



U.S. Department of Agriculture



Office of Inspector General
Midwest Region

Audit Report

Farm Service Agency Compliance Activities

Report No. 03601-12-Ch
September 2005



UNITED STATES DEPARTMENT OF AGRICULTURE



OFFICE OF INSPECTOR GENERAL
Washington, DC 20250

DATE: September 30, 2005

REPLY TO
ATTN OF: 03601-12-Ch

TO: Michael W. Yost
Acting Administrator
Farm Service Agency

ATTN: T. Mike McCann
Director
Operations Review and Analysis Staff

FROM: Robert W. Young /s/
Assistant Inspector General for Audit

SUBJECT: Farm Service Agency Compliance Activities

This report presents the results of our audit of the Farm Service Agency compliance activities. Your agency's response to the draft report, dated September 29, 2005, is included in its entirety as exhibit B, with excerpts and the Office of Inspector General's (OIG) position incorporated into the relevant sections of the report.

Based on the response, we have not reached management decisions on Recommendations 1, 2, 3, 4, 5 or 6. Management decisions on these recommendations can be reached once you have provided us with the additional information outlined in the report sections, OIG Position, following each recommendation.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned and the timeframes for implementation for the recommendations. Please note that the regulation requires a management decision to be reached on all findings and recommendations within a maximum of 6 months from report issuance, and final action to be taken within 1 year of each management decision.

We appreciate the courtesies and cooperation extended to us by your staff.

Executive Summary

Farm Service Agency Compliance Activities

Results in Brief

This report presents the results of our audit of compliance activities at FSA. To ensure the accuracy of payments in its many farm programs, FSA requires numerous compliance reviews and spot checks, which are conducted by every local county office in the country, by State offices, and by the various national office staffs. The purpose of the audit was to evaluate the coordination of FSA's various compliance review functions, and to determine whether FSA is using its compliance review resources effectively.

FSA divisions have required compliance or internal reviews of its numerous programs without evaluating the way these activities were deployed over the years or their impact on operations, particularly at the local level. We found that FSA could achieve significant savings by employing advanced techniques, such as statistical sampling or data mining, in selecting individual program participants for reviews or spot checks and for multiple purposes. Because of the very large number of different compliance reviews performed by FSA divisions, we limited our review to two compliance reviews in two divisions. Even through this limited review, we conservatively calculated that FSA could redirect over 368,000 work hours spent on these two compliance reviews alone, valued at over \$3.7 million annually, to other important program activities.

FSA also needs to improve its efforts to collect and assess the results of compliance reviews. In the two programs we reviewed, we found that the FSA program divisions do not collect and analyze the compliance review results at the national level. Most of the results were not communicated beyond the individual county offices that performed the reviews. FSA does not use the reviews to either (1) identify systemic noncompliance trends and direct its limited resources to known problem areas or (2) determine the causes of identified improper payments and take actions to correct those causes. Also, because no analyses are available, FSA's Financial Management Division (FMD) and Strategic Planning units cannot use compliance review results to prepare their reports to Congress on the status of the agency's improper payments and material internal control weaknesses. Once program divisions begin analyzing compliance review results, FSA could assign to one division the responsibility for consolidating and sharing the analyses.

This one division would collect compliance review results from all program divisions, and then review and distribute them to all FSA divisions with a need for them, including FMD and Strategic Planning. The analyses would facilitate identification and reporting of: (1) improper payments and steps taken to reduce them by FMD, as required by the Improper Payments Information Act of 2002, and (2) material internal control weaknesses by Strategic Planning, as required by the Federal Managers Financial Integrity Act.

Recommendations In Brief

We recommend that FSA evaluate compliance reviews across FSA programs. FSA should develop recommendations for the most efficient and effective methods for performing the reviews, specifically considering the combination of reviews and the use of advanced sampling techniques, such as statistical sampling, and develop a schedule to implement those recommendations. We also recommend that FSA record the results of all of its compliance reviews in an electronic format that facilitates national office review and analysis, and that FSA analyze those results to identify common problems and to determine the causes of improper payments. In addition, we recommend that FSA develop a process for sharing compliance review analyses among the appropriate FSA program divisions and units. Finally, we recommend that FSA evaluate the practicality of using a data warehousing system that would contain both program data and compliance review results.

Agency Response

In its response to the official draft report dated September 29, 2005, FSA generally agreed with our recommendations and has formed a taskforce to review current compliance activities and make recommendations to FSA management for new processes. We have incorporated applicable portions of the FSA response, along with our position, within the Findings and Recommendations section of the report. The FSA response is included in its entirety in exhibit B of this audit report.

