U.S. Department of Agriculture

Office of Inspector General
Northeast Region

Audit Report

Export Credit Guarantee Program

Report No. 07601-2-Hy
July 2008

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

July 22, 2008

REPLY TO
ATTN OF: 07601-2-Hy

TO: Michael W. Yost
Administrator
Foreign Agricultural Service

ATTN: Steven S. Rhodes
Director
Compliance, Security, and Emergency Planning Division

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

SUBJECT: Export Credit Guarantee Program

This report presents the results of our audit of the Export Credit Guarantee Program. Your response to the official draft, dated June 30, 2008, is included as exhibit A. Excerpts of your response and the Office of Inspector General's position are incorporated into the Finding and Recommendations sections of the report. Based on your response, we accepted management decision on one of the report's two recommendations. Please follow your agency's internal procedures in forwarding documentation for final action to the Office of the Chief Financial Officer.

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

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

Executive Summary

Export Credit Guarantee Program (Audit Report No. 07601-2-Hy)

Results in Brief

Our audit of Foreign Agricultural Service's (FAS) Export Credit Guarantee Program was designed to identify and evaluate controls over the program including the review, approval, and monitoring of export credit guarantees. This program was established to increase the profitability of farming and increase opportunities for U.S. agricultural commodities. The credit guarantees encourage exports to buyers in countries where credit is necessary to maintain or increase U.S. sales but where financing may not be available without the guarantees. In fiscal year (FY) 2007, FAS processed 941 General Sales Manager (GSM)-102 program loan guarantee applications valued at $1.4 billion.

Our review of the processes associated with applications, bank and country assessments, loan defaults, and collections generally found that FAS developed and implemented the necessary internal controls for the GSM-102 program. Program management had also demonstrated a commitment to internal controls as evidenced by their implementation of Office of Management and Budget's (OMB) Circular A-123, "Management's Responsibility for Internal Controls," reviews in FY 2006 and 2007. The FY 2006 OMB Circular A-123 review found eight low risk deficiencies, most of which had been corrected at the time of our review. The deficiencies disclosed the need to update or establish procedures and processes. Our review noted additional areas where improvements could be made to the program's internal controls and where formalizing the controls is needed.

- FAS implemented a risk-based premium structure for the GSM-102 program in July 2005 in an attempt to avoid $4 billion in trade sanctions imposed by the World Trade Organization (WTO). FAS' guarantee premiums were based on country risk; however, the risk of default is a combination of country and bank risk (i.e., the soundness of the foreign bank). The country-based premium structure was chosen because it could be implemented in time to meet the compliance deadline imposed by WTO. As a result, the premiums charged for GSM-102 guaranteed loans are not completely commensurate with the risks of making the loan guarantee.

- We found that FAS needs to develop and implement controls for safeguarding GSM-102 claim files. Originally, the Farm Service Agency (FSA) maintained all claim files. However, in September 2005, the control of claim files was divided between FAS and FSA. FAS controlled claims against foreign banks that are privately owned (i.e., non-sovereign banks) and FSA retained control over claims against foreign government-sponsored banks (i.e., sovereign banks). We identified that the claim files for non-sovereign banks located in three countries had not been transferred to FAS at the time of our fieldwork and could not be readily produced. FAS officials were subsequently able to provide these records for our review. Subsequent to our audit fieldwork, control and possession of all claim files were transferred to FAS. At the exit conference in May 2008, FAS officials provided an overview of actions they are implementing to adequately control claim files.

We did not evaluate whether export credit guarantees constituted a subsidy in violation of trade agreements. This dispute was arbitrated by WTO. In September 2004, WTO ruled that the GSM-102 program was subsidizing export activities because premiums were inadequate to cover long-term operating costs and losses. In response, FAS modified the GSM-102 program in July 2005 to bring it into compliance with the WTO ruling. Specifically, FAS tightened eligibility standards, increased guarantee premiums, and implemented a risk-based premium structure. In July 2007, WTO issued an interim ruling that found that the United States had not adequately complied with the original WTO ruling from September 2004. The setback to the United States has been acknowledged by the former Secretary of Agriculture, the U.S. Trade Representative, and Members of Congress. The final ruling issued in December 2007 affirmed the interim ruling regarding the GSM-102 program.

Because the long-term effect of changes to the GSM-102 program will not become apparent for several more years, we concluded that it is too early to assess the effect of the July 2005 program changes on default rates and program activity.

