U.S. Department of Agriculture
Office of Inspector General
Great Plains Region
Audit Report

Farm Service Agency
Crop Year 2000 Marketing Assistance Loans and Loan Deficiency Payments

Report No.
03601-19-KC
September 2003

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

DATE: September 30, 2003

REPLY TO
ATTN OF: 03601-19-KC

SUBJECT: Crop Year 2000 Marketing Assistance Loans and Loan Deficiency Payments

TO: James R. Little
Administrator
Farm Service Agency

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

SUMMARY:

The primary objectives of our review were to assess the Farm Service Agency's (FSA) administration of crop year 2000 Marketing Assistance Loans (MAL) and Loan Deficiency Payment (LDP) activities and determine the propriety of program benefits received by producers. This included an assessment as to the sufficiency of program controls designed to ensure producer eligibility and the reasonableness of 2000 crop year MAL and LDP quantities and disbursements. Also, we attempted to assess the effectiveness of the corrective actions taken for selected recommendations made in our prior audit of 1998 crop year LDP activities. The results of our review indicated that the county offices visited were generally administering the programs in accordance with program regulations and procedures and we found that FSA was still in the process of implementing the corrective actions for the conditions reported in the prior audit report. Therefore, we terminated our work after completing reviews of 67 producers in 3 judgmentally selected States.

BACKGROUND:

Sections 131 through 136 of the Federal Agriculture Improvement and Reform Act of 1996 required administration of a nonrecourse MAL and LDP program on a total of 16 commodities for the 1996 through 2002 crop years. The primary objectives of the MAL and LDP provisions are to improve and stabilize farm income, promote a better balance of supply and demand for various agricultural commodities, and assist producers in the orderly marketing of such commodities. This includes minimizing the forfeiture of price support commodities to the Commodity Credit Corporation (CCC).

The FSA has responsibility for the MAL and LDP program administration. The MAL provisions provide producers with interim financing on eligible production while facilitating the orderly marketing of such commodities throughout the year instead of at harvest time when prices tend to be depressed. Producers approved for nonrecourse loans on eligible commodities may either (1) deliver the loan collateral to CCC on or before the loan maturity date or (2) repay the outstanding loan balance at the lesser of the loan principal plus interest or the posted county price (PCP) on the date of repayment. The PCP is determined on a daily basis and is designed to reflect the actual cash prices offered by local warehouses. In cases where the loan repayment rate exceeds the PCP, the difference is considered a marketing loan gain to the producer. Recourse loans are available to producers who harvest commodities that are not eligible for MAL or LDP benefits on such commodities.

For each eligible commodity, producers have the option of receiving LDP’s in lieu of MAL’s. The LDP rate represents the difference between the county loan rate for the applicable commodity and the associated PCP on (1) the date of request for LDP benefits or (2) the delivery date for commodities delivered directly from the field to a processor, buyer, or warehouse (field direct).

In order to receive MAL or LDP benefits, producers must meet basic eligibility requirements, including compliance with annual program requirements and sharing in the risk of producing the commodity. This includes retaining beneficial interests in the commodity at the time of the request for LDP benefits. Beneficial interest is defined as having (1) control of the commodity, (2) risk of loss, and (3) title to the commodity. County office employees are required to review any associated sales contracts or leases in cases where it appears that a producer may have lost beneficial interest.

Each county committee (COC) is responsible for establishing an average yield for each applicable commodity based on local crop and weather conditions. COC’s are also responsible for determining the reasonableness of yields that appear to exceed the associated county average yields. The COC review of questionable yields represents a primary program control.

The 2000 crop year LDP and marketing loan gain benefits totaled about $6.2 billion and $1.3 billion, respectively.

In our prior audit of 1998 LDP activities, (Audit Report No. 03601-17-KC, dated September 29, 2000), we concluded that FSA needed to take action to enhance or fully implement existing program controls. We found that the county established yields were based on COC knowledge of crop and weather conditions rather than historical yield data. This process did not always result in county established yields reflecting the actual yields produced for the crop. Also, some COC’s used other methods to establish this yield. Other COC’s established the yields so high that no reviews of producer requests would need to be performed. Also, reviews that were to be conducted by COC's as a program control were not always applied or were not effectively applied.

We also reported that FSA personnel did not conduct timely spot-checks of farm-stored loans and/or LDP's in 6 of 18 counties reviewed. High volumes of requests and complicated program requirements contributed to focusing on the disbursement of payments. Also, one county improperly allowed producers to receive higher cotton LDP's based on a misinterpretation of procedure. As a result, we identified erroneous LDP and price support loan disbursements of about $330,000 to 106 (32 percent) of the 336 producers included in our prior review.