OIG Position

We agree with FSA's proposed corrective actions; however, based on the response dated September 29, 2005, we cannot reach management decision on Recommendations 1, 2, 3, 4, and 5 until FSA has provided us timeframes to implement the corrective actions. For Recommendation 4, we also need FSA's commitment to develop a process to continuously analyze compliance review results and take related actions to correct identified internal control weaknesses. To reach management decision for Recommendation 6, FSA needs to provide clarification that compliance review results will be included with program data in the relational databases being established and that funding needed has been requested and a plan formulated to complete this.

Abbreviations Used in this Report

AFIS	Automated Farm Inspection Selection
APSS	Automated Price Support System
COR	County Operations Reviewer
CORP	County Operations Review Program
FMD	Financial Management Division
FMFIA	Federal Managers Financial Integrity Act
FSA	Farm Service Agency
FY	Fiscal Year
IPIA	Improper Payments Information Act of 2002
LDP	Loan Deficiency Payment
MAL	Marketing Assistance Loan
NAIP	National Agricultural Imagery Program
OBPI	Office of Business and Program Integration
OIG	Office of Inspector General
OMB	Office of Management and Budget
ORAS	Operations Review and Analysis Staff
PECD	Production, Emergencies, and Compliance Division
PSD	Price Support Division
RMA	Risk Management Agency
SED	State Executive Director
USDA	U. S. Department of Agriculture

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Background and Objectives

Background

The Farm Service Agency (FSA) was created by the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994¹ to improve the economic stability of agriculture and the environment. FSA is headquartered in Washington, D.C., and its programs are delivered through an extensive network of field offices consisting of 51 State offices and 2,353 county offices.

FSA's national, State, and county offices perform 33 different types of compliance reviews to ensure the accuracy of farm program payments. The national office performs reviews of appraisals of farm loan collateral; the management of Farm Loan Program activities at each State office; Cooperative Marketing Associations whose members are also FSA producers; and commodity warehouses where Federal commodities are stored. State offices review a random sample of farm loan case files within their own State annually and in a neighboring State biennially. State offices also annually review Emergency Conservation Reserve Program applications in every county, as well as farming operations to ensure that individuals do not circumvent the farm payment limitation provisions. During our audit period, the State offices also performed a one-time spot check of 2001/2002 crop disaster payments.

Acres Report Spot Checks

County offices perform a variety of spot checks of many different FSA programs. For example, county offices perform annual spot checks of acreage reports, which are filed by most of FSA's producers. Producers who receive Marketing Assistance Loans, Loan Deficiency Payments, Direct Payments, and Counter-cyclical Payments are required to report all crop and acreage data on annual acreage reports. The county office selects a random sample of 10 percent of the electronic acreage reports for spot checks using the Automated Farm Inspection Selection process. The spot check consists of measuring the acreage on each farm selected using aerial photographs, digital imagery, or farm visits. The measured acreage, by crop, is input into the automated system to generate a notification letter for the producer, showing the difference between reported and determined acreage, along with the actions to be taken by the county office, if any.

¹ Public Law 103-354

MAL and LDP Spot Checks

County offices also spot check commodities pledged as collateral for Marketing Assistance Loans (MAL) and Loan Deficiency Payments (LDP) to verify that a sufficient amount of the commodity is maintained by the producer to support the outstanding loan amount or LDP. County offices use the Automated Price Support System (APSS) to select a 2.5 percent sample of outstanding loans and LDPs to spot check monthly. The county office sends a field reporter to the producer's farm to measure the commodities pledged, check the condition of the storage structure, and check the quality of the commodity. Following the completion of the spot checks, the county office enters the number of spot checks with quantity discrepancies in APSS. A manual record of the spot check, which includes details of the measurement of each storage structure, the quality of the commodities, the condition of the storage structures, and any other items noted by the field inspector, is filed in the producer's file at the county office.

Internal Reviews

State offices carry out the County Operations Review Program (CORP), which FSA considers to be a separate activity from the compliance reviews and spot checks carried out by the program divisions. CORP was implemented in response to the Federal Managers Financial Integrity Act (FMFIA), which requires agencies to review their internal control systems. CORP consists of reviews of high-risk programs and activities in county offices, follow-up reviews, and reports to management on the outcome of the reviews. State Executive Directors (SED) supervise County Operations Reviewers (COR), who perform the county office and follow-up reviews based on an annual plan developed by State office program chiefs and approved by the SED. CORs are responsible for identifying deficiencies in the specific program under review and reporting the findings directly to the applicable county committee, as well as to the SED and the national office. Failure to follow a procedure, including a mathematical error, is considered a reportable finding.

All CORP findings are uploaded to a national office database, where they are analyzed by FSA's Operations Review and Analysis Staff (ORAS) to determine what findings may be common nationwide. To be considered common, the finding must have been reported in at least 15 percent of the reviews and occurred in at least 30 percent of the States reporting. ORAS generates an annual report of CORP findings, which describes all common findings identified. ORAS also sends letters to the applicable FSA deputy administrators detailing the common findings that equal or exceed a 30 percent error rate; the administrators must respond with how they intend to correct the problem. ORAS is not responsible for analyzing and compiling

the results of compliance review activities such as MAL/LDP and acreage report spot checks.