Recommendations In Brief

FAS needs to develop a new guarantee fee structure that includes the financial risk of both the foreign country and bank itself. FAS also needs to develop and implement a records management system that complies with applicable departmental regulation (DR).[1]

Agency Response

FAS agreed with the report's two recommendations. We have incorporated FAS' response in the Findings and Recommendations section of this report, along with the OIG position. FAS' response is included as exhibit A.

OIG Position

Based on FAS' response, we accept management decision on Recommendation 2. Management decision on Recommendation 1 can be

[1] DR 3080-1, dated April 30, 2004, requires that records be maintained and safeguarded so that they are easily retrievable and protect the legal and financial rights of the Government.

reached once FAS has provided us with the additional information outlined in the report section, “OIG Position.”

Abbreviations Used in This Report

CCC	Commodity Credit Corporation
C.F.R.	*Code of Federal Regulations*
DR	Departmental Regulation
FAS	Foreign Agricultural Service
FSA	Farm Service Agency
FY	Fiscal Year
GSM	General Sales Manager
KCDC	Kansas City Data Center
OIG	Office of Inspector General
OMB	Office of Management and Budget
USDA	U.S. Department of Agriculture
WTO	World Trade Organization

Table of Contents

Background and Objectives

Background

The Agricultural Trade Act of 1978 established the Export Credit Guarantee Program. The purpose of the program was to increase the profitability of farming and increase opportunities for the U.S. farms and agricultural enterprises by (1) increasing the effectiveness of the U.S. Department of Agriculture (USDA) in agricultural export policy formulation and implementation; (2) improving the competitiveness of U.S. agricultural commodities and products in the world market; and (3) providing for the coordination and efficient implementation of all agricultural export programs.

USDA's current export credit guarantee program activity is limited to the General Sales Manager (GSM) 102 program. Other export credit guarantee programs exist, but these programs are not currently active. Implementing regulations for the programs can be found in Title 7 *Code of Federal Regulations* (C.F.R.) § 1493. As shown in the following table, program activity has declined in recent years.

Fiscal Year	Number of Approved Applications	Guarantee Amount
2004	2,165	$2.9 billion
2005	2,013	$2.2 billion
2006	1,299	$1.4 billion
2007	941	$1.4 billion

.

USDA's Commodity Credit Corporation (CCC) administers export credit guarantees for commercial financing of U.S. agricultural exports. The guarantees encourage exports to buyers in countries where credit is necessary to maintain or increase U.S. sales but where financing may not be available without CCC guarantees. The GSM-102 program issues loan guarantees for up to 3 years that underwrite credit extended by U.S. banks to approved foreign banks using irrevocable letters of credit to pay for U.S. food and agricultural products sold to foreign buyers.

CCC guarantees payments due from approved foreign banks to exporters or financial institutions in the United States. However, the financing must be obtained through normal commercial sources. Typically, 98 percent of principal and a portion of interest are covered by a guarantee. Because payment is guaranteed, financial institutions in the United States can offer competitive credit terms to foreign banks.

CCC must qualify exporters for participation before accepting guarantee applications. Financial institutions must meet established criteria and be approved. CCC sets limits and advises each approved foreign bank on the maximum guarantee amount for that bank.

The exporter negotiates terms of the export credit sale with the importer. The exporter usually works closely with the eligible U.S. financial institution to ensure that arrangements are firmly in place for the U.S. financial institution to pay the exporter and to extend credit to the foreign bank. Once a firm sale exists, the qualified U.S. exporter applies for a payment guarantee before the export date. The exporter pays a fee calculated on the dollar amount guaranteed. Fee rates are based on the country risk associated with the country where the foreign bank is located, as well as the repayment term and repayment frequency (annual or semi-annual) under the guarantee.

The CCC-approved foreign bank issues an irrevocable letter of credit to the U.S. exporter, confirmed by the U.S. financial institution agreeing to extend credit to the foreign bank. If the foreign bank fails to make any payment as agreed under the GSM-102 guarantee, the exporter or assignee must submit a notice of default to CCC. A claim for loss must be filed within 6 months of the notice of default. Once the claim for loss is received, CCC pays the claim. CCC reserves the right to collect the defaulted loan funds from the U.S. financial institution in exchange for paying off the loan. CCC is then responsible for collecting the unpaid loan balances plus interest.

