



United States Department of Agriculture
Office of Inspector General





United States Department of Agriculture
Office of Inspector General
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DATE: May 14, 2012

AUDIT
NUMBER: 03401-0001-11

TO: Bruce E. Nelson
Administrator
Farm Service Agency

ATTN: Philip Sharp
Director
Operations Review and Analysis Staff

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Fiscal Year 2011 Farm Service Agency Farm Assistance Program Payments

This report presents the results of the subject audit. Your written response to the draft report, dated April 25, 2012, is included in its entirety at the end of the report. Excerpts from your response and the Office of Inspector General's position are incorporated in the relevant sections of the report. Based on your response, we were able to accept management decision on the only recommendation in the report, and no further response to us is necessary.

In accordance with Departmental Regulation 1720-1, final action is required to be taken within 1 year of management decision to prevent being listed in the Department's annual Performance and Accountability Report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer, Director, Planning and Accountability Division.

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

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Fiscal Year 2011 Farm Service Agency Farm Assistance Program Payments

Executive Summary

This report presents the results of our review of payments made by the Farm Service Agency (FSA) during fiscal year 2011, through its various farm assistance programs. The work was performed to support our audit of the Department of Agriculture's consolidated financial statements for fiscal years 2011 and 2010.¹ That report notes that the Office of Inspector General (OIG) identified improper payments² that would be reported separately to FSA.

We sampled FSA program payments for fiscal year 2011 from a universe of \$2.064 billion. We reviewed 122 payments, totaling \$5.2 million,³ and identified errors in 14 of these payments. These errors occurred primarily because FSA did not have effective internal controls over the manual Supplemental Revenue Assistance Payments (SURE) Program payment calculation process. Documentation for the SURE Program errors included a second-party reviewer initial and date, indicating that a second-party review had been completed; however, the second-party reviews conducted by FSA personnel did not detect the data input errors. OIG and FSA have agreed that these 14 errors resulted in improper payments of \$54,408. Based on the results of these 122 sampled payments, we estimated the total dollars improperly paid were about \$28 million.

In fiscal year 2010,⁴ we performed similar work in recalculating FSA program payments selected statistically through FSA data extracts and we identified 18 improper payments, totaling \$61,714. Last year, we recommended that FSA develop and implement effective internal controls over the manual SURE Program payment calculation process to prevent the continuance of the errors identified. During our fiscal year 2011 audit, we noted that FSA made enhancements to the SURE workbook to automatically compute the gross production total for the Risk Management Agency indemnity.

While we noted a reduction in the number and dollar amounts of improper payments during our fiscal year 2011 audit, controls should be further strengthened to prevent future occurrences of the types of errors noted in this report.

¹ Audit Report 50401-0001-11, *Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2011 and 2010*, November 2011.

² An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. (*Improper Payments Information Act of 2002*, Public Law 107-300, November 26, 2002).

³ We statistically selected 100 records that summarized data on 122 payments. From each extract, records were selected with probabilities proportional to their sizes.

⁴ Audit Report 03024-0001-11, *Farm Service Agency, Farm Assistance Program Payments for Fiscal Year 2010*, June 2011.

Recommendation Summary

FSA should implement more effective second-party reviews over the manual calculation of SURE Program payments.

Agency Response

In its written response, dated April 25, 2012, FSA stated that it issued a notice to State and county offices stressing the importance of second party reviews and identifying tools available to help identify deficiencies during the review. FSA also discussed the audit and findings, along with the notice, at a meeting with all State offices. The written response is included in its entirety at the end of the report.

OIG Position

Based on FSA's written response, OIG accepts management decision on the recommendation.

Background and Objectives

Background

The Farm Service Agency's (FSA) mission is to equitably serve all farmers, ranchers, and agricultural partners through the delivery of effective, efficient agricultural programs for all Americans. FSA provides assistance for natural disaster losses resulting from drought, flood, fire, freeze, tornadoes, pest infestation, and other calamities. These programs include the Supplemental Revenue Assistance Payments (SURE) program; Livestock Forage Disaster Program (LFP); Emergency Conservation Program (ECP); Livestock Indemnity Program (LIP); Crop Assistance Program (CAP); Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish (ELAP); and Trade Adjustment Assistance for Farmers (TAAF).

