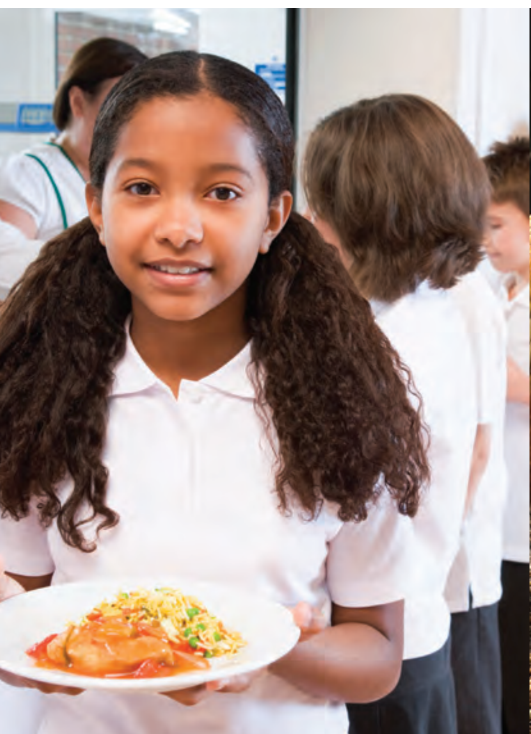
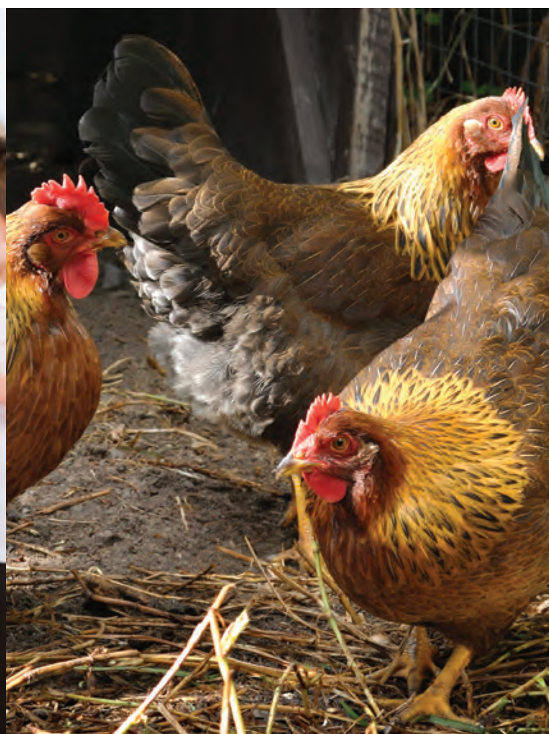
United States Department of Agriculture
Office of Inspector General

The Farm Service Agency's Farm Storage Facility Loan Program


Audit Report 03601-0001-32
June 2012

United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250

DATE: June 18, 2012

AUDIT NUMBER: 03601-0001-32

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

Gil H. Harden

SUBJECT: Farm Storage Facility Loan Program

This report presents the results of our audit of the Farm Storage Facility Loan Program. The agency's June 5, 2012, written response to the official draft report is included in its entirety with excerpts and the Office of Inspector General's (OIG) position incorporated into the relevant sections of the report. Based on your response, we accept management decision on Recommendations 1, 2, 3, and 4 in the report. Management decision has not been achieved for Recommendation 5. To reach management decision on Recommendation 5, please see the relevant OIG Position section in the audit report.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframes for implementing the recommendation for which management decision has not been reached. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance, and final action to be taken within 1 year of each 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.

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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The Farm Service Agency's Farm Storage Facility Loan Program

Executive Summary

The United States Department of Agriculture's (USDA) Farm Service Agency (FSA) operates the Farm Storage Facility Loan Program so that producers may have access to available funds for financing storage and handling facilities. Producers might use these loans to construct structures for grain as well as hay, renewable biomass, fruits and vegetables, and cold storage facilities which were added by the 2008 Farm Bill.[1] In fiscal year 2010, FSA approved and disbursed a total of 1,608 loans in 41 States totaling $101.7 million. The Office of Inspector General (OIG) initiated this review to evaluate FSA's controls over the processing, approval, and servicing of these loans.