The Uruguay Round of trade negotiations established the World Trade Organization (WTO) on January 1, 1995. As of January 11, 2007, WTO had 150 members including the United States. WTO is an international organization dealing with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictable, and as freely as possible. The WTO's procedures for resolving trade disagreements under the Dispute Settlement Understanding are vital for enforcing the rules. Countries bring disputes to WTO if they think their rights under agreements are being infringed. Specially-appointed independent experts make judgments based on interpretations of the agreements and individual country's commitments.

In September 2004, WTO ruled against the United States in a trade dispute concerning whether export credit guarantees constituted a subsidy in violation of trade agreements. In response, the Foreign Agricultural Service (FAS) modified the GSM-102 program in July 2005 to bring it into compliance with the WTO ruling. Specifically, FAS eliminated the Intermediate Export Guarantee Program, tightened eligibility standards, increased guarantee premiums, implemented a risk-based premium structure, requested a legislative change to remove the one-percent premium cap, and began reviewing the fee structure on a quarterly basis to determine the need for premium adjustment. In July 2007, WTO issued an interim ruling that found that the United States had not complied with the original WTO ruling from September 2004. This setback to the United States has been acknowledged by the former Secretary of Agriculture, the U.S. Trade Representative, and Members of Congress. The final ruling, issued in December 2007, affirmed the interim ruling regarding the GSM-102 program.

The Credit Programs Division performed an Office of Management and Budget (OMB) Circular A-123 review in FY 2006 and FY 2007. OMB Circular A-123 defines management's responsibility for internal controls in Federal agencies. The reexamination of existing internal control requirements for Federal agencies was initiated in light of new internal control requirements for publicly-traded companies contained in the Sarbanes-Oxley Act of 2002. Management is responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations. The revised circular became effective in FY 2006.

Eight deficiencies were noted in the FY 2006 review (FY 2007 results were not available) all of which were rated low risk and short term (less than 6 months). The low risk control deficiencies noted in the review are shown in the following table.

Description	Status
Votes of Reconciliation Committee[2] were not properly documented	Completed
Copies of guarantee checks were missing from files	Completed
Supervisory specialist reviewed but did not initial documents	Completed
No supervisory confirmation of deactivation[3] following default	Completed
No process to ensure senior staff deactivates obligor	Completed
Manual overrides for claims are permitted without management approval	Incomplete
Importers and foreign banks are run against watchdog list, exporters and U.S. banks are not	In Process
No procedures in place to ensure that notices of default are entered into information system	Incomplete

Objectives

Our objectives were to identify and evaluate GSM-102 controls over the review, approval, and monitoring of export credit guarantees to ensure program integrity and to ensure that the agency is meeting its program goals, such as reducing program default rates and program administrative costs.

---

2 The reconciliation committee sets the GSM-102 program level for each country and region.

3 Upon notification of the default of an obligor the FAS information system is updated (deactivated) to prevent further loan guarantees being made to that obligor.

Findings and Recommendations

Section 1. Guaranteed Loan Program Premiums

Finding 1

Guaranteed Loan Premiums Not Commensurate with Default Risks

In response to the WTO ruling in September 2004, FAS implemented a country risk-based premium structure for the GSM-102 program in July 2005. This premium structure was deficient because it did not fully address the risks CCC assumes in making the loan guarantee. The premium structure did not consider the soundness of the foreign bank; it only considered risks associated with the country.[4] In an effort to avoid the United States receiving trade sanctions of up to $4 billion annually, FAS implemented this simplified risk-based fee structure for the program that only considered country risk. As a result, the premiums charged for GSM-102 guaranteed loans are not completely commensurate with the risks of making the loan guarantee.

The regulation[5] states "the payment guarantee fee rates will be based upon the length of the payment terms provided for in the export sale contract, the degree of risk that CCC assumes, as determined by CCC, and any other factors which CCC determines appropriate for consideration."

The last three defaults of the GSM-102 program occurred in FY 2004. In all three cases, the foreign banks were privately-owned, not State sponsored, and the host country was not determined to be a factor in the default. The stability of the financial condition of the banks was the sole reason for the defaults in FY 2004. However, FAS based its loan guarantee premiums on country risk and did not consider the risks associated with the foreign bank.

FAS officials generally agreed that the program default risk is a combination of country risk and bank risk.

