



U.S. Department of Agriculture



Office of Inspector General
Southeast Region

Audit Report

Disposition of Inventory Properties Puerto Rico Farm Service Agency U.S. Department of Agriculture

Report No. 03099-165-AT
July 2004



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Southeast Region - Audit
401 West Peachtree Street, Suite 2328
Atlanta, Georgia 30308
TEL: 404-730-3210 FAX: 404-730-3221



DATE: July 9, 2004

REPLY TO
ATTN OF: 03099-165-At

SUBJECT: Farm Service Agency, Disposition of Foreclosed Properties in Puerto Rico

TO: Juan M. Ortiz
State Executive Director
Farm Service Agency, Puerto Rico

This report presents the results of the subject audit. Your June 21, 2004, response to the draft report is included as exhibit D with excerpts and the Office of Inspector General's (OIG) position incorporated in the Findings and Recommendations section of the report. We agree with your management decisions on the report's two recommendations.

Please note that Departmental Regulation 1720-1 requires that you take final action on each recommendation within 1 year after management decision. You should follow the agency's internal procedures for forwarding final action to the Office of the Chief Financial Officer.

We appreciate the courtesies and cooperation extended to us by members of your staff during the audit.

/S/
RAYMOND G. POLAND
Regional Inspector General

Executive Summary

Disposition of Inventory Properties Puerto Rico Farm Service Agency (Audit No. 03099-165-AT)

Results in Brief

This report presents the results of our review of the Puerto Rico Farm Service Agency's (FSA) controls over the management of acquired inventory properties. The Puerto Rico FSA State Office (SO) had not complied with agency sales policies for inventory properties. FSA requires that inventory properties be sold within a maximum of 165 days from their acquisition dates. Between January 1, 1997, and December 31, 2003, FSA sold 74 acquired properties with another 16 properties remaining in inventory. The 74 sold properties were held as unproductive assets for an average of 4 years. As of December 31, 2003, the 16 inventory properties had been held an average of 6 years. In general, the excessive delays were due to FSA not taking timely action to sell the properties or timely following up when technical or legal issues arose. The 90 properties, valued at \$8.4 million when they were acquired, either sold for or had a market value (per latest appraisals) totaling \$6.3 million -- a net decline in value of \$2.1 million. The delays in disposing of the unproductive assets reduced funds available to finance new loans and increased FSA's borrowing cost from the Department of Treasury. Improved management of acquired properties is necessary given that as of January 2004, 233 delinquent borrower accounts had either been accelerated or were pending legal action with the likelihood that FSA will acquire the real estate security in many cases.

Recommendations In Brief

We recommend that FSA SO develop a control system to monitor the inventory property disposition process. The system should set, in writing, the roles and responsibilities of personnel involved in the disposition process and the timeframes to accomplish the various phases. Also, the process should require a coordinator to link the phases in the process. The coordinator should prepare periodic written status reports to the State director so that any problems can be timely resolved.

Agency Response

In its June 21, 2004, response, the FSA SO agreed with the recommendations and outlined actions taken or purposed to implement them. (See exhibit D.)

OIG Position

We agree with the SO management decision on the recommendations.

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Background and Objectives

Background

The Farm Service Agency (FSA), an organization of the U.S. Department of Agriculture (USDA), provides direct and guaranteed loans to farmers and ranchers who are unable to obtain financing from commercial credit sources. FSA makes direct loans and guarantees loans made and serviced by private lenders (i.e., banks). If the farmers or ranchers default on the direct loans, FSA forecloses on the loans and acquires any real property serving as collateral. If the property can be used for agricultural purposes, it is identified as suitable property and offered for sale with FSA financing available to eligible farmers and ranchers. Priority is given to the beginning farmers and ranchers. If the property cannot be used for agricultural purposes, it is declared as surplus property and sold without benefit of any FSA financing.

The Consolidated Farm and Rural Development Act of 1996 amended the credit programs and lending policies of FSA. Its provisions streamlined the rules about the sale and management of real inventory properties. The new rules were intended to expedite sale procedures and reduce program costs. All inventory properties should be advertised for sale within 15 days from acquisition and should be sold not later than 165 calendar days from the date of acquisition.

During 2000 and 2001, the FSA National Office (NO) performed two reviews of the disposition of foreclosed inventory property in Puerto Rico. The review reports disclosed FSA's files lacked evidence that the properties were advertised for sale. In addition, appraisal reports were made using old comparables and properties were sold for much less than the appraised value without leaving a trail of price determination in the file.