Objectives

The objectives of the audit were to evaluate the coordination of FSA's various compliance and internal review functions, and to determine whether FSA is using its compliance and internal review resources effectively.

Findings and Recommendations

Section 1. Efficiency of Compliance Reviews

Finding 1

FSA Needs To Evaluate the Efficiency of Its Compliance Review Process

FSA performs an excessive number of compliance reviews to identify inaccurate payments or other deficiencies in its various farm programs. This problem exists because the agency has not assessed the way the current compliance review process is deployed, which has evolved over the years. We found that FSA could achieve significant savings in staff resources by employing advanced techniques such as statistical sampling or data mining. In fact, by using statistical sampling for compliance reviews in only two of its program areas, FSA could redirect over 368,000 work hours, valued at over \$3.7 million annually, to other important program activities.

FSA procedures require separate compliance reviews for most of their approximately 30 programs, as well as some compliance reviews that cover multiple programs. Each applicable program division is responsible for executing and managing each program, including the applicable compliance reviews. As new programs are added, additional compliance review activities are also added. There is no assessment of how the compliance reviews can be performed most efficiently and effectively because FSA has no central unit that is responsible for reviewing, analyzing, or distributing its compliance review results.

When we began our audit, we requested information on the various types of compliance reviews performed throughout the agency. Since FSA has no central unit to coordinate compliance activities (see Finding 2), FSA officials could not readily provide us with this information without requesting it from the individual program units. Based on our discussions with Headquarters and field staffs, we identified 33 compliance reviews conducted by staff at the national, State, and county offices. In addition, FSA advised us that they perform 17 internal reviews, which includes CORP.

Because of the large number of reviews performed, we limited our audit coverage to a review in each of two FSA divisions—the Marketing Assistance Loan/Loan Deficiency Payment program spot check in the Price Support Division (PSD) and the acreage report spot check in the Production, Emergencies, and Compliance Division (PECD).

Number of MAL/LDP and Acreage Report Spot Checks Could Be Reduced

FSA's Price Support handbook² requires county offices to perform monthly spot checks of commodities pledged as collateral for outstanding MALs and LDPs, in order to verify that the producer maintains a sufficient amount of the commodity. FSA's APSS selects a sample of 2.5 percent of the outstanding loans and LDPs in every county each month for spot checks. County offices send field reporters to each farm to measure the stored collateral.

We determined that county office staffs completed 105,885 spot checks of outstanding MALs and LDPs in calendar year 2004, using data we obtained at three county offices in Ohio. We calculated the number of spot checks performed because FSA could not supply us with the data. We also determined that field reporters take approximately 3 hours to complete each spot check at a cost of at least \$30.93 each, based on a grade level GS-4 field reporter's hourly wage of \$10.31 per hour. The 105,885 spot checks conducted in 2004 required 317,655 hours to complete, at a cost of about \$3,275,023. See Table 1, below.

FSA's Acreage and Compliance Determinations handbook³ requires county offices to spot check on an annual basis 10 percent of active farms that have filed acreage reports. Nearly all of FSA's program participants are required to file annual reports of acreage and crops on their farms. The Automated Farm Inspection Selection (AFIS) process randomly selects 10 percent of active farms that have filed acreage reports. County office staff perform the spot checks by measuring each field using aerial photographs or digital imagery. If visual inspection of the photographs or digital imagery is not adequate to verify the acres and the crops planted, a field visit to the farm is made to take a physical measurement.

² FSA Handbook 12-PS, "Automated Price Support Procedures and Common Functions for Grains, Oilseeds, and Rice," paragraph 1500, dated 5/18/01.

³ FSA Handbook 2-CP, "Acreage and Compliance Determinations," paragraph 359, dated 4/15/04.

PECD data showed that 207,451 farms were selected for spot checks by county offices in calendar year 2004, for crop year 2003, the latest year for which acreage report spot checks had been completed. Based on our reviews in three county offices in Ohio, we determined that either a GS-3, GS-6, or GS-7 county office employee took approximately 0.9 hours to complete each spot check, at a cost of at least \$8.26 each, based on a GS-3 employee's hourly wage of \$9.18 per hour. These 207,451 spot checks required 186,706 hours to complete, at a cost of about \$1,713,961. See Table 1, below.

To determine if FSA was using the most efficient method to conduct compliance reviews, we discussed the MAL/LDP and acreage report spot checks with Office of Inspector General's (OIG) statistician. He stated that, by using statistical sampling, FSA could significantly reduce the number of spot checks and project the spot check results to the entire population of MALs/LDPs and acreage reports. He explained that, based on the nationwide population sizes of both MALs/LDPs and acreage reports, FSA would need to select a statistical sample of approximately 300 each time the spot check process is performed to yield accurate results.