The SURE program authorizes the Secretary of Agriculture to provide agricultural disaster assistance to producers who suffered qualifying crop production losses, crop quality losses, or both, due to disaster(s), adverse weather, or other environmental conditions, beginning with the 2008 crop year and ending with losses incurred on or before September 30, 2011. The inclusion of a permanent crop disaster program in the *Food, Conservation, and Energy Act of 2008* (2008 Farm Bill) represented a change from the ad hoc crop disaster programs that, up until the 2008 Farm Bill, had served as Congress' primary instrument to disburse crop disaster assistance.

The American Recovery and Reinvestment Act of 2009 (ARRA) added and amended provisions of the 2008 Farm Bill related to the SURE program for the 2008 crop year. ARRA increased the assistance for producers who suffered 2008 crop losses, as well as provided an additional opportunity to participate in the SURE program through "buy-in" provisions.

The 2008 Farm Bill authorized LFP to provide compensation to eligible livestock producers that suffered grazing losses for covered livestock on land that is native or improved pastureland with permanent vegetative cover, or is planted specifically for grazing. LFP also provides compensation to eligible livestock producers that have suffered grazing losses on rangeland managed by a Federal agency, if the eligible livestock producer is prohibited by the Federal agency from grazing the normal permitted livestock on the managed rangeland due to a qualifying fire.

CAP authorizes the Secretary of Agriculture to provide disaster aid to producers in specified counties whose rice, upland cotton, soybean, and sweet potato production was affected by excessive moisture and related conditions that occurred in 2009. Under Section 32 of the *Agricultural Adjustment Act of August 24, 1935*, FSA established per acre payment rates for these crops. Through CAP, FSA provides this emergency assistance to help re-establish the purchasing power of eligible producers who suffered a 5 percent or greater loss of an eligible crop on their crop acreage and were located in a primary county for which a Secretarial disaster designation was issued, based on excessive moisture and related conditions for the 2009 crop year.

Objectives

The objective of our review was to determine if fiscal year 2011 FSA program payments were properly recorded in the accounting system and adequately supported.

Section 1: Fiscal Year 2011 Improper Payments

Finding 1: FSA Made Improper Farm Assistance Program Payments

We sampled FSA program payments for fiscal year 2011 from a universe of \$2.064 billion. We reviewed 122 payments, totaling \$5.2 million,⁵ and identified errors in 14 of these payments. These errors occurred primarily because FSA did not have effective internal controls over the manual SURE Program payment calculation process. Documentation for the SURE Program errors included a second-party reviewer initial and date, indicating that a second-party review had been completed; however, the second-party reviews conducted by FSA personnel did not detect the data input errors. The Office of Inspector General (OIG) and FSA have agreed that these 14 errors resulted in improper payments of \$54,408. FSA has initiated or completed appropriate corrective actions for all errors. Based on the results of these 122 sampled payments, we estimated the total dollars improperly paid were about \$28 million. We are 95 percent confident that the improper payments did not exceed \$102 million.

In our review, we found that 10 of the 14⁶ errors represented SURE Program payments. Overall, our statistical sample included 62 SURE Program payments from a total SURE Program payment universe of about \$1.186 billion. We calculated a total of \$54,238 improper payments for the 10 SURE Program errors. We found the county offices made errors when inputting the data into the manual workbook used to calculate the SURE Program payments. Specifically, these errors included incorrectly omitting appropriate crop indemnity information; entering the incorrect Production to Count; entering the incorrect Direct and Counter-Cyclical Program direct payment amounts, as well as the National Average Market Price amounts; entering the incorrect acres; not including all units; entering the incorrect Stage Code; entering the incorrect inputted Quality Adjustment factors; and entering the incorrect County Office Committee Adjusted Production.