Based on our review of how FSA approved and processed 30 loans totaling $4.89 million, as well as how the agency serviced 10 delinquent loans totaling $728,078, we found that FSA county employees did not always process, approve, and service these loans according to the agency's policies and procedures. For the 30 loans where we reviewed how FSA employees approved and processed the loans, we found that 25 loans (83 percent) totaling $4.08 million had errors. These errors included the agency approving loans without having documentation on file to support borrower eligibility, making obligations that exceeded allowable amounts, and disbursing loans without sufficient documentation to support final facility costs or adequate release of liability.[2] Likewise, based on our review of how FSA serviced 10 delinquent loans, we found that all 10 loans were not serviced properly. FSA county employees offered various explanations for the errors, including stating they misunderstood or were unaware of changes in FSA's procedures, they did not have the staffing to properly follow procedures, or they simply made a mistake. Of the loans totaling $5.6 million ($4.89 million plus $728,078) that we reviewed, FSA made almost $2.2 million in unsupported disbursements.

In 2001, FSA considered changing the Farm Storage Facility Loan Program from a direct loan program, where FSA employees perform most of the work of approving, processing, and servicing loans, to a guaranteed loan program, where lender employees perform this work and USDA guarantees the loans against loss. However, FSA decided against it, citing concerns about how the program would operate and that the program could prove to be very costly compared to the current program.

The Secretary announced in January 2012 that FSA will soon be undergoing a major restructuring, intended to build a modern and efficient agency by consolidating offices and reducing staff. While these decisions respond to the realities of USDA's current and future budgetary circumstances, the consequences for FSA will likely mean that the agency will be forced to accomplish many of its program objectives with fewer employees.

[1] Food, Conservation, and Energy Act of 2008.
[2] A release of liability is necessary to protect the Commodity Credit Corporation and the farm storage farm loan applicant from the mechanic's lien or other liens and claims arising against the contractor or subcontractors.

We believe that, given the results of our audit, as well as the future restructuring of the agency, FSA should consider a change to a guaranteed loan program. Since FSA is likely to see changes in its staffing in the coming years, OIG believes the agency should seek an Office of the General Counsel opinion regarding whether the program can, consistent with the law, be changed to a guaranteed loan program, rather than remain a direct loan program. If FSA decides that the Farm Storage Facility Loan Program will continue as a direct loan program run by its own employees, then it should devise ways to strengthen the oversight and accountability of the program and improve its employees' skills at approving, processing, and servicing these loans.

Finally, we evaluated whether FSA effectively implemented the changes to the program mandated by the 2008 Farm Bill. We found FSA has issued notices to its offices notifying them of changes to the Farm Storage Facility Loan Program, as mandated by the 2008 Farm Bill. We reviewed and compared the notices to the revised FSA handbook. We determined that all those notices were incorporated into the handbook, and we have no findings on this issue.

Recommendation Summary

Obtain an Office of the General Counsel opinion to determine if the current law allows the program to be delivered as a guaranteed loan program.

If FSA does not change the program to a guaranteed loan program, then develop and implement a plan to strengthen the oversight and accountability of the program.

Recover the unsupported disbursements totaling almost $2.2 million that are still outstanding.

Agency Response

In its written response to the official draft dated June 5, 2012, FSA agreed with the audit findings and recommendations. Excerpts from the response and OIG's position have been incorporated into the relevant sections of the report. The written response is included in its entirety at the end of the report.