Between January 1997 and December 2003, the Puerto Rico FSA State Office (SO) sold 74 inventory properties. The sale prices totaled about \$4.5 million. As of December 31, 2003, FSA held 16 properties in inventory with an appraised value of about \$1.79 million. Due to the high-delinquency rate affecting the farm program loan portfolio, continued acquisition of real estate collateral may be expected. FSA reports showed that as of January 2004, 1,055 borrowers were delinquent on their loans. Of the 1,055 cases, the accounts of 233 had been accelerated or were pending legal action.

Table 1

Accelerated	127
Bankruptcy Pending	55
Foreclosure Pending	44
Court Action Pending	7
Total	233

Objectives

The audit objective was to evaluate the Puerto Rico FSA SO's controls, policies, and procedures to ensure that property disposition practices were in accordance with (1) applicable regulations in Title 7, Code of Federal Regulations (CFR), Part 1955, "Property Management," Subpart C – "Disposal of Inventory Property" and Subpart B – "Property Management"; FSA Notice Farm Loan Program (FLP) 257 and (2) agency policies.

Findings and Recommendations

Section 1. Acquired Real Estate Was Not Sold Timely

Finding 1

The Puerto Rico FSA SO needs to improve its monitoring of inventory properties to comply with agency sales policies. FSA requires that inventory properties be sold within a maximum of 165 days from their acquisition dates. Between January 1, 1997, and December 31, 2003, FSA sold 74 acquired properties and had 16 properties remaining in inventory. The 74 sold properties were held as unproductive assets for an average of 4 years. As of December 31, 2003, the 16 inventory properties had been held an average of 6 years. In general, the excessive delays were due to FSA not taking timely action to sell the properties or timely following up when technical or legal issues arose. The 90 properties (74 plus 16), valued at \$8.4 million when they were acquired, either sold for or had a market value (per latest appraisals) totaling \$6.3 million -- a net decline in value of \$2.1 million. The delays in disposing of the unproductive assets resulted in reduced funds available to finance new loans and increased FSA's borrowing cost from the Department of Treasury. Improved management of acquired properties is necessary given that, as of January 2004, 233 delinquent borrower accounts had either been accelerated or were pending legal action with the likelihood that FSA will acquire the real estate security in many cases.

Prior to July 2, 2002, FSA's Regulations¹ provided that suitable properties be sold not later than 75 days after acquisition with priority given to beginning farmers and ranchers. Surplus properties were to be offered for public sale by sealed bid or auction not later than 105 days after acquisition. Suitable properties not sold to beginning farmers and ranchers within 75 days could be declared surplus and offered to the public. Effective July 2, 2002, FSA issued a notice² that extended the timeframes for selling acquired properties as authorized by the Farm Security and Rural Investment Act of 2002. The time period to sell suitable property was extended from 75 days to 135 days before offering it for public sale. The time for selling surplus properties was extended from 105 days to 165 days from the date of acquisition. In any case, acquired properties including suitable properties were to be sold within 165 days.

¹ FSA 7 CFR, 1955-C, section 1955.107, dated January 1, 2002.

² FSA Notice FLP 257, dated July 2, 2002.

Our review of FSA's records showed that as of December 31, 2003, 74 acquired properties had been sold from inventory since January 1, 1997. None of the properties were sold within the prescribed timeframes. The average time the properties were held in inventory was about 4 years. In addition, 15 of the 16 properties in inventory as of December 31, 2003, exceeded the disposal timeframes. At that time the 16 properties, with an appraised market value of \$1,795,040, had been held in inventory an average of 6 years. Table 2 and exhibits A and B show the time the properties were held in inventory as unproductive assets.

Table 2

Years Held	SOLD PROPERTIES				INVENTORY PROPERTIES			
	No	Appraised Value at Acquisition	Sale Amount	Decline in Value	No	Appraised Value at Acquisition	Latest Appraised Value	Decline in Value
Less than 1 - year	8	\$811,501	\$540,309	\$271,193	1	\$50,000	\$50,000	\$0
1 - 2	14	856,625	542,894	313,731	2	139,781	85,000	54,781
2 - 3	14	1,188,915	822,599	366,316				
3 - 4	11	568,534	494,560	73,974	2	306,000	194,500	111,500
4 - 5	4	611,727	387,500	224,227	2	182,940	167,940	15,000
5 - 6	10	659,950	402,685	257,265	3	306,300	219,300	87,000
6 - 7	4	219,906	213,100	6,806	2	717,365	756,700	+39,335
7 - 8	2	426,000	292,774	133,226				
8 - 9	2	521,000	170,200	350,800	1	38,000	29,000	9,000
9 - 10								
Over 10	5	674,000	667,370	6,630	3	154,400	292,600	+138,200
Total	74	\$6,538,158	\$4,533,991	\$2,004,168	16	\$1,894,786	\$1,795,040	\$99,746

¹ Value per latest appraisal as of December 31, 2003.

