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

1998 Crop Loan Deficiency Payment Activities

Report No.
03601-17-KC
September 2000

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

DATE: September 29, 2000

REPLY TO
ATTN OF: 03601-17-KC

SUBJECT: 1998 Crop Loan Deficiency Payment Activities

TO: Keith Kelly
Administrator
Farm Service Agency

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

This report presents the results of our nationwide audit of 1998 Crop Loan Deficiency Payment Activities. The audit generally disclosed a need for enhanced program controls to ensure the reasonableness of quantities claimed for program benefits. Your September 26, 2000, response to the draft report is included as exhibit D with excerpts and the Office of Inspector General's position incorporated into relevant sections of the report.

The response was considered adequate to reach management decision for 10 of the 12 audit recommendations. To reach management decision for Recommendation No. 1, we need to be advised that FSA has taken action to provide for an annual review of county committee yield estimates for each applicable commodity, including the proposed timeframes for implementation. Similarly, we need a response showing the actions taken or planned to address Recommendation No. 3, including the proposed timeframes for implementation.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing in detail the actions taken or planned, including the timeframes for implementation, for Recommendations Nos. 1 and 3. 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.

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

/S/
JAMES R. EBBITT
Assistant Inspector General
for Audit

EXECUTIVE SUMMARY

FARM SERVICE AGENCY
1998 CROP LOAN DEFICIENCY PAYMENT ACTIVITIES
WASHINGTON, D.C. AND SELECTED FIELD LOCATIONS

REPORT NO. 03601-17-KC

RESULTS IN BRIEF

The Farm Service Agency (FSA), on behalf of the Commodity Credit Corporation (CCC), administers the Loan Deficiency Payment (LDP) provisions applicable to wheat, corn, grain sorghum, barley, oats, soybeans, minor oilseeds, rice, upland cotton, and extra long staple cotton. These provisions provide producers with an opportunity to claim loan deficiency payments in lieu of securing price support loans on eligible commodities as a tool to minimize the delivery of loan collateral to CCC. For the 1998 crop year, the LDP provisions exploded into a $2.7 billion dollar program. The purpose of our review was to determine whether 1998 crop LDP activities were administered in accordance with applicable laws and regulations.

The audit disclosed the existence of erroneous LDP and price support loan disbursements totaling $333,785.01 to 106, or about 32 percent, of the 336 producers included in our review (see exhibit A). Based on the audit results, we concluded that FSA needed to take aggressive action to strengthen or fully implement existing program controls. FSA required each county committee (COC) to annually establish reasonable yield estimates for each applicable commodity based on local crop and weather conditions. In cases where the yields claimed for LDP benefits appeared to exceed the associated yield estimates, COC's were required to base benefit amounts on yields that it determined could be reasonably produced on the eligible acreage. For the 18 counties visited, we identified 5,305 cases where the benefit amounts were based on yields that appeared to exceed the associated COC yield estimates. In each case, it appeared that further review by the COC would have been appropriate. As noted above, the procedures for determining county yield estimates were dependent on COC knowledge of local crop and weather conditions as opposed to historical yield data. However, we found that 16 COC's used other methods to establish these yields. Also, another COC established the cotton yield so high that no reviews of individual yields needed to be performed. In addition, the required reviews of applicable yields were not always performed or effectively performed.

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 CO improperly allowed producers to receive higher cotton LDP’s based on a misinterpretation of procedure. That CO was selected for review because of the high volume of 1998 crop cotton LDP activity.

KEY RECOMMENDATIONS

We recommended that FSA provide more specific guidance to committees on the development of county established yields, including the possible use of National Agricultural Statistics Service (NASS) average yield data and a review by State committees. Also, we recommended that FSA develop and implement an automated reasonableness test as a tool to readily identify maximum eligible quantities and those requests that appear to exceed the county established yields for additional review. We also recommended that FSA emphasize the need for timely spot-checks of LDP’s and collect or pay the amounts due producers who received incorrect LDP amounts.

FSA RESPONSE

The agency’s written comments on the draft report (see exhibit D) showed general concurrence with the audit findings and recommendations. However, the response did not adequately address Recommendation No. 1 or provide any comments regarding Recommendation No. 3.

OIG POSITION

The agency response to the draft report was considered adequate to reach management decision for 10 of the 12 audit recommendations. The information needed to reach management decision for Recommendations Nos. 1 and 3 has been incorporated into the relevant sections of the report.

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INTRODUCTION

BACKGROUND

Sections 131 through 136 of the Federal Agriculture Improvement and Reform Act of 1996 (the Act) provides requirements for a Nonrecourse Marketing Assistance Loan and LDP Program on 16 commodities for the 1996 through 2002 crop years. The FSA has responsibility for program administration.

The Act provided that eligible producers could request price support loan or LDP benefits on eligible commodities from the date of harvest through the final loan availability date. To be eligible for program benefits for 1998 commodities, the producer must have beneficial interest in the commodity at the time of request. Also, producers who request benefits on program crops must have an approved Production Flexibility Contract on file and provide an acreage report, which shows the acres planted to each crop.

The Act also provided that nonrecourse marketing assistance loans could be repaid at less than the principal plus accrued interest and other charges when the posted county price was less than the applicable county loan rate. Alternatively, producers could elect to obtain an LDP in lieu of a nonrecourse marketing assistance loan.

