined the figures in the database for every EEP contract approved from May 1985 through September 30, 1988. We compared actual bonuses awarded with the maximum bonuses allowed under each of 2,145 contracts and identified 69 apparent overpayments.

Of the 69 cases, we found that 49 were due to differences in rounding or that they involved overpayments that ranged from one cent to \$556.91. Our analysis of the relevant contract files kept at the ASCS's Sales Invoice Branch in Kansas City showed that for 12 of the remaining 20 contracts, keypunch errors had been made when ASCS entered contract or payment information or that FAS had already reconciled or recouped the overpayment. The eight remaining apparent overpayments totaled \$634,926. Two of the eight accounted for close to \$600,000 of this amount.

We discussed these cases with ASCS staff in Kansas City, who agreed that based on the information in their files, these eight cases represented overpayments. During a meeting in November 1989, we informed FAS officials in Washington, D.C., of the apparent overpayments. They said that they would investigate the circumstances of each case to confirm whether any overpayments had been made. These officials said they would act to recoup any overpayments from the exporters. Appendix I provides more detailed information on these apparent overpayments.

Recommendations

We recommend that the Administrator of FAS complete the review of the eight apparent overpayments and recover any actual overpayments from the exporters. While we recognize the extent of significant overpayments is limited, we believe that there is sufficient potential for further occurrences of overpayments to warrant better internal controls. Therefore, we also recommend that you develop sufficient internal controls over the bonus payment process to safeguard against future overpayments.

The principal GAO staff members responsible for this review were Phillip J. Thomas, Juliann M. Gerkens, Michael J. Morgan, Larry D. Van Sickle, and Shirley A. Franklin. If you have any questions, please feel free to call me at (202) 275-4812. We would appreciate learning of whatever actions you have taken or plan to take with regard to our recommendations.

Sincerely yours,



Allan I. Mendelowitz
Director, International Trade
and Finance Issues

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Abbreviations

ASCS	Agricultural Stabilization and Conservation Service
EEP	Export Enhancement Program
FAS	Foreign Agricultural Service

Payments That Exceeded the 105-Percent Limit

Contract number	Maximum bonus	Amount paid	Amount overpaid
500-11-FP-6	\$1,729,367	\$2,057,664	\$328,297
512-50-W-43C	94,142	357,354	263,212
500-1A-W-74C	711,659	738,092	26,433
500-1A-W-69C	636,035	641,633	5,597
500-86-W-1C	743,061	748,233	5,173
506-39-E-29C	751	4,950	4,199
505-2-WF-59C	989,127	990,140	1,013
500-8-R-2	902,580	903,582	1,002
Total			\$634,926

Note: Figures may not add due to rounding.

Objectives, Scope, and Methodology

Objectives of this study were to determine (1) whether adequate internal controls were in place for the bonus payment process associated with the Export Enhancement Program (EEP), and (2) whether any overpayments had been made.

Information for this report was obtained from our review of documents and interviews with officials at the Agricultural Stabilization and Conservation Service (ASCS) offices in Kansas City, Missouri, and the Foreign Agricultural Service (FAS) offices in Washington, D.C..

We interviewed ASCS officials in Kansas City to develop an understanding of what internal controls were established to ensure that payments were processed according to program guidelines. We documented program guidelines and interviewed ASCS staff directly involved in making bonus payments.

To test to see if these guidelines were being followed we examined the files of selected contracts for which bonuses were awarded. We obtained an FAS database, jointly developed and maintained by FAS and ASCS/Kansas City, which contained EEP contract information, performed a reliability assessment of that database, and used it to review the propriety of contract payments.

For all contracts approved from May 1985 to September 30, 1988, we developed a methodology that would (1) search the entire database, (2) compare actual bonus payments with the maximum allowed under the contracts, and (3) identify any payments that exceeded the 105-percent tolerance level. We then discussed the status of each significant case with the ASCS Sales Invoice Branch accountants and attempted to reconcile the apparent overpayments. This inquiry included examination of the contract files.

We conducted this phase of our review between April and October 1989 in accordance with generally accepted government auditing standards.

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