We compared the costs in hours and dollars for the statistical sample size to the costs for the current sample sizes used for the MAL/LDP and acreage report spot checks. Considering that FSA may want to perform spot checks more often than once per year, we calculated the costs for performing them quarterly, semi-annually, and annually, with a statistical sample size of 300 selected each time the spot checks are performed. The costs are based on the salaries of field reporters and county office staff, as explained previously.

Compliance Review	Current Method	Statistical Sampling Basis		
		Quarterly	Semi-Annually	Annually
MAL/LDP spot check:				
A. Number of spot checks	105,885	1,200	600	300
B. Hours (Line A x 3 hours/spot check)	317,655	3,600	1,800	900
C. Cost (Line B x \$10.31/hour)	\$3,275,023	\$37,116	\$18,558	\$9,279
Acreage report spot check:				
D. Number of spot checks	207,451	1,200	600	300
E. Hours (Line D x 0.90 hours/spot check)	186,706	1,080	540	270
F. Cost (Line E x \$9.18/hour)	\$1,713,961	\$9,914	\$4,957	\$2,479

Table 1

From Table 1, we calculated that FSA could save 316,755⁴ hours and \$3,265,744⁵ annually on MAL/LDP spot checks, and 186,436⁶ hours and \$1,711,482⁷ annually on acreage report spot checks, by statistically selecting samples for spot checks, performed on an annual basis, versus the current random selection processes.

In discussing the current method of performing spot checks with national office staff, the director for PSD stated that many county offices are unable to complete all of the random MAL/LDP spot checks each month due to limited resources. He acknowledged that PSD needs to revise its current procedures, which have been in place for over ten years. The Deputy Director for PECD also stated that spot checks of acreage reports have not been a priority because they are not as important as they once were because most programs use historical yields in determining payments. However, he stated that the acreage data that is collected will be used for future program payments, and therefore it is still important to collect accurate data.

At the exit conference, FSA officials stated that they have begun making the acreage report spot check procedure more efficient. Specifically, FSA is reducing the amount of time it takes to perform each spot check by using digital imagery under a national contract known as the National Agricultural Imagery Program (NAIP). FSA officials informed us that in fiscal year (FY) 2002 they deployed a pilot project in two States to perform the spot checks using digital imagery (either digital photographs or 35mm slides converted to digital imagery). FSA has since increased the use of NAIP imagery each year and planned to have NAIP imagery available to perform acreage spot checks for all counties in FY 2005. However, budget constraints have limited the number of States for which NAIP imagery for FY 2005 can be obtained, and NAIP imagery will be available for only 33 States for FY 2005. The remaining 17 States will not perform any random spot checks in FY 2005. States selected to be flown were based on data from programs that rely on specific acreages for payment calculations. All States that have partners for cost sharing for imagery in FY 2005 were also selected.⁸

Based on its analysis of a sample of 148 farms, FSA estimates that it takes 0.25 hours to perform each acreage report spot check using the new NAIP imagery – a reduction in the time needed to conduct each spot check, when compared to the 0.90 hours per spot check (estimated by OIG) under the “old” method of spot-checking from 35mm slides. However, use of NAIP imagery does nothing in and of itself to reduce the number of spot checks performed by FSA. We calculated the savings FSA could achieve using

⁴ 317,655 hours minus 900 hours = 316,755 hours

⁵ \$3,275,023 minus \$9,279 = \$3,265,744

⁶ 186,706 hours minus 270 hours = 186,436 hours

⁷ \$1,713,961 minus \$2,479 = \$1,711,482

⁸ FSA Notice CP-591, “FY 2005 Compliance Activities,” dated 5/26/05.

statistical sampling techniques for acreage report spot checks based on the FSA estimate of 0.25 hours for each acreage report spot check using NAIP imagery. See Table 2.

Acreage Report Spot Check	Current Method	Statistical Sampling Basis		
		Quarterly	Semi-Annually	Annually
A. Number of spot checks	207,451	1,200	600	300
B. Hours (Using NAIP) (Line A x 0.25 hours/spot check)	51,863	300	150	75
C. Cost (Using NAIP) (Line B x \$9.18/hour)	\$476,102	\$2,754	\$1,377	\$689

Table 2

From Table 2, we calculated that FSA could achieve estimated annual savings of 51,788⁹ hours and \$475,413¹⁰ in the conduct of its (NAIP) acreage report spot checks by sampling annually on a statistical basis. Together with the previously calculated savings for the MAL/LDP spot checks, we determined FSA could accrue annual savings of 368,543¹¹ staff hours, valued conservatively at \$3,741,157¹², if FSA employed statistical sampling in the conduct of its MAL/LDP and (NAIP) acreage report spot checks.