The nonrecourse marketing assistance loan repayment and LDP provisions are intended to minimize the delivery of price support loan collateral to the CCC through loan forfeitures. The LDP rates for each county are determined by commodity on a daily basis and represent the difference between the applicable county loan rates and the associated posted county price. The posted county prices for each eligible commodity are generally determined by adjusting the daily terminal market prices for the transportation and other costs associated with moving a commodity from a local warehouse to the terminal market location. For example,

Loan Rate	$ 1.85
CCC Posted County Price	$ 1.80
LDP Rate	$ .05

The LDP rate for LDP's requested after harvest for 1998 crops was the rate in effect for the county where the commodity was stored on the day the request was approved. With the high volume of requests received by FSA for 1998, the LDP approval date may have been later than the actual request date. LDP activity was minimal prior to the 1998 crop year because market prices were generally higher than the established county loan rates. However, program records showed that 1998 crop LDP benefits totaled about $2.7 billion as of November 2, 1999.

OBJECTIVES

The primary audit objective was to determine whether 1998 crop LDP activities were administered in accordance with applicable laws and regulations. This included an assessment as to the adequacy of controls designed to ensure producer eligibility and the reasonableness of production quantities claimed and disbursements made.

SCOPE

The audit included a review of 1998 crop LDP activities in 8 State and 18 county FSA offices (CO) (see exhibit B). The States were judgmentally selected based on discussions with agency personnel and a review of agency reports showing the volume of 1998 crop LDP benefits by State and crop. We generally selected States with high volumes of LDP activity that disbursed payments on a variety of eligible commodities. The review was initiated in May 1999 and completed in December 1999.

The counties were judgmentally selected based on discussions with State FSA Office (STO) personnel and an analysis of agency data showing the volume of 1998 crop LDP activity by county. We generally selected counties with high volumes of 1998 crop LDP benefits on different commodities.

The audit included a review of supporting program records for 336 of 26,439 producers who had received LDP and/or price support loan benefits at the time of our review. The sample included 255 producers who claimed program benefits on yields that appeared to exceed the county established yields. The universe of those producers (5,305) represented about 20 percent of the 26,439 producers who received program benefits in the counties visited at the time of our review. See exhibit C for detail sample and universe data.

The audit was conducted in accordance with Government Auditing Standards.

METHODOLOGY

To accomplish the audit objectives, we interviewed FSA personnel at the national office located in Washington, D.C., and the selected audit sites. At the STO's, we interviewed agency officials and conducted limited reviews of program records related to 1998 crop LDP activities. We also contacted State officials of the NASS to obtain 1998 crop yield data for the States visited.

At the CO’s, we used software applications developed by a FSA employee to select a judgmental sample of producers for review. We selected our sample from lists of producers who (1) received program benefits on yields that appeared to exceed the county established yields, (2) appeared to claim program benefits on the same quantity of a commodity more than once, and/or (3) appeared to be ineligible for program benefits based on the eligibility flag settings in the automated system.

When selecting the sample producers, we attempted to include those who had submitted final production evidence, at least one CO employee and COC member who had requested 1998 crop LDP benefits at the time of our review, and at least one producer who had filed a field direct LDP. Producers who deliver commodities directly from the field to a processor, buyer, warehouse, or cooperative use field direct LDPs. In those cases, the LDP benefits are based on the rate in effect on the date of delivery. We also included producers who claimed benefits on yields that appeared to be significantly higher than the associated county average yields and those who appeared to receive duplicate benefits on delivered production quantities.

For the producers reviewed, we measured certified LDP’s and contacted warehouses to verify delivered quantities that had been claimed for program benefits at the time of our review on an as needed basis. In addition, we compared the quantities claimed for LDP benefits to the quantities determined for crop insurance purposes. For each sample producer, our review included an analysis of the documentation contained in the supporting LDP files and associated price support loan and production adjustment records. This included interviews with producers on an as needed basis.

We also issued Statements of Conditions to each STO visited during the audit to provide details on the conditions noted during our review. We also asked each STO for a written response to the Statement of Conditions provided. This data has also been provided to the FSA national office Price Support Division personnel.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1	IMPROVED PROGRAM OPERATIONS ARE NEEDED

The audit generally disclosed that needed controls had been prescribed. However, we found that some controls had not been applied while others needed to be improved. For example, FSA uses a COC established yield for each commodity as a tool to determine whether a producer's claim is reasonable or needs further review. Yields claimed for program benefits that exceed the COC established yield are to be reviewed by the COC for reasonableness. However, we found that the procedures for establishing the county yields were not consistently applied and did not require the consideration of historical yield data. In addition, the required COC reviews were not always performed. Also, CO personnel made errors when processing LDP requests and did not perform timely spot-checks as required. Finally, personnel at one CO misinterpreted procedures which allowed some producers requesting cotton LDP's to obtain excessive benefits.

FINDING NO. 1

ADDITIONAL GUIDANCE AND DIRECTION OVER ESTABLISHMENT OF COUNTY AVERAGE YIELDS IS NEEDED

The procedures for establishing county yields did not provide reasonable assurance that such yields would reflect actual crop yields. We concluded that this condition existed, in part, because the procedures did not require COC's to consider historical yield data when establishing such yields. Also, the agency did not require a review of such yields at the STO level as a tool to ensure their reasonableness. As a result, an associated program control did not effectively serve its intended purpose. Also, STO personnel were not aware of differences in the methodologies used to establish such yields or the unreasonably high nature of some yields.