In addition to the improper payments mentioned above, we identified other exceptions to SURE Program payments made during our review. We determined one county office failed to include all Risk Management Agency (RMA) indemnities in the SURE workbook for a multi-county producer. Also, the counter-cyclical yields for this same county were incorrectly added. Additionally, OIG determined that for this county office and a second one, the county offices entered an incorrect Production to Count for a wheat and corn unit. Together these errors caused a difference of \$32,941. However, the input errors did not affect the actual payment to the producer, due to payment limitations. Therefore, these items were not included in our count of errors.

⁵ We statistically selected 100 records that summarized data on 122 payments. From each extract, records were selected with probabilities proportional to their sizes.

⁶ The other four errors consisted of three LFP payments and one CAP payment. For the LFP improper payments, we found the county offices used an incorrect carrying capacity rate when entering data for the payment. For the CAP improper payment, we found the county office used incorrect acres and share amount when computing the payment. OIG and FSA have agreed that these four errors resulted in improper payments totaling \$170.

According to the *FSA Handbook 1-SURE*,⁷ the SURE “Interim Workbook” process is a completely manual process that includes a series of Excel worksheets used to complete a manual calculation of the SURE Program payment. The handbook further states the SURE “Interim Workbook” does not have the capability to check or reference other systems, such as the Service Center Information Management System, Farm Records, or Web Subsidiary. These other systems will need to be checked by the user to ensure that the producer is eligible for the SURE Program. OIG also identified an inconsistency in the 1-SURE Handbook regarding the instructions on which producer share to use in the SURE Program calculation. Specifically, we found there were inconsistencies in the 1-SURE Handbook between paragraphs 515-E/575-E and exhibit 4, page 2. In one reference, the handbook directed county offices to use the producer share from the form FSA-578 on the SURE Information Report (SIR). In the other reference, the handbook directed county offices to use the producer share from the RMA data information on the SIR. FSA and OIG had a meeting on this matter during our review and FSA officials agreed that the 1-SURE Handbook warranted an amendment to clarify to the county offices where the producer share should be obtained from the SIR. FSA informed OIG that the amendment would not be retroactive. On October 13, 2011, FSA provided proposed language to amend the 1-SURE Handbook and clarify the inconsistent language in the handbook regarding where a producer’s share should be extracted from in order to calculate a payment. OIG agreed that the proposed language for the amendment was sufficient in addressing our concerns.

In fiscal year 2010,⁸ we performed similar work in recalculating FSA program payments selected statistically through FSA data extracts, and we identified 18 improper payments totaling \$61,714. Last year, we recommended that FSA develop and implement effective internal controls over the manual SURE Program payment calculation process to prevent the continuance of the errors identified. During our fiscal year 2011 audit, we noted that FSA made enhancements to the SURE workbook to automatically compute the gross production total for the RMA indemnity.

While we noted a reduction in the number and dollar amounts of improper payments during our fiscal year 2011 audit, controls should be further strengthened to prevent future occurrences of the types of errors noted in this report.

Recommendation 1

We recommend that FSA officials implement more effective second party reviews over the manual calculation of SURE Program payments.

Agency Response

To address the recommendation, FSA issued a notice to State and county offices stressing the importance of second party reviews and identifying tools available to help identify deficiencies

⁷ *1-SURE Handbook*, “Amendment 19,” January 13, 2012.

⁸ Audit Report 03024-0001-11, *Farm Service Agency, Farm Assistance Program Payments for Fiscal Year 2010*, June 2011.

during the review. FSA also discussed the audit and findings, along with the notice, at a meeting with all State offices.

OIG Position

We accept FSA's management decision on this recommendation.