FSA is already considering statistical sampling techniques for one of its internal review processes, the CORP. ORAS staff, who are responsible for analyzing and compiling the results of CORP reviews, told us that they are studying the use of statistical sampling to select county offices and programs for CORP reviews on a nationwide basis to enhance the credibility of the review results, principally because program directors did not believe the review results which disclosed problems were representative of conditions nationwide. Currently, each SED judgmentally selects the offices and programs to be reviewed by the CORP in his or her State. The director of ORAS stated that using statistical sampling would reduce the number of reviews needed and allow ORAS to target CORP reviews.

For the same reasons, we concluded that FSA should consider statistical sampling for its compliance review activities, in addition to the internal CORP reviews. By using a more efficient method such as statistical sampling for its compliance reviews, FSA could realize substantial annual savings of staff hours and the associated costs.

⁹ 51,863 hours minus 75 hours = 51,788 hours

¹⁰ \$476,102 minus \$689 = \$475,413

¹¹ 316,755 hours on MAL/LDP spot checks plus 51,788 hours on acreage report spot checks = 368,543 hours

¹² \$3,265,744 for MAL/LDP spot checks plus \$475,413 on acreage report spot checks = \$3,741,157

Recommendation 1

Evaluate compliance reviews across FSA programs. In consultation with other divisions and agencies, as appropriate, develop recommendations for the most efficient and effective methods for performing the FSA reviews, specifically considering the combination and coordination of reviews across division and agency lines, as practicable, and the use of advanced sampling techniques, such as statistical sampling.

Agency Response

FSA officials agreed with the recommendation. They stated a task force was formed in August 2005 to review current compliance activities across division and agency lines, where applicable, and to make recommendations to FSA management for new processes. The task force, consisting of members of FSA's Farm Programs and Farm Loan Programs on the national, State, and county levels and OIG, held its first meeting on August 11, 2005, and plans to continue with weekly meetings until recommendations can be made to FSA management.

OIG Position

To achieve management decision, we need documentation of the task force's recommendations to FSA management.

Recommendation 2

Develop a schedule to implement the actions planned based on the results of the evaluation performed as part of Recommendation 1.

Agency Response

FSA officials agreed with the recommendation. As stated in their response to Recommendation 1, a task force will make recommendations to FSA management to improve FSA's compliance system. FSA plans to implement approved recommendations as soon as practical. The task force will develop a timeline and priorities for implementation after approval.

OIG Position

To achieve management decision, we need descriptions of the approved task force recommendations relative to its evaluation of FSA's compliance reviews (Recommendation 1) and the timeline and priorities for their implementation.

Section 2. Collection and Analysis of Compliance Review Results

Finding 2 FSA Does Not Use Compliance Review Results Effectively

In addition to conducting compliance reviews more efficiently, FSA needs to improve how it uses the results of those reviews. Specifically, FSA does not collect and analyze the results of compliance reviews at the national level in order to identify program trends or to determine the causes of identified improper payments and take actions to correct those causes (and reduce improper payments). Current FSA requirements do not address the need to analyze compliance review results. As a result, FSA uses compliance reviews only to identify individual discrepancies, not to identify systemic weaknesses within its program areas. Also, because no analyses are available, FSA's Financial Management Division (FMD) and Strategic Planning units cannot use compliance review results to prepare their reports to Congress on the status of the agency's improper payments and material internal control weaknesses.

The Office of Management and Budget (OMB) provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on management controls.¹³ Agencies must implement management controls to reasonably ensure that programs achieve their intended purpose; resources are used consistent with the agency mission; programs and resources are protected from waste, fraud, and mismanagement, and used in accordance with laws and regulations; and reliable and timely information is obtained, maintained, reported, and used for decision making. FSA does this in part through their procedures for compliance reviews of program operations. And while individual discrepancies, such as shortages of loan collateral, are corrected when identified by compliance spot checks, FSA does not analyze compliance results for trends or patterns of abuse on a nationwide basis and then direct their limited resources to address those problems.

Through our review of the MAL/LDP and acreage report spot checks, we found that FSA does not require county offices to compile the results in electronic databases and forward compliance review results to the program division at the national office for analysis. The PSD does not collect any MAL/LDP spot check results at the national level, and the PECD maintains very limited results data for only the current month's acreage report spot checks at the national office. We found that most compliance review data is dispersed among various county office databases and manual files, where it is used only to resolve individual discrepancies identified in the county.

¹³ OMB Circular A-123, Management Accountability and Control, Sections 1 and 2, dated June 21, 1995.

MAL/LDP Spot Check Results Not Analyzed

For MAL/LDP spot checks, spot check data is isolated in an electronic database and manual files at FSA's 2,353 county offices. As a result, PSD staff at the national office cannot analyze the data or even provide information on the number of MAL/LDP spot checks completed in a given year. The director of PSD stated that he relies on the results of FSA's internal CORP reviews to monitor the MAL/LDP spot checks. However, the CORP reviews only identify the number of county offices that have not completed their spot checks; they do not analyze the results of the spot checks.