To assess the reason for the delays, we reviewed the case file and interviewed State and field office (FO) staff responsible for servicing 27 acquired properties (the 16 inventory properties [see exhibit B] and 11 judgmentally selected properties that had been sold [see exhibit C]).

The files generally did not contain a clear audit trail that (1) showed the reasons for the delays, (2) disclosed when and what actions were taken to resolve problems, and (3) documented decisions made regarding disposition of the properties. We concluded that in general the delays were due to FSA not acting timely to sell the properties and/or timely resolving issues that delayed the sales. The actions included FSA's not timely (1) determining the suitability of the properties, (2) obtaining or updating appraisals as needed, and (3) ensuring problems with legal documents and technical issues were addressed promptly. Examples of the delays follow.

Case A - On March 26, 1993, the borrower voluntarily conveyed the 49.76-acre property to FSA. On September 6, 1996, an appraisal of the property was made to establish its value for inventory purposes (42 months after acquisition). The appraised value was \$96,900. On February 24, 1998, (59 months after acquisition) the property was sold at auction for \$15,000 -- a loss of \$81,900.

Regulations³ require that an existing appraisal may be used when (1) completed within the previous 12 months and the agency determines that the current market values have remained stable, or (2) it was not completed in the previous 12 months, but was updated by the appraiser that completed it. Regulations⁴ also specify that the property will be advertised for sale for its appraised value prior to disposal through auction sale.

From our review of the case file and interviews with staff, we were unable to determine (1) any barriers to selling the property, (2) why it took so long to sell it, (3) why the appraisal was not obtained and updated timely, (4) why the property was not advertised for sale, and (5) why it sold for only \$15,000, 15.5 percent of the \$96,900 appraised value.

The losses on inventory properties were caused, in part, because FSA opted to sell many of them at auction. Because of the high number of inventory properties, in 1997, FSA contracted with an auctioneer to sell the properties rather than attempting to market them through the advertised bid process. Under the advertised process, the minimum bid price would have to equal or exceed the properties' appraised market value in contrast to selling to the highest bidder at auction. The noncompetitive contract with the auctioneer called for FSA to pay a \$625 promotional fee per property and the buyer to pay 10 percent of the sale price for the auctioneer's commission.

Case B - On January 25, 1994, FSA acquired this property through judicial sale. On July 24, 1993, it had been appraised at \$100,200 (\$1,500 per acre). It was not sold until February 14, 2002, (over 8 years later). Although it was reappraised at \$166,900 (\$2,500 per acre) on November 19, 2001, it was sold for the original appraised value of \$100,200. Our review showed that several actions were questionable and technical issues were not timely corrected.

On April 10, 1995, FSA entered into a lease/purchase contract with a farm program loan applicant to purchase the property. The contract

³ 7 CFR, Part 761.7d, "Appraisals," dated January 1, 2003.

⁴ 7 CFR, Part 1955 Subpart C, "Disposal of Inventory Property," Section 1955.107 (a) (1), dated January 1, 2002.

with a time period of up to 3 years was entered into, pending FSA's approval of the applicant's loan. The contract called for a total rental charge of \$2,000 with FSA's commitment to finance the property for the applicant at \$1,500 per acre.

Regulations⁵ state that the farm property may be leased for a period of no longer than 3 years. The lease amount should be equal to the amounts that similar properties in the area are being leased. In no case may inventory property be leased for a token amount.

In 1995, in preparation for the sale of the property to the applicant, FSA discovered that the contract attorney handling the January 25, 1994, judicial sale had not taken action to remove several junior liens against the property. It was not until January 27, 1999, that another contract attorney prepared a second judicial sale deed and removed the liens.