Recommendation 1

Develop and implement a premium structure that is based on all major actual risks CCC assumes when making the loan guarantee (e.g., soundness of the foreign bank and associated country risk).

Agency Response.

FAS is currently conducting a review of the major factors to be considered when determining risk premiums. In addition to bank and country risk, these

4 This is consistent with one of the findings from the WTO interim ruling issued in July 2007 and final ruling issued in December 2007.
5 7 C.F.R. § 1493.70 – January 1, 2006 edition.

include such variables as the tenor of guarantee and the degree of risk shared with the guarantee holder.

In November 2007, FAS provided export credit guarantee program subsidy estimates for the President's FY 2009 budget. Those calculations contained new assumptions based on historical analyses of funds recovered from obligor on claims which CCC paid. As a result, FAS estimated a close to 60 percent reduction in required budget authority. FAS now is analyzing actual default data compared to government-indexed default tables, and hopes to be in a position to present new default assumptions to OMB in the FY 2010 budget submission. The ultimate goal of this process is to have the capability, at any one time, to calculate the fees needed to arrive at a budget neutral program. This process will be aided by the enactment of the Food, Conservation, and Energy Act of 2008. Any fee adjustments implemented prior to the completion of this study would be based on incomplete data.

OIG Position.

We agree with FAS' planned corrective action. However, to reach management decision, FAS needs to provide a date for implementing a revised premium structure.

OMB Circular A-123 defines management's responsibility for internal control in Federal agencies. A reexamination of the existing internal control requirements for Federal agencies was initiated in light of the new internal control requirements for publicly-traded companies contained in Sarbanes-Oxley Act of 2002. OMB Circular A-123 and the statute it implements (i.e., the Federal Managers' Financial Integrity Act of 1982) are at the center of the existing Federal requirements to improve internal control. The revised circular was effective in FY 2006.

Our review of the processes associated with applications, bank and country assessments, loan defaults, and collections generally found that FAS developed and implemented the necessary internal controls for the GSM-102 program. The Credit Programs Division of FAS performed the required OMB Circular A-123 review in a timely manner. Eight deficiencies were noted in the FY 2006 review (FY 2007 results were not available), all of which were rated low risk and short term (less than 6 months). All of the deficiencies were listed as control deficiencies and concerned the need to update or establish new procedures and processes. In addition, we identified that claim files needed to be safeguarded.

Finding 2 Claim Files Need to be Safeguarded

FAS did not maintain adequate control over GSM-102 claim files. This occurred because agency officials had not been designated with custodial responsibility for these records. As a result, copies of documents used to establish valid claims against foreign banks could not be readily produced.

Departmental Regulation (DR) 3080-1, dated April 30, 2004, "Records Management," requires that records be maintained and safeguarded so that they are easily retrievable and protect the legal and financial rights of the Government. Further, employees having custody or control over records are responsible to ensure their proper use and protection. The regulation also states that vital records will normally be maintained as duplicate copies of the original records. FAS needs to develop controls that ensure compliance with this regulation to ensure records are properly maintained and safeguarded.

Originally all claim files were maintained by the Farm Service Agency (FSA). However, as part of a reorganization in September 2005, the control of the claim files was divided between FAS and FSA. FAS controlled claims against foreign banks that are privately owned (i.e., non-sovereign banks) and FSA retained control over claims against foreign government-sponsored banks (i.e., sovereign banks). The reorganization entailed the movement of personnel, files, and equipment which coupled with inadequate records management controls, contributed to FAS not being able to readily produce the files.

In response to a request for information about outstanding claims, FAS officials informed us that claim files for Uganda, Suriname, and Venezuela had not been transferred to FAS. Subsequently, FAS officials were able to provide these records for our review. Duplicate copies of these records were not maintained. In addition, there was no centralized list of the records nor had an official been designated as having custodial responsibility for these records.

At the exit conference in May 2008, FAS and FSA officials explained that the responsibility for controlling claim files changed after our audit fieldwork. They stated that FAS now has possession and control of files for all claims against foreign banks (i.e., sovereign and non-sovereign). FAS officials provided an overview of the actions they are implementing to adequately control claim files.

Recommendation 2

Develop and implement controls over claim files that ensure compliance with DR 3080-1, "Records Management."

Agency Response.