We further noted that the MAL/LDP data in the APSS database at the individual county offices would be more useful for analysis if more complete information were captured. We determined that only the number of spot checks performed and the number of those with discrepancies is captured in the automated system at the county level; the results entered into the system do not indicate what the discrepancies were. Complete manual records of spot checks, which include the measurement of all farm-stored quantities for the selected MALs and LDPs, the quality of the structure, and the quality of the commodity, are simply filed in the producer's loan file at the county office. However, despite the incomplete data currently entered in APSS, PSD could still perform a limited analysis of MAL/LDP spot check results if they were available at the national level.

Acreage Report Spot Check Results Not Analyzed

For the acreage report spot check, county offices measure acreage for all specified crops on each farm selected and record the measured acreage in the automated acreage report system. County office staff use the acreage information in the automated system only to generate a notification letter for the producer. This data remains at the county office. Although PECD staff at the national office receive data each month on the number of the acreage report spot checks that resulted in discrepancies, the current month's results replace the previous month's results in the system. Since only the current month's data is available, and the measured and reported acreage data remains at the county office, no meaningful analysis can be performed. Through interviews with PECD national office staff, we determined that PECD uses spot check results only to monitor the completion of spot checks, not to target its compliance review resources.

Additional Opportunities to Enhance Analysis

At a minimum, FSA needs to collect complete compliance review results from the county offices and analyze each type of review or spot check at the national level. Additionally, FSA should consider creating a consolidated database for all compliance review results, and other necessary program participant data, which would enable FSA to use data mining techniques to identify trends in compliance reviews throughout the agency, to more effectively and efficiently allocate its resources. According to OIG's statistician, collecting data such as the scope and dollar value of discrepancies in a consolidated database would allow FSA to identify potentially significant erroneous payments and focus its sampling efforts at higher risk areas through the use of data mining.

The U.S. Department of Agriculture's (USDA) Risk Management Agency (RMA) is already using advanced data mining technology to target its compliance reviews and investigations, with significant results. In the past, RMA collected large amounts of data, which were stored in different databases across the agency. Recently, RMA created a single data "warehouse," allowing RMA investigators to "mine" all existing crop insurance data records to uncover patterns. For example, RMA can identify structured schemes for fraud and investigate them preemptively. According to RMA's calendar year 2002 report submitted to Congress, RMA calculated that, in the first two years of the project, they have saved more than \$160 million on the crop insurance program. RMA also concluded that data mining is an invaluable tool for preventing fraud and erroneous indemnity payments.¹⁴

Agency-wide Need for Compliance Review Analyses

If FSA analyzed compliance review results, it would be able to share that valuable information among its various divisions and units. In particular, FSA's FMD and its Strategic Planning Branch, which report to Congress on the agency's improper payments and internal control weaknesses, would benefit from analyses of compliance review results, since such analyses should include actions to correct the causes for the identified improper payments and to reduce improper payments.

- FMD is responsible for reviewing all FSA programs and activities to identify those that may be susceptible to significant improper payments, as required by the Improper Payments Information Act of 2002 (IPIA). The IPIA requires agencies to report annually on the extent of erroneous

¹⁴ "Risk Management Agency: Preventing Fraud. Protecting Farms. Program Compliance and Integrity Annual Report to Congress, January 2002-December 2002," dated November 2004.

payments in their programs.¹⁵ Because compliance review results and analyses are not readily available to FMD, the IPIA report may not accurately reflect FSA programs' susceptibility to improper payments. The deputy director for FMD agreed that analyses of compliance review results would be very helpful in preparing FSA's estimate of improper payments. However, FMD cannot access compliance reviews efficiently if they are dispersed in each program division.

- The Strategic Planning Branch of FSA's Office of Business and Program Integration (OBPI) is responsible for annually identifying material internal control weaknesses and reporting those weaknesses to Congress, as required by FMFIA. The FMFIA requires ongoing evaluations and reports on the adequacy of agencies' internal control systems.¹⁶ Because FSA's compliance reviews may identify areas of internal control weakness, analyses of compliance review results would assist the Strategic Planning Branch in preparing the agency's FMFIA report. A management analyst in the Strategic Planning Branch stated that the office must go to each FSA program division to get information on internal control weaknesses.

To strengthen its compliance activities, FSA needs to require its program divisions to collect and thoroughly analyze the results of compliance reviews and to determine the causes of improper payments and the actions needed to reduce these improper payments. FSA should also make those analyses available throughout the agency. To accomplish this, FSA could assign responsibility for compiling and disseminating the analyses of compliance reviews to one division. The director of ORAS, the unit that analyzes and compiles the results of FSA's internal CORP reviews, stated that his staff could consolidate the results of FSA's compliance reviews.