The lease expired on April 10, 1998, however, the applicant continued farming the property for another 4 years without renewal of the lease or payment of rent. The applicant purchased the property on February 14, 2002, after paying only a token amount of rent (\$2,000) for 7 years. Although the property was reappraised at \$166,900 (\$2,500 per acre), on November 19, 2001, FSA sold it to the applicant for the original agreed price of \$100,000 (\$1,500 per acre).

Case C – On May 9, 1992, the former borrower voluntarily conveyed two farms and a residence to FSA. For reasons we could not determine, the residence was not entered into the FSA property system and, therefore, was not accounted for as an inventory property. Documentation in the files showed that in October 1992 the SO inquired of the FO about the status of the property because it had not been recorded in the acquired property system. The files did not show what action, if any, was taken regarding the inquiry.

In 2002 (10 years later), the FSA FO manager discovered the unaccounted for property when the wife of the former borrower visited the office to ask permission to make repairs to the residence; she had occupied the residence rent-free since 1992. An April 25, 2002, appraisal valued the property at \$54,000. On December 20, 2002, the property was sold to the occupant for the appraised price.

⁵ 7 CFR, Section 1955.66, "Leased Property," dated January 1, 1995.

In 2002, the FSA SO took actions to improve management of inventory properties. For example, it centralized the disposition of the properties at the SO in an effort to control and expedite the process, a staff appraiser completes the appraisals, and advertises the properties for sale through placement of public announcement in the media. The SO should also develop controls to improve monitoring of the inventory disposition process, assign responsibilities, and document an audit trail to record when actions are taken and causes for any delays.

At the May 5, 2004, exit conference the State director stated that problems with disposal of inventory properties stemmed from minimal servicing of the loan portfolio and acquired properties prior to 2000. He also stated that in some cases the county offices might have improperly recorded the acquisition dates as the date when the former borrowers voluntarily conveyed the properties to FSA rather than when the deed was recorded at the courthouses. According to the State director, some local offices of the Public Registry had delays of several years in recording the deeds and FSA could not sell properties until the deeds were recorded.

The State director also noted that a new Farm Program director came on board in August 2003, and in September a staff member was appointed to coordinate inventory properties. The staff coordinator was now tracking actions taken and impediments to disposal of inventory properties.

Recommendation No.1

Develop a control system to monitor the inventory property disposition process. The system should set in writing the roles and responsibilities of personnel involved in the disposition process, and the timeframes to accomplish the various phases. Also, the process should require a coordinator to link the phases in the process. The coordinator should prepare periodic written status reports to the State director so that any problems can be timely resolved.

Recommendation No. 2

Design and implement a control record to ensure that requirements related to the disposition of inventory properties are tracked and adequately documented in the case files. The record should indicate the requirements that should be documented in the file, the timeframe to accomplish each of the requirements, who within the agency is responsible to perform each requirement, and the date each requirement was completed.

Agency Response. In its June 21, 2004, response, the FSA SO agreed with the recommendations. The response stated:

* * * * *

As a corrective action measure, the Farm Loan Chief has already properly instructed the Inventory Property Coordinator concerning his role and responsibilities. Currently, the State Coordinator is responsible to maintain a control system to monitor the process of disposing acquired properties that includes disposition of properties, need for appraisals, suitability, delays and actions taken for the disposition within established timeframes. The State Coordinator is being monitored by the Farm Loan Chief to ensure that he is carrying out his responsibilities for improving the managing and fulfillment of the FSA provisions and regulations.

As requested by the National office this office is also preparing quarterly reports including current status, problems, actions necessary to solve problems and the anticipated completion dates for the actions.

As recommended and to formalize the actions mentioned above, as of July 30, 2004, this office will develop a State directive that describes the roles, responsibilities and the process involved in disposing of inventory properties. This process will delineate the timeframes established by the National office as well as the requirements for the disposition in accordance with FSA regulations and State laws due to the differences of the recording requirements of PR in regards to legal tenancy.

* * * * *

OIG Position. We agree with the management decisions. For final action, the FSA SO should provide a copy of the proposed State directive to the Office of the Chief Financial Officer.

Scope and Methodology

Our review covered dispositions of inventory properties during the year 1997 through December 2003. During this period, FSA sold 74 properties for approximately \$4.5 million. We reviewed the case files of 11 judgmentally selected properties that were sold and obtained information from FSA on the 16 properties held in inventory as of December 31, 2003. The 11 sold properties were selected for review based on the length of time held in inventory, losses in value, year sold, and sales price per acre.