Scope and Methodology

We obtained the universe of payments from FSA and statistically selected 100 records that summarized 122 payments made from October 1, 2010, through September 30, 2011. The four data extracts provided by FSA included program payments for all of fiscal year 2011 and represented seven programs,⁹ totaling \$2.064 billion. Details on each data extract are as follows:

- The first extract included payments of about \$1.269 billion, made from October 1, 2010, through March 31, 2011, from which we statistically selected 50 records that summarized 66 payments.
- The second extract included payments of about \$403 million, made from April 1, 2011, through June 30, 2011, from which we statistically selected 25 records that summarized 27 payments.
- The third extract included payments of about \$302 million, made from July 1, 2011, through August 31, 2011, from which we statistically selected 17 records that summarized 21 payments.
- The fourth extract included payments of about \$90 million, made in September 2011, from which we statistically selected 8 records that summarized 8 payments.

We obtained supporting documentation, such as applications, workbooks, invoices, receipts, and monthly production records for each sample and recalculated each payment. We discussed the samples with FSA officials as we worked to obtain concurrence on exceptions noted.

We conducted this audit in accordance with 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.

⁹ The seven programs were ECP, SURE, LFP, LIP, CAP, ELAP, and TAAF.

Abbreviations

ARRA	American Recovery and Reinvestment Act of 2009
CAP.....	Crop Assistance Program
ECP	Emergency Conservation Program
ELAP.....	Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish
FSA	Farm Service Agency
LFP.....	Livestock Forage Disaster Program
LIP.....	Livestock Indemnity Program
OIG	Office of Inspector General
OMB	Office of Management and Budget
RMA	Risk Management Agency
SIR	SURE Information Report
SURE	Supplemental Revenue Assistance Payments Program
TAAF	Trade Adjustment Assistance for Farmers

Exhibit A: Summary of Monetary Results

Finding	Recommendation	Description	Amount	Category
1	1	FSA made Improper Farm Assistance Program Payments in Fiscal Year 2011	\$28.1 million	Questioned Costs/Loans, No Recovery

The table above summarizes the monetary results by finding and includes a description, dollar amount, and the category of errors found. The table illustrates Finding 1 has \$28.1 million of monetary results based on statistical projections of improper payments.

Exhibit B: Statistical Plan

Objective

This sample was designed to determine if fiscal year 2011 Farm Service Agency (FSA) program payments were properly recorded in the accounting system and adequately supported. We performed this work to provide coverage for our Department of Agriculture's Consolidated Financial Statement audit by determining whether the financial statements were materially affected by the net impact of improper payments made by FSA, through its various farm assistance programs. A second objective was to estimate the corresponding "gross total of both over and under payments (i.e., not the net of over and under payments)" consistent with the Office of Management and Budget (OMB) Circular A-123 Appendix C, Part I.A.9. Exhibit B focuses primarily on the second objective.

Audit Universe

Our universe consisted of \$2.064 billion of FSA payments made during fiscal year 2011. To complete this work prior to OMB's deadline for annual financial statement audits, we reviewed these records as they became available over the following four periods:

1. Six months ended March 31, 2011
2. Three months ended June 30, 2011
3. Two months ended August 31, 2011
4. One month ended September 30, 2011

Sample Design

Consistent with *Financial Audit Manual* §480.21,¹⁰ since the prior year's improper payment rate was not high, the Office of Inspector General (OIG) employed monetary-unit sampling, also known as probability proportional to size sampling.¹¹ Each record's selection probability was proportional to the corresponding amount paid relative to that extract's total payments.

Based on the previous year's 2.03 percent gross improper payment rate, OIG selected 100 records that summarized data on 122 payments. To spread the audit work evenly over time, the number of records selected from each of the four extracts was roughly proportional to the time span of the extract (averaging $8\frac{1}{3}$ records per month), resulting in four separate samples of 50, 25, 17, and 8 records. However, because FSA's payment rates varied significantly over the four periods, the number of records selected per total dollars paid also differed significantly across the four samples. Each extract's "sampling fraction" is the reciprocal of its fixed-length sampling interval and these sampling intervals varied across the extracts as follows:

¹⁰ Government Accountability Office and the President's Council on Integrity & Efficiency, *Financial Audit Manual*, July 2008.