OIG Position

We accept FSA's management decision for Recommendations 1, 2, 3, and 4. Although we agree with the planned corrective action for Recommendation 5, FSA needs to provide OIG with a copy of the bill for collection for unsupported disbursement amounts owed to the Government and support that the amounts have been entered as a receivable on FSA's accounting records. If final action occurred, evidence of collection would suffice.

Background and Objectives

Background

On February 2, 2000, the Secretary announced the availability of financing for farm storage and handling facilities. The Farm Service Agency (FSA) was authorized to implement the Farm Storage Facility Loan Program through the United States Department of Agriculture's (USDA) Commodity Credit Corporation. Eligible producers could apply for farm storage facility loans at their FSA administrative county office. Producers requesting loans must provide information regarding the need for farm storage capacity and the storage facility that is proposed to be constructed. The producers must also establish that they are eligible for the program, and that the site proposed for a storage structure does not adversely impact the environment.

The Food, Conservation, and Energy Act of 2008 (the 2008 Farm Bill) added hay and renewable biomass as eligible commodities, extended the maximum loan term to 12 years, and increased the maximum loan amount to $500,000. The Farm Bill also added fruits and vegetables (including nuts) as eligible facility loan commodities, and added cold storage facilities as eligible facilities, pursuant to discretionary authority in the 2008 Farm Bill. The Farm Bill clarified requirements for loan security and allowed for a partial loan disbursement during construction if certain conditions are met.

Based on a Departmentwide review of operations conducted as part of the Administration's Campaign to Cut Waste, the Secretary announced USDA's Blueprint for Stronger Service in January 2012. According to that blueprint, over the past 3 years, USDA's Farm and Foreign Agricultural Services Mission Area has worked hard to do more with less. To manage current and future budget challenges, and to ensure critical investments in rural America continue, the mission area has taken a variety of steps to cut costs and improve services. Specifically, the mission area plans to restructure FSA by consolidating 131 offices and reducing the overall staff working for the agency. In many cases, offices recommended for closure are either not staffed or are staffed with just one or two employees, and are located within 20 miles of other offices.

Objectives

Our objective was to evaluate FSA's controls over the processing, approval, and servicing of the Farm Storage Facility Loan Program. We also evaluated whether FSA effectively implemented the changes to the program mandated by the 2008 Farm Bill.

Section 1: Farm Storage Facility Loans

Finding 1: FSA Needs to Reconsider How It Delivers the Farm Storage Facility Loan Program

Given the long-term plans for consolidating FSA offices and reducing the agency's overall staffing, FSA should consider whether the Farm Storage Facility Loan Program should continue as a direct loan program. The program might be better operated as a guaranteed loan program, where much of the loan making and servicing work is performed by private lender employees. Based upon our review of how FSA approved and processed 30 loans totaling $4.89 million, we found that 25 loans (83 percent), totaling $4.08 million, had errors. These errors included the agency approving loans without having documentation on file to support borrower eligibility, making obligations that exceeded allowable amounts, and disbursing loans without sufficient documentation to support final facility costs or adequate release of liability. Similarly, based on our review of how FSA serviced 10 loans totaling $728,078, we found that all 10 delinquent loans were handled incorrectly. FSA county employees offered various explanations for the errors, including stating they misunderstood or were unaware of changes in FSA's procedures, they did not have adequate staffing to properly follow procedures, or they simply made a mistake. By changing the direct loan program to a guaranteed loan program—where private lender employees are responsible for making and servicing loans—FSA can devote its resources to other programs. Of the loans totaling $5.6 million ($4.89 million plus $728,078) that we reviewed, FSA made almost $2.2 million in unsupported disbursements.

At present, FSA retains direct authority and responsibility for processing and approving loan applications as well as servicing loans. For approving loans, this responsibility includes, but is not limited to, ensuring borrowers meet all eligibility requirements, loan obligation amounts are properly limited, and all disbursements meet requirements.