FSA Handbook 6-LP, paragraph 307, requires COC's to annually determine reasonable estimates of yield for each commodity based on crop and weather conditions in the county; document the determination in the COC minutes and review questionable applications. If the quantity offered for loan or LDP is not reasonable based on the COC established yield, do not approve the loan or

LDP for a quantity exceeding the quantity COC determines could have been reasonably produced on the eligible acreage.

To be eligible for LDP, the quantity of commodity must have been produced by an eligible producer, must not have been previously pledged as collateral for a loan and repaid with cash at a rate less than the principal plus interest and must not have previously received LDP.

We found that COC's in the counties reviewed generally determined a county established yield for each crop grown in the county. However, we found that one COC (Lincoln County, Washington) established an individual yield for each producer. This was accomplished by multiplying the 1985 farm payment yields for each producer by 160 percent. Similarly, our visit to the Illinois FSA STO disclosed that about 15 counties established individual producer yields by factoring previously established farm yields.

The audit also disclosed that the county established yields at two of the three sample CO's in Missouri were at least twice the associated NASS yields as shown in the following table:

COUNTY	CROP	UNIT OF MEASURE	COUNTY ESTABLISHED YIELD	NASS YIELD	DIFFERENCE
Daviess	Corn	Bushels	225.0	110.0	115.0
	Grain Sorghum	Hundredweight	160.0	75.3	84.7
Stoddard	Cotton	Pounds	1,000.0	466.0	534.0
	Grain Sorghum	Bushels	140.0	65.5	74.5
	Soybeans	Bushels	60.0	29.4	30.6

In Stoddard County, Missouri, we did not identify any producers who claimed benefits on cotton yields exceeding the county established yield of 1,000 pounds per acre. We concluded that this situation might have existed, in part, because of the 534-pound difference between the county established yield (1,000 pounds per acre) and the associated NASS average yield (466 pounds per acre). Similarly, we found that the established corn yields for 86 of 89 Missouri counties exceeded the associated 1998 crop NASS yields. We noted that the establishment of unreasonably high yields would significantly limit the number of cases that would need to be reviewed for a reasonableness determination and thus, bypass the control.

We also found that STO personnel in seven of the eight States reviewed did not conduct reviews of the county established yields as a tool to assess the reasonableness of such yields. This condition existed, in part, because such reviews were not required even though headquarters officials indicated this was a STO responsibility. In Missouri, STO personnel did conduct a review of such yields. However, it did not appear that the review was entirely effective based on the audit results.

We concluded that setting the established yield and providing for a subsequent COC review of those exceeding the established yield was a primary control and that inconsistent application of this control did not promote the fair and equitable treatment of producers.

CO's are not required to use NASS yield data to establish county yields. Personnel in the Missouri STO also noted that NASS yield data for the latest crop year would generally not be available for the current program year. However, we believe that historical NASS yield data could be a valuable yield resource. Also, the data is used by FSA for farm loan planning purposes.

We concluded that the use of historical NASS yield data, coupled with an annual review of the individual county established yields by the STO's, could be used to ensure that such yields were established at reasonable levels. The establishment of reasonable yields would also promote the identification of individual yields that needed to be referred to the COC for review (see also Finding No. 2). In addition, the use of a consistent methodology for determining county established yields should promote the fair and equitable treatment of producers.

RECOMMENDATION NO. 1

Develop and implement controls to ensure the reasonableness of COC established yields including an annual review by the State Committee or STO personnel of the established yields.

FSA Response

The written comments on the draft report (see exhibit D) showed that FSA Handbook 8-LP, subparagraph 536 C, was amended in May 2000 to provide for a State Committee review of COC yield determinations to ensure accuracy.

OIG Position

The handbook amendment applied to a review of the yield determinations made in conjunction with commodities that were harvested as other than grain rather than the COC yield estimates referred to in subparagraph 132 B of FSA Handbook 8-LP. In order to reach management decision, we need to be advised that STO's will be required to provide for an annual review the COC established yields for reasonableness.

RECOMMENDATION NO. 2

Provide additional guidance and direction over the determination of county established yields including the use of NASS data to facilitate such determinations.

FSA Response

The written comments on the draft report (see exhibit D) showed that FSA would consider using NASS data to help provide guidance and direction over the establishment of county yields. The written comments also showed that FSA planned to implement the recommendation in the 2001 crop year.

OIG Position

We concur with the management decision.

FINDING NO. 2

CO PERSONNEL DID NOT ALWAYS ASSESS THE REASONABLENESS OF YIELDS CLAIMED FOR PROGRAM BENEFITS

CO personnel did not always determine whether producers could have reasonably produced the quantity claimed for program benefits when a yield appeared to exceed the county established yield. CO personnel generally advised us that the timely disbursement of program benefits was considered a higher priority than completion of these determinations. We also concluded that few counties wanted to review these cases as any delay in approval would result in a different LDP rate because the LDP rate was the rate in effect on the date of approval for 1998 commodities. As a result, the CO's missed opportunities to prevent erroneous LDP and price support loan disbursements totaling $112,332.39 ($96,008.57 in overpayments plus $16,323.82 in underpayments) and $102,304.12, respectively to 62 producers included in our review. Also, the LDP benefits paid to 5,305 of the 26,439 producers in the 18 counties visited would have required a COC review prior to payment approval (see exhibit C).