DR 3080-1, "Records Management," states that each USDA agency must create and maintain proper and adequate documentation of all documents required to protect the legal and financial rights of the Government and of persons directly affected by the Department's activities (44 U.S.C. 3101).

In compliance with this policy, FAS maintains hardcopy files of all claims paid under the GSM 102/103 and Supplier Credit Guarantee Programs. In order to ensure that FAS also meets the requirements for duplicate records, the agency is planning to implement electronic scanning of every document and store all images on a database server in the Kansas City Data Center (KCDC). The image documents will be catalogued and maintained in the KCDC, where full data backups will be performed on a nightly basis and the backup tapes stored off-site for maximum data security.

The data warehouse of imaged documents will ensure that all claims data are protected against loss and will provide a centralized collection of claims records. System security protections will also ensure that access is restricted to those with the proper designated authorities. This duplicate maintenance of paper and electronic files will fully meet all requirements of DR 3080-1 and ensure that FAS is protecting the legal and financial rights of the U.S.

Government. Pending the receipt of funding, this process will be implemented by the end of this calendar year.

OIG Position.

We accept FAS' management decision.

Scope and Methodology

The audit fieldwork was conducted from January to July 2007 at FAS' Headquarters, Washington, D.C., and at FSA/CCC's Financial Management Division in Alexandria, Virginia.[6] We reviewed GSM-102 program activity from FY 2004 through FY 2007. As shown in the following table, program activity has declined in recent years.

Fiscal Year	Number of Approved Applications	Guarantee Amount
2004	2,165	$2.9 billion
2005	2,013	$2.2 billion
2006	1,299	$1.4 billion
2007	941	$1.4 billion

To answer our objectives we performed the following:

- We reviewed 18 of 388 GSM-102 loan guarantees totaling $89.3 million that were approved during FY 2007 to determine compliance with program requirements. We judgmentally selected two loan guarantees for each of the nine countries or regions that were active participants in the program in February 2007. There were five regions (Caribbean, Central America, Eurasia, South America and Southeast Asia) and four countries (Mexico, Russia, South Korea, and Turkey). We generally selected the highest and lowest guaranteed loans.

- We reviewed the claim files for the three banks that defaulted in FY 2004 to determine program compliance. CCC-guaranteed loan defaults at the three banks totaled $13.6 million. The loan guarantee defaults reviewed were the most recent defaults. Overall CCC has outstanding loan guarantee defaults that involve 32 countries and $895 million in debt as of December 31, 2006.

- We reviewed the bank risk analysis performed for 10 of the 274 foreign banks located in 10 countries to determine the sufficiency of review and compliance with established procedures.

- We reviewed the risk assessment for four countries (i.e., Russia, Mexico, South Korea, and Turkey) with the largest markets for the GSM-102 program to determine the sufficiency of the analysis and adherence to program requirements. We also reviewed the country risk assessment of China because it is a very large potential market; however,

[6] In April 2008, we reviewed the December 2007 final ruling by WTO to confirm that the final ruling affirmed the findings of the interim ruling regarding the GSM-102 program.

it is not currently active in the program. The five were selected from the 20 countries or regions that were eligible to participate in the GSM-102 in FY 2006.[7]

- We reviewed all 30 exposure reports from July 2004 through December 2006 to determine significant changes in account balances on a monthly basis.

To obtain background data on the GSM-102 program were reviewed the following documents.

- FAS policy and procedures
- WTO reports on the trade dispute with Brazil including the original ruling and subsequent appeals
- Agency financial reports, budgetary explanatory notes and annual performance reports
- FY 2007 Farm Bill Proposal
- Office of Inspector General and Government Accountability Office audit reports concerning the GSM-102 program
- Agency fact sheets and press releases
- FY 2004 Program Assessment Rating Tool report
- FY 2006 FAS strategic Plan

To obtain background data on the GSM-102 program and information on procedures used in operating the program, we interviewed the following:

- Director of FAS' Credit Programs Division and its branch chiefs
- FAS' Compliance Staff personnel
- FSA's Export Accounting Office Branch Chief
- Credit Underwriter from the Export-Import Bank

[7] There are 20 countries/regions eligible for the GSM-102 program. Regions include: Baltic, Caribbean, Central America, Central Europe, Eurasia, Middle East, South America, Southeast Asia, Southeast Balkan, Southeast Europe, and Southern Africa. Countries include: China/Hong Kong, India, Korea, Mexico, Pakistan, Russia, Sri Lanka, Tunisia, and Turkey.