We found, however, FSA county employees were not always meeting the agency's requirements for approving 25 of these 30 loans (several loans had multiple approval errors):

- 13 loans totaling $2 million did not meet FSA's eligibility requirements because 5 loans did not have documentation of an adequate financial analysis addressing the borrower's creditworthiness, 7 loans did not have the required documentation regarding the flood hazard determinations, and 4 loans did not have the required documentation to support the structural insurance requirement.

- 7 loan obligations exceeded the allowable percentage of the estimated net cost of the applicant's needed storage or handling equipment, which is 85 percent or less.[3] County office personnel misunderstood and misapplied this rule to all seven loans, and those loan obligations exceeded the estimated net cost by $50,206. However, the loan disbursements were made based on the actual final costs.

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[3] FSA Handbooks 1-FSFL, amendment 22, paragraph 15C, dated August 4, 2004, and 1-FSFL (Revision 1), amendment 1, paragraph 25B, dated May 12, 2010.

- 22 loans had disbursements that were unsupported due to a lack of sufficient documentation for final facility costs or adequate release of liability.[4] FSA employees did not follow procedures for ensuring the acceptable cost documents or sufficient releases of liability were obtained. In some cases, we found there were either no invoices or unsigned invoices when a signature was required, or the release of liability was insufficient to cover all the final facility costs. For these 22 loans with unsupported final facility costs totaling almost $2.2 million, FSA should obtain documentation to support the disbursements. If it cannot, then it should recover the unsupported disbursements that are still outstanding.

For servicing loans, FSA is responsible for ensuring that the collateral for the loans is well maintained and also for taking action if borrowers fall behind on their payments. In this part of our review, we selected and reviewed 10 loans totaling $728,078 that were past due by about $117,000.

We found that FSA did not follow the agency's procedures when servicing these 10 loans (several loans had multiple approval errors):

- 6 loans did not have sufficient documentation that the loan collateral was being adequately maintained. FSA county employees did not always perform collateral checks, retain documentation of real estate taxes being paid, ensure adequate insurance coverage, or ensure security filings were proper. As a result, FSA has reduced assurance that loans were being serviced in compliance with procedures.

- 7 loans did not have proper notifications of servicing actions. If borrowers become delinquent, then the agency is required to take a number of different actions, such as mailing out demand or liquidation letters, and offsetting other payments. FSA county office employees did not send service notification letters to borrowers in a timely manner, did not correctly approve later payment dates, and could not support that steps had been taken to offset other payments.

- 4 loans were not actually delinquent, but FSA reports showed the loans as delinquent because FSA county office employees did not correctly update information in their database.

Most FSA county and State offices received training on the Farm Storage Facility Loan Program. However, some county office personnel felt the training could be improved. County office personnel stated that the program was difficult to administer due to the number of program requirements that need to be performed, and it is challenging to stay current on the procedures when processing only one or two loans every year or two. Further, we confirmed that the agency was identifying the same weaknesses in its county operations review program assessments of the

[4] A release of liability is necessary to protect the Commodity Credit Corporation and the farm storage facility loan applicant from the mechanic's lien or other liens and claims arising against the contractor or subcontractors.

Farm Storage Facility Loan Program, but the results of those reviews were not significant enough to be included in its national county operations review program reports.[5]

During the course of the audit, we have communicated with FSA officials regarding what weaknesses have been identified and how to prevent similar weaknesses from occurring in the future. When we asked an Office of the General Counsel official whether the weaknesses identified were critical to protecting the Government's interest, we were told that since FSA management has established the controls in the procedures, the controls must be important; thus, FSA should enforce adherence to those procedures. FSA national officials have concurred with the identified weaknesses and have taken some corrective actions, including issuing notices to their employees to clarify agency procedures. FSA generally agreed with our findings.