FSA Handbook 6-LP, paragraph 307, provides, in part, that COC's should not approve requests for loans or LDP benefits on quantities exceeding those that could be reasonably produced based on the COC established yield. Paragraph 348 also provides that duplicate benefits on the same commodity are not authorized. Paragraph 2 further provides that CO personnel are responsible for ensuring that the beneficial interest requirements are met. Also, paragraph 17, provides, in part, that beneficial interest remains with the producer if they have (1) control of the commodity, (2) risk of loss, and (3) title to the commodity.

Our review of supporting program records and collateral verifications for a judgmental sample of 336 producers disclosed that COC personnel missed opportunities to detect erroneous claims for LDP benefits because the required reasonableness determinations were not made or were not entirely effective. For example, we identified 24 producers who received excess program benefits of $24,909.79 by submitting duplicate production evidence. In some cases, the producers used a copy of the same warehouse settlement sheet to claim LDP benefits on more than one occasion. We identified 10 of the 24 producers through one of the software applications we used to select producers for review. We also found that a comparison of the production evidence used to support the individual LDP requests could have readily identified the existence of duplicate production evidence in each case.

We also identified three other producers who received LDP benefits totaling $8,101.15 for quantities of commodities that were also pledged as collateral for price support loans at the time of the LDP requests. Our field visit to the farm to measure the commodity under loan disclosed that one of the producers had disposed of 50,000 bushels of corn without prior CO authorization. The collateral had a loan value of $88,186.28. Each one of these producers claimed LDP or loan program benefits based on yields that appeared to exceed the county established yield.

For 17 other producers, we identified differences in the quantity and/or share data used to determine the LDP benefit amounts versus that shown on other FSA and/or crop insurance records. These included the supporting Forms CCC-666 LDP, Loan Deficiency Payment Application and Certification, and/or copies of the production evidence. For example, a producer in Texas County, Oklahoma, received LDP benefits of $7,112.81 based on a 100 percent interest in 21,805.06 bushels of 1998 crop corn produced on one farm. This occurred even though Form FSA-578, Report of Acreage, showed that the producer only had a two-thirds interest in the 1998 crop corn harvested from that farm. As a result, the producer received excess program benefits of $2,370. Again, we noted that a review of the associated form FSA-578 could have readily identified that the producer had requested an LDP on a quantity not supported by his share and acreage. Similar conditions were noted for 16 other producers included in our review and resulted in over and underpayments totaling $19,820.11 and $16,323.82, respectively.

We also identified 17 producers who received LDP and loan benefits of $40,766.19 and $14,117.84, respectively, even though they did not meet the beneficial interest requirements. For example, a producer in Dallam County, Texas, received LDP benefits of $4,499.05 on July 16, 1998, for 74,984.7 bushels of 1998 crop wheat that were delivered to a local feedlot between June 20 and July 2, 1998. The LDP payment was disbursed on July 16, 1998, even though the feedlot records showed that settlement with the producer was based on the date of delivery to the feedlot. We concluded that the producer did not have beneficial interest in the commodity at the time of the request for LDP benefits. Some producers admitted that they claimed LDP benefits on prior year crops. We found that 14 of these 17 producers claimed LDP benefits on yields that appeared to exceed the county established yield.

Our collateral verifications also disclosed that one producer had requested LDP benefits on a commodity that was not planted on the farm. As a result, the producer received ineligible program benefits of $41.33.

FSA recognized a need for the COC to determine what could have been reasonably produced as a control. However, we believe that the manual nature of the control severely limited its effectiveness from a program administration standpoint. For 1998, CO personnel could run a price support query that calculated a production quantity for each eligible commodity in which the producer had a 1998 cropping interest within the county. The production quantities were determined by multiplying the applicable county established yield by the producer's share of the 1998 acreage planted to the commodity. However, the effectiveness of the reasonableness test was dependent on CO personnel maintaining a running balance of the remaining eligibility quantity. This was generally accomplished by deducting the quantity claimed for LDP or price support loan benefits from the remaining eligible quantity shown on a ledger sheet prepared for each producer. Limited resources in some CO's as well as high volumes of LDP requests resulted in some counties abandoning the reasonableness determination process.

As a control, the importance of conducting the required reasonableness determination should not be minimized. We also believe that its effectiveness as a program control will be dependent on the extent to which the process can be automated under future operations.

RECOMMENDATION NO. 3

Develop and automate a reasonableness test to readily identify production quantities that exceed the county established yield prior to application approval.

FSA Response

The written comments on the draft report (see exhibit D) did not contain any information for this recommendation.

OIG Position

To reach management decision, we need to be advised that FSA has implemented or developed plans to implement the audit recommendation, including the planned timeframes for implementation.

RECOMMENDATION NO. 4

Instruct STO's to reemphasize that all LDP requests exceeding the quantity that could have been reasonably produced (county established yield) will be reviewed by the COC prior to application approval. Specify that this COC determination will not be delegated.

FSA Response

The written comments on the draft report (see exhibit D) showed that FSA planned to formally remind CO's of their responsibilities to ensure the reasonableness of claimed production quantities by December 2000.

OIG Position

We concur with the management decision.

RECOMMENDATION NO. 5

Direct STO's to instruct the CO's reviewed to submit the questioned cost cases cited in the individual Statements of Condition to the COC's for their determinations as to action to be taken and provide the STO's with the results of the individual COC determinations together with copies of any written payment demands issued as a result of such determinations.

FSA Response

The written comments on the draft report (see exhibit D) showed that FSA planned to notify the STO's of their responsibilities for addressing the audit recommendation by December 2000.

OIG Position

We concur with the management decision.