Recommendation 3

Record the results of all compliance reviews in an electronic format that facilitates national office review and analysis.

Agency Response

FSA officials agreed with the recommendation. They stated that a thorough analysis will be conducted to determine how spot-check results are currently captured, and the task force mentioned in their response to Recommendation 1 would make recommendations to FSA management on how the data should be maintained for future review and analysis.

¹⁵ "The Improper Payments Information Act of 2002," Public Law 107-300, dated 11/26/02.

¹⁶ "Federal Managers Financial Integrity Act of 1982," Public Law 97-255, dated 9/08/82.

OIG Position

To achieve management decision, we need a description of the approved task force recommendations relative to methods of capturing FSA's compliance review results, and timeframes for their implementation.

Recommendation 4

Analyze compliance review results at the national office to identify common problems in need of corrective actions and to determine the causes of identified improper payments and actions to reduce such improper payments. Such analyses should employ data mining techniques to the extent practicable in order to identify patterns or relationships.

Agency Response

FSA officials generally agreed with the recommendation. They stated that the task force mentioned in their response to Recommendation 1 was given the responsibility of analyzing compliance review results to identify common problems in need of corrective actions to determine improper payments and the cause. Upon completion of this analysis, the task force will make recommendations to FSA management.

OIG Position

Agencies should continuously analyze compliance review results to identify internal control weaknesses associated with their programs. Identifying internal control weaknesses and taking related corrective actions are critically important to creating and maintaining a strong internal control infrastructure that supports the achievement of agency objectives through reduced vulnerability to noncompliance and corresponding increased program integrity. In addition to periodic assessments (such as the one proposed by FSA in its response to this recommendation (Recommendation 4)), agency managers should continuously monitor and improve the effectiveness of internal controls associated with their programs.

To achieve management decision, we need descriptions of the approved task force recommendations relative to the analysis of compliance review results , and timeframes for their implementation. Further, we need FSA's commitment to develop a process to continuously analyze compliance review results and take related actions to correct identified internal control weaknesses, to include timeframes for implementing such a process.

Recommendation 5

Develop a process for sharing compliance review analyses among the appropriate FSA divisions and units, including FMD and Strategic Planning.

Agency Response

FSA officials agreed with the recommendation. They stated that the task force mentioned in their response to Recommendation 1 would conduct a thorough analysis of how compliance review data can be shared among FSA divisions and units. Upon completion of this analysis, the task force will make recommendations to FSA management.

OIG Position

To achieve management decision, we need a description of the approved task force recommendations relative to sharing compliance review data among FSA divisions and units, and timeframes for their implementation.

Recommendation 6

Evaluate the practicality of using a data warehousing system that would contain both program data and compliance review results.

Agency Response

FSA officials generally agreed with the recommendation. They stated that FSA is in the process of moving all data to the web and, therefore, all program data will be housed in relational data bases. The timeline for completing migration and re-engineering is dependent on the budget.

OIG Position

To reach management decision, FSA officials need to clarify that compliance review results, along with program data, will be included in the relational data bases being established. FSA also needs to provide support that the necessary funding has been requested and a time-phased plan formulated for completion of the migration of the program data and compliance review results to relational databases.

Scope and Methodology

We conducted our audit at FSA Headquarters in Washington, DC, and the Ohio State office in Columbus, Ohio. We also visited the Licking, Logan, and Madison county offices in Ohio. We identified 17 internal reviews and 33 compliance reviews performed in various FSA divisions by the national, State, and county offices. Due to the large number of reviews, we focused on compliance reviews only. We judgmentally selected one compliance review in each of two divisions—the MAL/LDP program spot check in the PSD and the acreage report spot check in the PECD. We selected the MAL/LDP spot check because these two programs comprise over 30 percent of FSA's FY 2005 budget, and we selected the acreage report spot check because producers who participate in 75 percent of FSA's programs are required to report acreage.

The audit covered FY 2002 through FY 2004 and was conducted in accordance with Generally Accepted Government Auditing Standards.

To accomplish the audit objectives, we performed the following steps:

- Reviewed applicable laws, regulations, and FSA guidance concerning compliance reviews.
- Interviewed national office officials in each program division to determine the compliance activities performed by national office staff and to compile a complete list of FSA's compliance reviews.
- Interviewed Ohio State office staff to determine the compliance activities performed at the State office and to compile a list of compliance reviews.
- Interviewed county office staff in Licking, Logan, and Madison counties to compile a list of compliance reviews.
- Reviewed county office documentation of MAL/LDP spot checks, acreage report spot checks, and Direct and Counter-Cyclical Program spot checks performed in calendar year 2004 by the Licking, Logan, and Madison county offices.