We performed work at the FSA SO located in San Juan, Puerto Rico, and FSA FO's located in Adjuntas, Caguas, Corozal, Ponce, Mayaguez, and the Office of the Public Registry. We evaluated whether FSA followed applicable policies and regulations in the disposition of inventory properties.

Our review was performed in accordance with generally accepted government auditing standards. To accomplish the review objectives, we performed the following:

- reviewed USDA's policies and procedures regarding the management and disposition of inventory property;
- interviewed managers and other staff from the FSA SO and FO's;
- reviewed files and documentation related to the acquired properties;
- obtained and reviewed reports issued by the FSA NO, reports of loans delinquency, and inventory of properties; and
- visited the local Office of the Public Registry to obtain information about properties sold by FSA.

Exhibit A – Disposition of Foreclosure Properties by FSA

Acquired Properties Sold by FSA -Year 1997 Through 2003								
No.	Date Acquired by FSA	Date Sold	Type of Farm	Method of Sale	Months in Inventory	Sale Price	Original Market Value	Difference in Original Market Value vs. Sale Price
1	5/19/1982	7/10/1998	Suitable	Auction	196.4	\$110,000.00	\$175,000.00	\$(65,000.00)
2	12/4/1985	6/12/1998	Suitable	Cash	152.3	262,000.00	210,000.00	52,000.00
3	12/4/1985	7/2/1997	Suitable	Cash	140.8	110,000.00	110,000.00	
4	12/4/1985	5/1/1997	Suitable	Cash	138.8	131,370.00	125,000.00	6,370.00
5	5/9/1992	12/20/2002	Surplus	Cash	129.2	54,000.00	54,000.00	
6	8/12/1993	2/14/2002	Suitable	Credit Sale	103.5	100,200.00	132,000.00	(31,800.00)
7	1/10/1990	3/27/1998	Suitable	Cash	99.9	70,000.00	389,000.00	(319,000.00)
8	9/14/1990	11/6/1997	Suitable	Cash	86.9	169,000.00	308,000.00	(139,000.00)
9	10/8/1991	11/4/1998	Suitable	Auction	86.1	123,774.45	118,000.00	5,774.45
10	10/21/1996	6/12/2003	Suitable	Sealed Bid	80.8	105,000.00	51,606.00	53,394.00
11	1/28/1993	6/24/1999	Suitable	Cash	77.9	47,000.00	71,000.00	(24,000.00)
12	1/14/1993	6/2/1999	Suitable	Cash	77.6	47,500.00	47,500.00	
13	3/27/1992	5/15/1998	Suitable	Cash	74.7	13,600.00	49,800.00	(36,200.00)
14	10/8/1991	9/6/1997	Suitable	Auction	71.9	34,320.00	50,900.00	(16,580.00)
15	6/24/1992	2/17/1998	Suitable	Credit Sale	68.8	20,000.00	45,000.00	(25,000.00)
16	1/14/1992	9/2/1997	Suitable	Cash	68.6	109,275.00	121,000.00	(11,725.00)
17	11/4/1997	6/12/2003	Surplus	Sealed Bid	68.2	7,100.00	8,650.00	(1,550.00)
18	8/25/1992	1/28/1998	Suitable	Cash	66	53,500.00	74,400.00	(20,900.00)
19	11/12/1992	4/15/1998	Suitable	Cash	66	13,600.00	76,300.00	(62,700.00)
20	5/13/1993	9/16/1998	Suitable	Auction	65	88,390.50	118,000.00	(29,609.50)
21	7/16/1992	11/7/1997	Suitable	Cash	64.7	28,000.00	64,000.00	(36,000.00)
22	7/23/1992	9/30/1997	Suitable	Auction	63.2	33,500.00	69,000.00	(35,500.00)
23	2/1/1993	3/19/1998	Suitable	Auction	62.4	15,000.00	32,700.00	(17,700.00)
24	3/26/1993	2/24/1998	Suitable	Auction	59.8	15,000.00	91,800.00	(76,800.00)
25	7/13/1993	10/24/1997	Suitable	Credit Sale	52.1	62,500.00	62,900.00	(400.00)
26	5/18/1993	5/30/1997	Suitable	Cash	49.1	10,000.00	15,600.00	(5,600.00)
27	4/22/1993	5/2/1997	Surplus	Auction	49	300,000.00	441,427.00	(141,427.00)
28	9/28/1993	9/6/1997	Suitable	Auction	47.9	85,500.00	93,734.00	(8,234.00)