RECOMMENDATION NO. 6

Direct STO's to instruct the CO's reviewed to obtain the needed documentation for the unsupported cost cases cited in the individual Statements of Condition. For those situations where the needed documentation is not available, refer the cases to the COC's for their determinations as to action to be taken and provide the STO's with the results of the individual COC determinations together with any written payment demands issued as a result of such determinations.

FSA Response

The written comments on the draft report (see exhibit D) showed that FSA planned to notify the STO's of their responsibilities for addressing the audit recommendation by December 2000.

OIG Position

We concur with the management decision.

RECOMMENDATION NO. 7

Direct STO's to instruct the CO's reviewed to submit the remaining cases cited in the individual Statements of Condition to the COC's for their determinations as to the action to be taken and provide the STO's with the results of the individual COC determinations.

FSA Response

The written comments on the draft report (see exhibit D) showed that FSA planned to notify the STO's of their responsibilities for addressing the audit recommendation by December 2000.

OIG Position

We concur with the management decision.

RECOMMENDATION NO. 8

Provide for an annual reconciliation of LDP benefits that are based on unreasonable yields effective for the 1999 and subsequent program years.

FSA Response

The written comments on the draft report (see exhibit D) showed that FSA would need time to develop a procedure for conducting an annual reconciliation of LDP benefits. The response also showed that the earliest implementation date would be late 2001.

OIG Position

We concur with the management decision.

FINDING NO. 3

SECOND-PARTY REVIEWS ARE NEEDED

CO personnel did not always comply with program requirements pertaining to requests for LDP benefits. These included requirements pertaining to the processing of late-filed acreage reports, producer eligibility for program benefits, follow-up on shortages noted during spot-checks, signatures on forms CCC-666 LDP, and incorrect certifications. CO personnel generally advised us that the errors were caused by oversight and the use of temporary employees due to the extremely heavy workload. As a result, we identified questioned and unsupported LDP benefits totaling $10,398.26 and $12,710.42, respectively for 22 producers in 8 CO's. We also identified two underpayments totaling $435 at one of the CO's.

FSA Handbook 6-LP, paragraph 2, provides, in part, that CO personnel are responsible for determining that LDP computations and payments are based on handbook procedures. However, the procedures do not specifically provide for the use of second-party reviews as a program control. We concluded that such reviews could have been used to identify the following errors:

Questioned Costs

- Five producers received excess LDP benefits totaling $2,484.74 because CO personnel divided the number of pounds produced by 10 rather than 100 to determine the amount of 1998 crop grain sorghum benefits due (FSA Handbook 2-LP paragraph 600). The county executive director advised us that the errors might have resulted from the use of temporary help.

- One case was found in which CO personnel did not deny LDP benefits of $7,680 for 1998 crop corn that was harvested from a nonparticipating farm. FSA Handbook 6-LP, paragraphs 300 and 301, provide, in part, that LDP's are available to producers who have produced contract commodities on farms which are enrolled on a CCC-478 according to FSA Handbook 1-PF. CO personnel advised us that they forgot to check the eligibility flags in the automated system prior to processing the payment.

- One producer's payment was computed using an incorrect terminal market rate ($1.81 rather than $2.09) to determine the adjusted price for the Gulf market on September 15, 1998 (FSA Notice LP-1648, dated June 10, 1998). As a result, the LDP benefits were overstated by $206.82.

- One producer received a refund of liquidated damages of $26.70 that the COC improperly approved (FSA Handbook 7-LP, paragraph 525). The COC advised us they thought that a change in program procedures authorized this action as they did not believe it was fair to require liquidated damages for some producers when the procedures changed and did not require liquidated damages for others. After the procedures changed, the committee had county personnel refund the liquidated damages that were assessed prior to the procedure change.

Unsupported Costs

- Six producers submitted late-filed acreage reports; however, CO personnel did not conduct field inspections to verify the existence of applicable 1998 crops prior to the disbursement of unsupported LDP benefits totaling $3,629.68 (FSA Notice LP-1655, dated July 2, 1998). CO personnel said the errors were caused by oversight.

- Three producers received LDP benefits totaling $2,818 even though the claimed yields exceeded the county established yields and did not appear to be adequately supported (FSA Handbook 6-LP, paragraph 307).

- One case was found in which CO personnel disbursed 1998 crop corn LDP benefits of $5,939.09 to a producer who did not file an associated Form FSA-578, Report of Acreage, as required by FSA Handbook 6 - LP paragraph 302. CO personnel advised us that they forgot to look at the associated form FSA-578 in this case.

- One case was found where CO personnel did not ensure that the producer's signature was on the supporting form CCC-666 LDP due to oversight (FSA Handbook 6-LP, paragraph 354). As a result, the producer obtained LDP benefits of $297.98 that were not adequately supported.

- One producer was disbursed soybean LDP benefits of $25.67 even though the producer did not report an interest in any 1998 crop soybeans (FSA Handbook 6-LP, paragraph 302). CO personnel advised us that the error was caused by oversight.

- One case was found where the CO personnel did not timely follow-up on a shortage noted during an LDP spot-check as required by FSA Handbook 7-LP, paragraph 506. As a result, the CO did not have reasonable assurance that the associated LDP benefits were adequately supported. Program records showed that CO personnel discovered the shortage (16,889 bushels) on May 6, 1999. As of July 28, 1999, the only action taken to resolve the discrepancy was a phone call to the producer on the spot-check date. During the phone call, the producer advised FSA personnel that the grain had been moved to another location. CO personnel advised us that the limited availability of time and resources had prevented them from performing the needed follow-up at the time of our review.