Exhibit A – Summary of Monetary Results

Finding Number	Description	Amount	Category
1	Annual savings if statistical sampling is employed in conducting annual acreage report and MAL/LDP spot checks	\$3,741,157 ¹⁷	Funds To Be Put to Better Use, Management or Operating Improvements/Savings

¹⁷ \$3,265,744 savings on MAL/LDP spot checks, plus \$475,413 savings on acreage report (NAIP) spot checks.

Exhibit B – Agency Response



United States
Department of
Agriculture

Farm and Foreign
Agricultural
Services

Farm Service
Agency

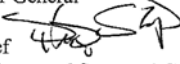
Operations Review
and Analysis Staff

Audits,
Investigations, and
State and County
Review Branch

1400 Independence
Ave., SW
STOP 0540
Washington, DC
20250-0540

SEP 29 2005

TO: Director, Farm and Foreign Agriculture Division
Office of Inspector General

FROM: Philip Sharp, Chief 
Audits, Investigations, and State and County Review Branch

SUBJECT: Response to Request for Information: 03601-12-CH, Farm Service Agency
Compliance Activities

Attached is a copy of a memorandum from the Farm Service Agency's Deputy Administrator for Farm Programs responding to your August 19 request for a response to the subject audit report.

Please address any questions to Karren Fava 720-6152.

Attachment

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Exhibit B – Agency Response



FA
9-29-05

United States
Department of
Agriculture


Farm and Foreign
Agricultural
Services

Farm Service
Agency

1400 Independence
Ave, SW
Stop-0517
Washington, DC
20250-0517

JM

TO: Philip Sharp, Chief
Audits, Investigations, and State and County Review Branch

FROM:  SEP 29 2005
John A. Johnson
Deputy Administrator for Farm Programs

SUBJECT: Revised Response - Office of Inspector General (OIG) Official Draft
Audit Report 03601-12-Ch, Farm Service Agency (FSA) Compliance
Activities - Your Memorandum of August 19

The following is in response to the subject audit for FSA compliance activities:

Recommendation 1

Evaluate compliance reviews across FSA programs. In consultation with other divisions and agencies, as appropriate, develop recommendations for the most efficient and effective methods for performing the FSA reviews, specifically considering the combination and coordination of reviews across division and agency lines, as practicable, and the use of advanced sampling techniques, such as statistical sampling.

FSA Response

A task force, consisting of members of FSA's Farm Programs and Farm Loan Programs on the National, State, and county levels and OIG, was formed in August 2005. The first task force meeting was held August 11, 2005, and will continue with weekly meetings until recommendations can be made to FSA management. The purpose of the task force is to review current compliance activities across division and Agency lines, where applicable, and make recommendations for new processes. Currently, the task force is considering the applicability of statistical sampling and combining program spot checks for programs to provide a more efficient and cost-effective means to maintain program integrity. The task force is also reviewing ways to increase program integrity by changing program policy.

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Philip Sharp
Page 2

Recommendation 2

Develop a schedule to implement the actions planned based on the results of the evaluation performed as a part of Recommendation 1.

FSA Response

As stated in the response to Recommendation 1, a task force has been formed to review current compliance activities for **all** FSA programs. Based on the task force's analysis of the current compliance system, the task force will make recommendations to FSA management for implementation. Approved recommendations will be implemented as soon as practical from recommendations submitted by the task force. The task force will develop a timeline and priorities for implementation after approval.

Recommendation 3

Record the results of all compliance reviews in an electronic format that facilitates National Office review and analysis.

FSA Response

A thorough analysis will be conducted to determine how current spot-check results are captured. The task force will make recommendations to FSA on how the data should be maintained for future review and analysis for use in developing a statistical selection process.

Recommendation 4

Analyze compliance review results at the National Office to identify common problems in need of corrective actions and to determine the causes of identified improper payments and actions to reduce such improper payments. Such analysis should employ data mining techniques to the extent practicable in order to identify patterns or relations.

FSA Response

The Compliance Task Force has been charged with the responsibility of analyzing compliance review results to identify common problems in need of corrective actions to determine improper payments and the cause. Recommendations made by the task force, upon completion of the analysis, will be submitted to FSA management for implementation.

Philip Sharp
Page 3

Recommendation 5

Develop a process for sharing compliance review analyses among appropriate FSA divisions and units, including FMD and Strategic Planning.

Response

A thorough analysis will be conducted to determine how compliance review data can be shared among FSA division and units, including FMD and Strategic Planning. The task force will make recommendations on how the data should be maintained and shared.

Recommendation 6

Evaluate the practicality of using a data warehousing system to contain both program data and compliance review results.

Response

FSA is in the process of moving all data to the web. Therefore, all program data will be housed in relational data bases. The timeline for completing the migration and re-engineering is dependent on the budget.

Informational copies of this report have been distributed to:

Administrator, FSA	
Agency Liaison Officer	(4)
General Accountability Officer	(1)
Office of the Chief Financial Officer	
Director, Planning and Accountability Division	(1)