OBJECTIVES:

Our audit objectives were to assess FSA's administration of the 2000 crop year MAL and LDP provisions and determine the propriety of program benefits received by producers. This included an assessment as to the sufficiency of program controls in place to ensure producer eligibility and reasonableness of associated MAL and LDP quantities and disbursements. We also attempted to determine the effectiveness of actions taken to address selected recommendations contained in our prior Audit Report No. 03601-17-KC, 1998 Crop Loan Deficiency Payment Activities, dated September 29, 2000. The recommendations pertained to reviews of COC yield determinations to assure reasonableness, tests to identify production quantities exceeding county established yields that could be reasonably produced, documentation of the required spot-checks on farm-stored grain, and second-party reviews of MAL and LDP requests and payment data.

SCOPE AND METHODOLOGY:

The review included visits to the FSA national office in Washington, D.C., and a judgmental sample of FSA State and county offices (CO). The States and counties were selected for review based on input from agency officials and the volume of program activity. The States selected included Arkansas, Nebraska, and South Carolina. The counties selected for review included Ashley and Chicot in Arkansas; Perkins and Saline in Nebraska; and Clarendon and Orangeburg in South Carolina. At CO's visited, we reviewed supporting program records for a judgmental sample of 67 of 3,625 producers who had received at least one LDP or MAL at the time of our visit. The producers were generally selected for review based on the type of request, crop, quantity, and benefit amounts involved. In Nebraska, we also used exception listings generated by an agency software application (CTY 100) to help select producers for review. We included county office employees and county committee members in our sample where deemed appropriate.

We conducted our review by gaining an understanding of applicable regulations, policies, procedures, manuals, and instructions and performed the following:

- Interviewed FSA officials at the national, State, and local field office levels to identify applicable laws, regulations, and program policies and procedures for administering MAL and LDP programs and to identify the actions taken on weaknesses identified during our prior review of the 1998 crop year MAL and LDP programs.

- Reviewed our prior audit findings and recommendations pertaining to the administration and operations of MAL and LDP programs.

At CO's, we reviewed MAL and LDP records to determine whether producers, quantities, and payments met eligibility and program requirements. We also interviewed producers, as needed, to obtain additional information regarding their eligibility, quantities and payments.

We conducted the audit in accordance with Government Auditing Standards.

REVIEW RESULTS:

Our review in the three cited States indicated that CO's visited were generally administering the programs in accordance within the regulations and procedures established by FSA. Based on our results, we terminated our review of the 2000 crop year MAL and LDP after completing analyses of 67 judgmentally selected producers. Our review disclosed the existence of two conditions for 2000 crop year LDP's that were similar to those identified during our prior audit of 1998 crop year activities. For example, we found 12 instances where reasonableness checks of COC yield determinations were not performed as required. Also, duplicate production evidence was not detected for two cases prior to the disbursement of program benefits. However, we concluded from our review results that FSA had not completed implementation of its planned corrective actions for the recommendations addressing these conditions contained in the prior report and sufficient time had not elapsed to enable us to assess the effectiveness of corrective actions taken or contemplated at that time.

The prior audit report contained a total of 12 audit recommendations. We reached management decision on 10 of the 12 recommendations at the time of report release on September 29, 2000. Management decisions for the remaining two recommendations were reached on March 16, 2001, and May 3, 2001, respectively. FSA personnel advised us that none of the agreed-to corrective actions had been implemented at the time the review was initiated. This was further confirmed through a review of correspondence between FSA and the Office of the Chief Financial Officer. The correspondence showed that only one of the recommendations (No. 12) was considered closed as of January 30, 2002. As of the date of this memorandum, corrective actions are in process for two remaining recommendations (Recommendations Nos. 5 and 6).

Nothing came to our attention during this review that caused us to conclude that the corrective actions taken or planned would not adequately address the prior audit recommendations. We may use the results of this assessment as a basis for planning and performing future reviews of FSA MAL and LDP activities. Therefore, we are not making any further audit recommendations and no further action or reply is required.

Statements of Conditions, which provided details on each discrepancy identified during the review, were issued to the State Executive Directors in Nebraska and South Carolina. We reported that CO's did not always refer cases to COC's for reasonableness determinations even though the LDP benefits were based on yields that appeared to be excessive, comply with requirements for handling facsimile LDP requests, and properly process a correction for an erroneous payment they identified. We also found overstated benefit amounts due to duplicate production evidence and the use of an incorrect LDP rate. The conditions identified that required CO action were discussed with FSA officials prior to leaving the audit locations and we asked each State office to provide a written response to the Statement of Conditions. The State offices reported to us during the review that appropriate corrective actions were completed. The review in Arkansas did not disclose areas where action was needed at either the State or county level.

If you have any questions, please contact me at 720-6945, or have a member of your staff contact Ernest M. Hayashi, Director, Farm and Foreign Agricultural Division, at 720-2887.

We appreciate the courtesies and cooperation extended to us during the audit.

/s/

RICHARD D. LONG
Assistant Inspector General
for Audit

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