We did not evaluate whether export credit guarantees constituted a subsidy in violation of trade agreements. The dispute was arbitrated by the WTO acting in its role as the international organization dealing with the global rules of trade between nations. In September 2004, the WTO ruled against the United States concluding that the GSM-102 program was subsidizing export activities because premiums were inadequate to cover long-term operating costs and losses.

As a result of a WTO ruling, FAS modified the GSM-102 program.[8] Acknowledging that the long-term effect of changes to the GSM-102 program will not become apparent for several years, we did not review the long-term sustainability of the GSM-102 program. In addition, we concluded that it is too early to assess the effect of the July 2005 program changes on default rates and program activity.

We conducted this performance audit in accordance with the *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[8] FAS modified the GSM-102 program in July 2005 to bring it into compliance with the WTO ruling. Specifically, FAS eliminated other export credit programs, tightened eligibility standards, increased guarantee premiums, implemented a risk-based premium structure, requested a legislative change to remove the one-percent premium cap, and now reviews the fee structure on a quarterly basis to determine the need for premium adjustments.

United States
Department of
Agriculture

Farm and Foreign
Agricultural
Services

Foreign
Agricultural
Service

1400 Independence
Ave, SW
Stop 1060
Washington, DC
20250-1060

TO: Robert W. Young
Assistant Inspector General for Audit
Office of Inspector General

FROM: Michael W. Yost
Administrator

JUN 30 2008

SUBJECT: Response to the Office of Inspector General's (OIG) Official Draft Audit Report -- "Export Credit Guarantee Programs" (07601-2-Hy)

The Foreign Agricultural Service (FAS) appreciates this opportunity to respond to the OIG draft audit report as follows.

Recommendation 1:

Develop and implement a premium structure that is based on all major actual risks [that the Commodity Credit Corporation (CCC)] assumes when making the loan guarantee (e.g., soundness of the foreign bank and associated country risk).

FAS Response:

FAS currently is conducting a review of the major factors to be considered when determining risk premiums. In addition to bank and country risk, these include such variables as tenor of guarantee and the degree of risk shared with the guarantee holder.

In November 2007, FAS provided export credit guarantee program subsidy estimates for the President's fiscal year (FY) 2009 budget. Those calculations contained new assumptions based on historical analyses of funds recovered from obligors on claims which CCC paid. As a result, FAS estimated a close to 60 percent reduction in required budget authority. FAS now is analyzing actual default data compared to government indexed default tables, and hopes to be in a position to present new default assumptions to the Office of Management and Budget in the FY 2010 budget submission. The ultimate goal of this process is to have the capability, at any one time, to calculate the fees needed to arrive at a budget neutral program. This process will be aided by the enactment of the Food, Conservation, and Energy Act of

2008. Any fee adjustments implemented prior to the completion of this study would be based on incomplete data.

Recommendation 2:

Develop and implement controls over claim files that ensure compliance with Departmental Regulation 3080-1 (DR 3080-1), "Records Management."

FAS Response:

DR 3080-1, "Records Management," states that each USDA agency must create and maintain proper and adequate documentation of all documents required to protect the legal and financial rights of the Government and of persons directly affected by the Department's activities (44 U.S.C. 3101).

In compliance with this policy, FAS maintains hardcopy files of all claims paid under the GSM 102/103 and Supplier Credit Guarantee Program. In order to ensure that FAS also meets the requirements for duplicate records, the agency is planning to implement electronic scanning of every document and store all images on a database server in the Kansas City Data Center (KCDC). The imaged documents will be catalogued and maintained in the KCDC, where full data backups will be performed on a nightly basis and the backup tapes stored off-site for maximum data security.

The data warehouse of imaged documents will ensure that all claims data are protected against loss and will provide a centralized collection of claims records. System security protections will also ensure that access is restricted to those with the proper designated authorities. This duplicate maintenance of paper and electronic files will fully meet all requirements of DR 3080-1 and ensure that FAS is protecting the legal and financial rights of the U.S. Government. Pending the receipt of funding, this process will be implemented by the end of this calendar year.

If you have any questions or concerns regarding this memorandum, or if you need additional information, please contact James Gartner, FAS's Audit Liaison, on (202) 720-0517.

cc: Ernest Hayashi
Howard Albers