Other Errors

- One producer's records were not updated by CO personnel to show cancellation of a duplicate LDP benefit of $15,581.95 (FSA Handbook 7-CN, paragraph 490). If not corrected, the amount reported to the Internal Revenue Service will be overstated. CO personnel advised us that the error was caused by oversight.

- One case was found where CO personnel disbursed an additional LDP rather than correct the original LDP as required by FSA Handbook 7-LP, paragraph 14. CO personnel advised us that they were not familiar with the correction procedure.

- Two producers were underpaid $435 as the result of an automated payment limitation reduction that did not appear to be supported (FSA Handbook 7-LP, paragraph 909). CO personnel could not explain the reason for the error but did disburse the additional amounts due during the audit.

Please note that Audit Recommendation Nos. 5, 6, and 7 also apply to the monetary amounts cited in this audit finding.

RECOMMENDATION NO. 9

Require second-party reviews of application and payment data as well as developing a checklist to assist the second-party reviewer in completing the review. Also, issue a notice summarizing the conditions noted in this report as a tool to prevent their recurrence under future operations.

FSA Response

The written comments on the draft report (see exhibit D) showed that FSA would reemphasize the importance of second-party reviews and summarize the conditions cited in the audit report at a tool to prevent their recurrence under future operations. The response also showed a target implementation date of December 2000.

OIG Position

We concur with the management decision.

FINDING NO. 4

NONCOMPLIANCE WITH LDP SPOT-CHECK REQUIREMENTS

FSA personnel at six CO's in four States reviewed did not conduct monthly spot-checks of 1998 crop farm-stored LDP's and/or loans as required. Also, STO personnel did not conduct semiannual reviews of CO spot-check folders as a tool to ensure that CO personnel were carrying out their assigned spot-check responsibilities and that identified problems were promptly acted upon. CO personnel generally advised us that the disbursement of program benefits was considered a higher priority than timely completion of the subject spot-checks. As a result, the agency did not have reasonable assurance that producers were accurately certifying the quantities of farm-stored production claimed for program benefits.

FSA Handbook 7-LP, paragraph 500, provides, in part, that CO personnel are to make onsite spot-checks of a random sample of farm-stored loans and LDP's on a monthly basis. Paragraph 505 further provides that STO's are required to conduct semiannual reviews of CO spot-check folders to ensure that they are being timely performed and that identified problems are timely and properly acted upon.

We found that 6, or about 33 percent, of the 18 CO's visited in conjunction with the audit did not conduct monthly spot-checks of farm-stored loans and/or LDP's. STO personnel generally indicated that the timely disbursement of LDP benefits was a top priority. This, in turn, limited the extent of staff resources that could be devoted to other program areas such as spot-checks.

Also, personnel at two (Iowa and Missouri) of the eight STO's visited had not conducted semiannual reviews of CO spot-check folders as required. STO personnel thought their reviews of the Monthly Spot-Check Performance Reports submitted by CO's satisfied the handbook requirement. However, this may have prevented the Missouri FSA STO from becoming aware of a case where personnel in the Daviess CO had not timely followed up on a 16,900 bushel shortage noted during an LDP spot-check.

RECOMMENDATION NO. 10

Instruct the STO's to issue a notice reminding CO's of their responsibilities for completing and documenting the results of random spot-checks of farm-stored LDP's on a monthly basis as required and to provide for timely follow-up on any noted differences. Also, instruct STO personnel to conduct semiannual reviews of CO spot-check folders as required.

FSA Response

The written comments on the draft report (see exhibit D) showed that FSA planned to issue procedures to address the audit recommendation by February 2001.

OIG Position

We concur with the management decision.

FINDING NO. 5

NONCOMPLIANCE WITH COTTON REQUIREMENTS

Personnel at one CO (Stoddard County, Missouri) improperly allowed producers to complete Forms CCC-Cotton AA, Upland Cotton Producer's Loan Deficiency Payment Applications and Certifications, for the same cotton bales that were included on previously completed Forms CCC-709, Direct Loan Deficiency Payment Agreements. CO personnel said they thought that Amendment 40 to FSA Handbook 7-CN permitted this action. This occurred even though other handbook instructions specifically prohibited such action. As a result, we identified over and underpayments totaling $71,065.60 and $11.17 respectively, to 7 of 8 cotton producers included in our review. We also identified over and underpayments totaling about $23,637.10 and $890.95 respectively, to 15 other producers with interests in the cotton LDP's referred to above (see exhibit A).

FSA Handbook 7-CN, Amend. 40, paragraph 242.6, dated September 30, 1998, provided, in part, that quantities claimed on form CCC-709 could not also be included on form CCC-Cotton AA. The forms CCC-709 were used to claim benefits on cotton that went directly from the field to the gin where beneficial interest in the cotton was lost. The forms CCC Cotton-AA were to be used to claim benefits on cotton for which the producer retained beneficial interest.

The audit disclosed the existence of forms CCC-Cotton AA and forms CCC-709 covering the same bales of cotton for seven of eight cotton producers included in our review. For example, one of the producers completed a form CCC-709 to include all of the sold 1998 crop cotton production from one farm. The form showed a request and approval date of September 28, 1998. On November 20, 1998, the producer completed a form CCC-Cotton AA to support a claim for LDP benefits on 106,737 pounds of cotton produced on this farm. The producer received LDP benefits of $10,407 based on the LDP rate of $0.098 in effect on November 20, 1998. The producer should have been paid based on the LDP rate in effect on the dates the cotton was ginned and would have resulted in $4,990.04 less in payment.