¹¹ More specifically, from a random start in each extract, OIG systematically selected the monetary unit that succeeded the previously selected unit by an amount equal to that extract's sampling interval. OIG reviewed all payments summarized in the records associated with the monetary units selected.

Exhibit B: Statistical Plan (continued)

- \$25.38 million (= \$1.269 billion ÷ 50 records) for 6 months ended March 31, 2011.
- \$16.12 million (= \$403 million ÷ 25 records) for 3 months ended June 30, 2011.
- \$17.76 million (= \$302 million ÷ 17 records) for 2 months ended August 31, 2011.
- \$11.25 million (= \$90 million ÷ 8 records) for September 2011.

Results

Based on the sample results, we project about \$28.1 million or 1.36 percent of FSA's \$2.064 billion farm program assistance payments during fiscal year 2011 were improper. We also project a 95 percent chance these improper payments did not exceed \$101.8 million, or 4.93 percent of the total paid.

Measure	Point Estimate (Projection)	Upper Bound of 95 Percent Confidence Interval (One-tail)*	Raw Data (Improper Payments Observed in Sample)			
			6 months ended March 31, 2011	3 months ended June 30, 2011	2 months ended August 31, 2011	September 2011
Fraction of universe (or sample)	1.36 percent	4.93 percent	(0.20 percent)	(3.02 percent)	(0.06 percent)	(0 percent)
Value of improper payments	\$28.1 million	\$101.8 million	\$5,430	\$48,618	\$360	\$0
*By definition, total gross improper payments cannot be less than the \$54,408 observed in the sample.						

The table above summarizes the results of our statistical sampling of fiscal year 2011 FSA program payments for the four sampled periods by value of improper payments (dollar amount) and fraction of the universe (percentage). The table also illustrates the point estimate and upper bound of our statistical projection using a 95 percent confidence level.

**FARM SERVICE AGENCY
RESPONSE TO AUDIT REPORT**



United States
Department of
Agriculture

Farm and Foreign
Agricultural
Services

Farm Service
Agency

Operations Review
and Analysis Staff

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DATE: April 25, 2012

TO: Director, Farm, Trade, Research and Environment Division
Office of Inspector General

FROM: Philip Sharp, Director 
Operations Review and Analysis Staff

SUBJECT: Responding to Official Draft Report, Fiscal Year 2011 Farm Service
Agency Farm (FSA) Assistance Program Payments – Audit 03401-0001-11

FSA's Deputy Administrator for Programs has provided the following information to reach management decision for the subject's audit recommendation.

Recommendation 1

We recommend that FSA officials implement more effective second party reviews over the manual calculation of Supplemental Revenue Assistance Payments (SURE) program payments.

Agency Response:

The OIG summary indentified errors in 14 of the 122 payments reviewed. OIG determined that these errors occurred primarily because FSA did not have effective internal controls over the manual SURE Program payment calculation process. OIG also found that documentation for the SURE Program errors included a second-party reviewer initial and date indicating that a second-party review had been completed; however the second-party reviews conducted by FSA personnel did not detect the data input errors.

Corrective action was taken to address the above deficiencies. FSA Notice SURE-25 was issued to State and County offices on April 12, 2012. The notice identified the data input errors found during the audit for the SURE program and also stressed the importance of diligence for second party reviews. It also reiterated the management tools available in FSA Handbook 1-SURE to help identify deficiencies during a review.

On April 12, 2012, the audit and findings, along with Notice SURE-25, were discussed during the biweekly DAFP conference call with all State Offices. SURE State Office Program Specialists were responsible for relaying the information to the County Offices.

Informational copies of this report have been distributed to:

Administrator, Farm Service Agency (2)
Attn: Director, Operations Review and Analysis Staff

Government Accountability Office (1)

Office of Management and Budget (1)

Office of the Chief Financial Officer (1)
Director, Planning and Accountability Division

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