Exhibit A – Disposition of Foreclosure Properties by FSA

Acquired properties sold by FSA -Year 1997 through 2003								
No.	Date Acquired by FSA	Date Sold	Type of Farm	Method of Sale	Months in Inventory	Sale Price	Original Market Value	Difference in Original Market Value vs. Sale Price
29	6/10/1993	4/11/1997	Surplus	Auction	46.7	\$20,100.00	\$22,800.00	\$(2,700.00)
30	8/30/1994	3/19/1998	Suitable	Cash	43.2	60,000.00	60,000.00	
31	6/1/1994	11/18/1997	Suitable	Cash	42.2	26,000.00	24,000.00	2,000.00
32	6/23/1994	12/3/1997	Suitable	Auction	41.9	43,000.00	45,000.00	(2,000.00)
33	8/30/1994	11/19/1997	Suitable	Auction	39.2	70,000.00	80,000.00	(10,000.00)
34	4/12/1995	7/10/1998	Surplus	Cash	39	46,000.00	48,000.00	
35	1/26/1994	4/11/1997	Suitable	Credit Sale	39.5	43,160.00	59,000.00	(15,840.00)
36	6/1/1994	6/23/1997	Suitable	Cash	37.2	15,800.00	16,000.00	(200.00)
37	8/30/1994	9/5/1997	Suitable	Credit Sale	36.7	34,000.00	34,000.00	
38	8/29/1997	8/25/2000	Surplus	Auction	36.3	51,000.00	86,000.00	(35,000.00)
39	11/29/1995	11/9/1998	Suitable	Cash	35.8	12,100.00	12,100.00	
40	7/12/1994	5/13/1997	Suitable	Auction	34.5	80,648.67	180,200.00	(99,551.33)
41	11/9/1994	8/22/1997	Surplus	Auction	33.9	6,600.00	18,600.00	(12,000.00)
42	12/3/1997	8/25/2000	Suitable	Auction	33.1	79,200.00	112,625.00	(33,425.00)
43	3/15/1995	11/24/1997	Suitable	Auction	32.8	26,400.00	61,000.00	(34,600.00)
44	7/14/1995	2/28/1998	Surplus	Cash	32	123,000.00	123,000.00	
45	4/30/1998	11/28/2000	Surplus	Auction	31.4	122,100.00	184,000.00	(61,900.00)
46	11/15/1994	5/20/1997	Suitable	Auction	30.5	56,000.00	37,600.00	18,400.00
47	4/4/1995	9/26/1997	Suitable	Cash	30.2	57,400.00	56,700.00	700.00
48	1/11/1995	5/27/1997	Suitable	Credit Sale	28.9	26,300.00	26,300.00	
49	5/17/1995	9/30/1997	Suitable	Credit Sale	28.9	23,000.00	35,000.00	(12,000.00)
50	8/17/1995	11/7/1997	Suitable	Auction	27.1	83,050.00	109,400.00	(26,350.00)
51	3/20/1995	5/30/1997	Suitable	Cash	26.7	112,500.00	210,000.00	(97,500.00)
52	8/2/1995	9/22/1997	Suitable	Credit Sale	26	14,300.00	22,390.00	(8,090.00)
53	8/5/1995	7/23/1997	Suitable	Cash	23.9	20,000.00	45,000.00	(25,000.00)
54	11/29/1995	11/3/1997	Suitable	Cash	23.5	16,494.00	17,000.00	(506.00)
55	11/15/1995	9/26/1997	Suitable	Credit Sale	22.7	103,250.00	157,000.00	(53,750.00)