The producer had a ginning contract, dated December 12, 1997, for the bales of cotton produced. The ginning dates shown on the bale listing ranged between October 16, 1998, and November 5, 1998. As such, the subject producer lost beneficial interest in the cotton prior to completion of the form CCC-Cotton AA, dated November 20, 1998. Therefore, we determined that the LDP benefits should have been limited to $5,417.89 as shown in the following table:

GINNING DATES	POUNDS GINNED	EFFECTIVE LDP RATE	RESEARCH AND PROMOTION FACTOR	LDP AMOUNT*
10/16/98 – 10/21/98	67,605	$0.0454	0.995	$3,053.92
10/25/98 – 10/28/98	31,768	$0.0587	0.995	$1,855.46
11/05/98	7,364	$0.0694	0.995	$ 508.51
Total	106,737	NA	NA	$5,417.89

* Pounds ginned multiplied by the effective LDP rate multiplied by the research and promotion factor.

CO personnel advised us that they believed their actions were justified on the basis that the producer had not lost beneficial interest in the cotton at the time of ginning. However, national office personnel advised us that producers lost beneficial interest in the cotton on the ginning date.

Similar conditions were noted for 21 other cotton producers included in our review. Those producers received erroneous disbursements totaling $90,614.78.

RECOMMENDATION NO. 11

Instruct the Missouri STO to direct the Stoddard CO to notify all cotton producers in the county that the practice of allowing producers to complete forms CCC-Cotton AA and forms CCC-709 for the same bales was incorrect and will not be allowed in the future.

FSA Response

The written comments on the draft report (see exhibit D) showed that FSA planned to direct the Missouri STO to advise their counties of the requirements for filing LDP applications by November 2000.

OIG Position

We concur with the management decision.

RECOMMENDATION NO. 12

Instruct the Missouri STO to require the Stoddard CO to recover the overpayments and disburse the additional amounts due the applicable producers cited in the Statement of Conditions.

FSA Response

The written comments on the draft report (see exhibit D) showed that FSA planned to follow up on the audit recommendation by November 2000.

OIG Position

We concur with the management decision.

EXHIBIT A - SUMMARY OF MONETARY RESULTS

FINDING NO.	DESCRIPTION	MONETARY AMOUNT	CATEGORY
2	Required reasonableness tests not performed	$ 96,008.57	Questioned Costs – Recovery Recommended
2	Required reasonableness tests not performed	102,304.12	Questioned Loans – Recovery Recommended
2	Required reasonableness tests not performed	16,323.82	Underpayments
3	Noncompliance with program requirements	10,398.26	Questioned Costs – Recovery Recommended
3	Noncompliance with program requirements	12,710.42	Unsupported Costs – Recovery Recommended
3	Noncompliance with program requirements	435.00	Underpayments
5	Producers improperly allowed to submit forms CCC-Cotton AA and forms CCC-709 for the same bales	94,702.70	Questioned Costs – Recovery Recommended
5	Producers improperly allowed to submit forms CCC-Cotton AA and forms CCC-709 for the same bales	902.12	Underpayments
Total		$ 333,785.01	