Exhibit A – Disposition of Foreclosure Properties by FSA

Acquired properties sold by FSA -Year 1997 through 2003								
No.	Date Acquired by FSA	Date Sold	Type of Farm	Method of Sale	Months in Inventory	Sale Price	Original Market Value	Difference in Original Market Value vs. Sale Price
56	4/30/1998	2/3/2000	Surplus	Auction	21.5	\$33,000.00	\$53,500.00	\$(20,500.00)
57	11/15/1995	8/8/1997	Suitable	Auction	21	20,000.00	116,900.00	(96,900.00)
58	1/18/1996	9/22/1997	Suitable	Credit Sale	20.4	17,700.00	28,000.00	(10,300.00)
59	3/4/1996	10/24/1997	Suitable	Credit Sale	20	30,000.00	38,000.00	(8,000.00)
60	4/30/1998	12/10/1999	Surplus	Auction	19.6	91,000.00	146,650.00	(55,650.00)
61	7/2/1996	2/6/1998	Surplus	Cash	19.5	15,000.00	26,000.00	(11,000.00)
62	6/9/1998	11/29/1999	Suitable	Cash	17.9	28,000.00	48,000.00	(20,000.00)
63	7/2/1996	10/16/1997	Surplus	Cash	15.7	56,000.00	56,000.00	
64	5/7/1998	6/8/1999	Suitable	Auction	13.2	78,450.00	78,450.00	
65	2/6/1997	3/5/1998	Suitable	Auction	13.1	8,000.00	20,125.00	(12,125.00)
66	7/2/1996	7/1/1997	Surplus	Cash	12.2	26,000.00	26,000.00	
67	8/3/1996	6/16/1997	Surplus	Auction	10.6	90,483.11	125,000.00	(34,517.00)
68	1/23/1997	11/12/1997	Surplus	Auction	9.8	102,300.00	297,000.00	(194,700.00)
69	7/16/1999	3/8/2000	Surplus	Cash	7.8	120,000.00	114,948.00	5,052.00
70	4/28/1997	12/15/1997	Surplus	Auction	7.7	33,000.00	52,000.00	(19,000.00)
71	12/14/1996	6/28/1997	Suitable	Auction	6.6	33,534.29	38,000.00	(4,465.71)
72	12/3/1997	6/1/1998	Surplus	Auction	6	16,000.00	16,000.00	
73	10/12/1999	3/23/2000	Suitable	Cash	5.4	75,000.00	75,000.00	
74	2/6/1997	5/20/1997	Suitable	Auction	3.4	69,991.31	93,553.00	(23,561.69)
Totals						\$4,533,991.33	\$6,538,158.00	\$(2,004,166.78)
Total months in inventory					3522.8			
Average months in inventory					47.61			
Average years in inventory					3.97			

Exhibit B – Inventory of Acquired Properties as of December 31, 2003

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Inventory of Acquired Properties as of December 31, 2003							
OIG Case No.	Date Acquired	Type of Farm	Months Property in Inventory	Acquisition Value	Current Market Value	Date of Last Appraisal	Difference Acquisition Value vs. Current Market Value
1	12/4/1985	Suitable	219.9	\$35,000	\$152,000	3/30/2003	\$117,000
2	1/13/1993	Surplus	133.4	58,400	58,400	unknown	
3	7/21/1993	Surplus	127.1	61,000	82,200	10/24/2003	21,200
4	8/30/1995	Suitable	101.4	38,000	29,000	11/4/2003	(9,000)
5	10/21/1997	Surplus	75.3	175,665	215,000	10/1/2003	39,335
6	12/10/1997	Suitable	73.7	541,700	541,700	12/19/1997	
7	4/30/1998	Surplus	69.0	109,150	60,000	4/17/2003	(49,150)
8	4/30/1998	Surplus	69.0	109,150	46,600	4/17/2003	(62,550)
9	1/4/1999	Suitable	60.7	88,000	112,700	11/4/2003	24,700
10	10/12/1999	Suitable	51.3	45,000	30,000	11/14/2003	(15,000)
11	11/4/1999	Surplus	50.5	137,940	137,940	7/15/2002	
12	2/16/2000	Suitable	47.1	276,000	176,500	10/1/2003	(99,500)
13	10/26/2000	Suitable	38.7	30,000	18,000	11/17/2003	(12,000)
14	8/26/2002	Suitable	16.4	79,781	36,000	10/29/2003	(43,781)
15	8/26/2002	Surplus	16.4	60,000	49,000	12/2/2003	(11,000)
16	9/30/2003	Surplus	3.0	50,000	50,000	3/9/2003	
Totals				\$1,894,786.00	\$1,795,040.00		\$(99,746.00)
Total months in inventory			1152.9				
Average months in inventory			72.1				
Average years in inventory			6.0				

Exhibit C – Schedule of Sold Properties Selected for Review

Schedule of Acquired Properties Sold by FSA Selected for Review										
OIG Case	Type of Farm	Date Acquired	Sale Method	Date Sold	Months Property in Inventory	Date of Latest Appraisal	Value per Appraisal Completed	Sale Price	Difference Appraised Value vs Sale Price	Appraisal Support Sale Price
1	Surplus	8/29/1997	Auction	8/25/2000	36.00	2/3/1996 *	\$86,000	\$51,000	\$35,000	No
2	Surplus	4/30/1998	Auction	12/10/1999	19.00	6/30/1998	146,650	91,000	55,650	No
3	Suitable	1/28/1993	Cash	6/24/1999	77.00	11/25/1995 *	47,000	47,000	0	Yes
4	Suitable	3/27/1992	Cash	5/15/1998	75.00	12/17/1997	13,600	13,600	0	Yes
6	Suitable	1/10/1990	Cash	3/27/1998	99.00	3/20/1998	70,000	70,000	0	Yes
5	Suitable	11/12/1992	Cash	4/15/1998	66.00	12/17/1997	13,600	13,600	0	Yes
7	Suitable	3/26/1993	Auction	2/24/1998	59.00	9/6/1996	96,900	15,000	81,900	No
8	Suitable	10/8/1991	Auction	11/5/1997	71.00	2/23/1993	50,000	34,320	15,680	No
9	Suitable	8/12/1993	Credit Sale	2/14/2002	103.50	11/19/2001*	166,900	100,000	66,900	No
10	Surplus	4/12/1995	Cash	7/10/1998	39.00	3/16/1997	46,000	46,000	0	Yes
11	Surplus	5/9/1992	Cash	12/20/2002	129.20	4/25/2002	54,000	54,000	0	Yes
Totals							\$790,650	\$535,520	\$255,130	
Total months in inventory					773.70					
Average months properties were in inventory					70.34					
Average years properties were in inventory					5.86					
NOTE: *Appraisal completed by private vendor										

Exhibit D – Agency Response to the Draft Report

Exhibit D – Page 1 of 2



UNITED STATES
DEPARTMENT OF
AGRICULTURE

FARM
SERVICE
AGENCY

PUERTO RICO STATE OFFICE
654 MUÑOZ RIVERA AVENUE
654 PLAZA SUITE 829
SAN JUAN, PR 00918
TEL.: (787) 294-1613
FAX: (787) 294-1609

DATE: June 21, 2004

TO: Raymond G. Poland
Regional Inspector General
Office of Inspector General

FROM: *JM* *Juan M. Ortiz-Serbiá*
for: Juan M. Ortiz-Serbiá
PR State Executive Director

SUBJECT: **OIG Official Draft Report
Disposition of PR Foreclosed Properties
Audit 03099-165-AT**

The Official Draft report regarding the audit in the disposition of foreclosed properties in Puerto Rico has been reviewed by this office. The findings and recommendations included in the report have been thoroughly analyzed.

As previously discussed with OIG officials and also during the exit conference some of the reasons that caused delays in the disposition were adjudged to the following problems: the long term process of recording deeds in Puerto Rico registries, pending promissory notes to be cancelled, pending junior liens to be cancelled and certifications of farm properties capacity and transactions that were not completed because lack of monitoring and a tracking system. I am very concerned over the number of farm inventory properties and the term that properties have been maintained by PR FSA.

As a corrective measure, the Farm Loan Chief has already properly instructed the Inventory Property Coordinator concerning his role and responsibilities. Currently, the State Coordinator is responsible to maintain a control system to monitor the process of disposing acquired properties that includes disposition of properties, need for appraisals, suitability, delays and actions taken for the disposition within established

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Exhibit D – Agency Response to the Draft Report

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OIG Official Draft Report
Disposition of PR Foreclosed Properties
Audit 03099-165-AT
Page 2

timeframes. The State Coordinator is being monitored by the Farm Loan Chief to ensure that he is carrying out his responsibilities for improving the managing and fulfillment of the FSA provisions and regulations.

As requested by the National Office this office is also preparing quarterly reports including current status, problems, actions necessary to solve problems and the anticipated completion dates for the actions.

As recommended and to formalize the actions mentioned above, as of July 30, 2004, this office will develop a state directive that describes the roles, responsibilities and the process involved in disposing of inventory properties. This process will delineate the timeframes established by the National Office as well as the requirements for the disposition in accordance with FSA regulations and State laws due to the differences of the recording requirements of PR in regards to legal tenancy.

If you have any concern, please contact this office.

/wjp

c: Farm Loan Chief
State Inventory Property Coordinator
Deputy Administrator for Field Operations
Deputy Administrator for Farm Loan Programs

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