EXHIBIT B – AUDIT SITE LOCATIONS

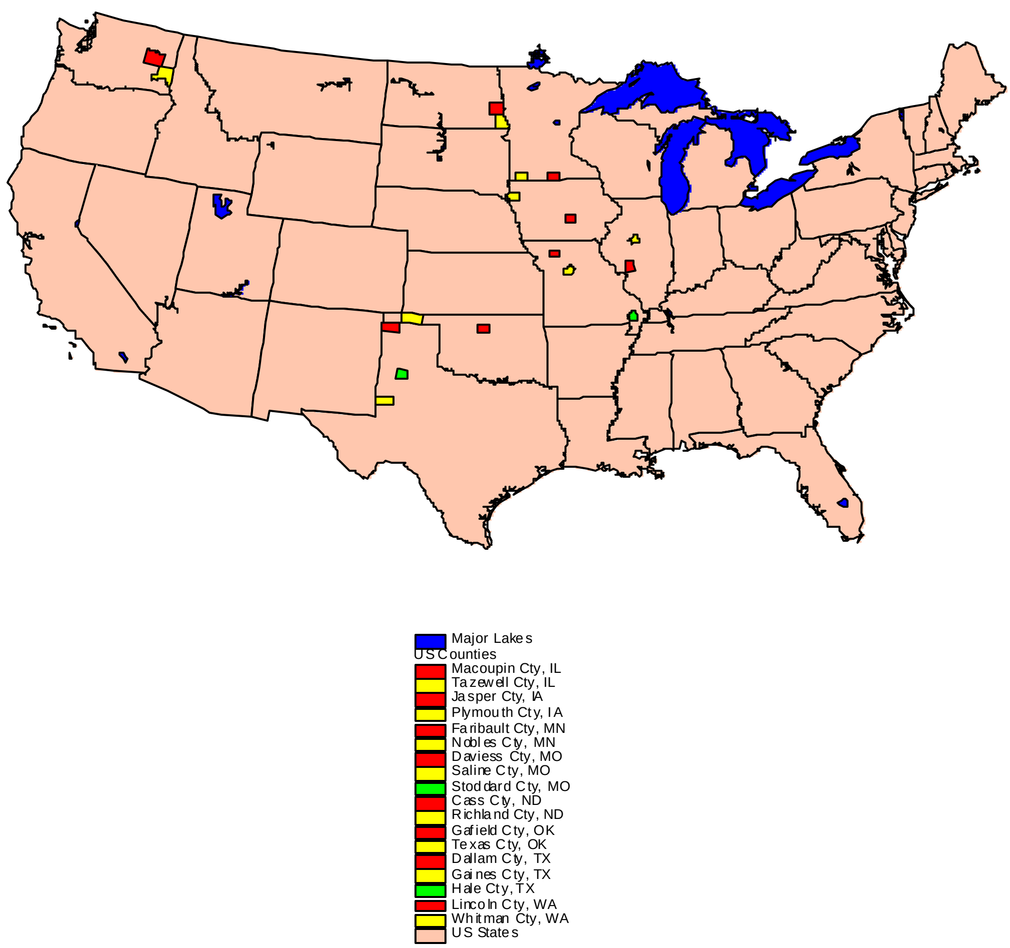

EXHIBIT C – AUDIT SCOPE DATA

STATE	COUNTY	UNIVERSE OF PRODUCERS RECEIVING 1998 CROP LDP BENEFITS	NO. REVIEWED	NO. OF PRODUCERS CLAIMING BENEFITS ON YIELDS WHICH APPEARED TO EXCEED ASSOCIATED COUNTY AVEREAGE YIELD	NO. REVIEWED
Illinois	Macoupin	1,912	13	142	9
	Tazewell	1,995	14	317	12
Iowa	Jasper	1,503	25	167	21
	Plymouth	1,694	22	458	14
Minnesota	Faribault	1,031	19	46	13
	Nobles	1,459	22	575	16
Missouri	Daviess	772	29	117	19
	Saline	1,632	16	178	11
	Stoddard	1,299	32	325	24
North Dakota	Cass	1,268	20	158	12
	Richland	1,043	19	152	17
Oklahoma	Garfield	1,844	10	773	9
	Texas	1,584	10	236	8
Texas	Dallam	365	15	176	13
	Gaines	843	14	151	11
	Hale	1,785	16	288	15
Washington	Lincoln	1,991	25	279	20
	Whitman	2,419	15	767	11
Total		26,439	336	5,305	255

EXHIBIT D – FSA RESPONSE TO THE DRAFT REPORT

USDA

United States
Department of
Agriculture

Farm and Foreign
Agricultural
Services

Farm Service
Agency

Operations Review
and Analysis Staff

Audits,
Investigations,
State and County
Review Branch

1400 Independence
Avenue, SW
Stop 0540
Washington, DC
20250-0540

SEP 26 2000

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

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

SUBJECT: Response to Audit No. 03601-17-TE, 1998 Crop Loan Deficiency Payment

Enclosed is a copy of a memorandum dated September 22 from the Farm Service Agency's (FSA's) Deputy Administrator for Farm Programs, which responds to your August 16 request for information regarding the subject audit.

Please address any questions to Karren Fava, FSA, Audits, Investigations, State and County Review Branch, at 720-6152.

Enclosure

USDA

SEP 22 2000

United States Department of Agriculture

Farm and Foreign Agricultural Services

Farm Service Agency

1400 Independence Ave, SW
Stop 0512
Washington, DC
20250-0512

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

FROM: Larry Mitchell
Deputy Administrator for Farm Programs

SUBJECT: Audit No. 03601-17-KC, 1998 Crop Loan Deficiency Payment

RECOMMENDATION NO 1

Agency Response:

Handbook 8-LP, subparagraph 536 C was amended May 2000 to require State Committee's to spot check County Committee yield determinations to ensure accuracy.

Completed.

RECOMMENDATION NO 2

Agency Response:

We will consider using NASS data to help provide guidance and direction over the establishment of county yields. However, we have not determined exactly how we would go about implementing such a program.

Targeted date for implementation is the 2001 crop year.

RECOMMENDATION NO 3

Agency Response:

RECOMMENDATION NO 4

Agency Response:

We will issue instructions to State and county FSA office reminding them of their responsibilities to ensure that production quantities are reasonable.

Target date December 2000.

RECOMMENDATION NO 5

Agency Response:

We agree with the recommendation and will advise State Offices to act accordingly.

Target date is December 2000.

RECOMMENDATION NO 6

Agency Response:

We agree with the recommendation and will advise State Offices to act accordingly.

Target date is December 2000.

RECOMMENDATION NO 7

Agency Response:

We agree with the recommendation and will advise State Offices to act accordingly.

Target date is December 2000.

RECOMMENDATION NO 8

Agency Response:

Need time to develop a procedure to perform an annual reconciliation. If developed, probably would not be implemented until late 2001.

Target date is late 2001.

RECOMMENDATION NO 9

Agency Response:

Second party reviews are already in place. However, we will re-emphasize the importance of second party reviews and at the same time cite the conditions in the report to be used as a tool to prevent recurrences under future operations.

Target date is December 2000.

RECOMMENDATION NO 10

Agency Response:

We concur with the recommendation. Procedure will be issued to cover the recommendation.

Target date is February 2001.

RECOMMENDATION NO 11

Agency Response:

We will instruct the Missouri State Office to inform all of their counties of the requirements for filing LDP applications.

Target date is November 2000.

RECOMMENDATION NO 12

Agency Response:

We will follow up on the recommendation.

Target date is November 2000.

ABBREVIATIONS