At present, OIG maintains that, given the rate of error we found with how FSA employees approved and processed loans as well as serviced loans (83 percent for our approval and processing sample, and 100 percent for our servicing sample), the agency needs to reconsider how it delivers the program. We realize that FSA previously considered changing the Farm Storage Facility Loan Program from a direct loan program to a guaranteed loan program. However, FSA decided against it, citing concerns about how the program would operate and that the program could prove to be very costly compared to the current program. Since FSA is likely to see changes in its staffing in the coming years, OIG believes the agency should strongly consider seeking an Office of the General Counsel opinion regarding whether the program can, consistent with the law, be changed to a guaranteed loan program, rather than remain a direct loan program. If this is not feasible, then FSA should devise ways to strengthen the oversight and accountability of the program and improve its employees' skills at approving, processing, and servicing these loans.

Recommendation 1

Obtain an Office of the General Counsel opinion to determine if the current law allows the program to be delivered as a guaranteed loan program.

Agency Response

The Office of the General Counsel was contacted on April 20, 2012, for a legal opinion to determine if the current law allows the Farm Storage Facility Loan Program to be delivered as a guaranteed loan program. The Office of the General Counsel has determined that the program will continue to be administered using direct loans. Guaranteed loans are not authorized.

OIG Position

We accept FSA's management decision on this recommendation.

[5] An analysis of common findings was completed only for those operations or programs where at least 50 county operations review program reports had been issued in a fiscal year. A common finding is defined as a procedural error applicable to an operation or program reported in at least 15 percent of the reports issued for that operation or program in a fiscal year.

Recommendation 2

If the result of Recommendation 1 does not allow a guaranteed loan program, or if FSA chooses not to implement one, then develop and implement a plan to strengthen the oversight and accountability of the program.

Agency Response

To improve FSA employees' skills at approving, processing, and servicing farm storage facility loans, the national office will provide Farm Storage Facility Loan Program training on or before July 2, 2012, and annually thereafter. A list of all employees who complete the training will be maintained. If necessary, video training conference training sessions will be conducted to review ongoing Farm Storage Facility Loan Program policies and procedures.

Further, the national office will:

- require new employees with the primary responsibility of farm storage facility loans to complete the program training the earlier of 30 calendar days after their start date, or before completing their first farm storage facility loan.
- monitor Farm Storage Facility Loan Program County Operations Review findings. The national office will frequently determine if Farm Storage Facility Loan Program policy should be strengthened and/or clarified based on newly reported County Operations Review findings. The national office will also work with the applicable State offices to ensure that approved corrective action plans associated with the county offices reviewed are completed in a timely manner.
- conduct annual national office review of farm storage facility loans. The State and county offices will be reviewed on a rotational based, and the loan files will be reviewed at the national office.

OIG Position

We accept FSA's management decision on this recommendation.

Recommendation 3

If FSA does not deliver the program as a guaranteed loan program, amend FSA Handbook 1-FSFL (Revision 1) to incorporate interim notices including eligibility requirements, obligation requirements, final facility costs, release of liability documentation, and servicing delinquent loans.

Agency Response

FSA has amended FSA Handbook 1-FSFL (Revision 1) to incorporate notices. Additionally, the agency will develop a servicing checklist to assist with farm storage facility loan actions related to the lack of collateral checks, documentation of real estate taxes being paid, adequate insurance coverage, security instrument filings, and proper notifications. The servicing checklist will be issued by October 1, 2012.

OIG Position

We accept FSA's management decision on this recommendation.

Recommendation 4

If FSA does not deliver the program as a guaranteed loan program, conduct additional training on the critical program requirements.

Agency Response

A video teleconference will be held with all State Executive Directors and applicable State office staff with Farm Storage Facility Loan Program assigned responsibilities to review the audit report's findings. The national office will instruct State offices to conduct annual Farm Storage Facility Loan Program training to address Farm Storage Facility Loan Program policy, the audit report's findings, and required corrective actions with county offices and District Directors, and to perform annual reviews of county office disbursed farm storage facility loans and report to the national office the review findings and corrective action taken. The national office will select a sample of the State office annual reviews. The estimated completion date is June 29, 2012.

OIG Position

We accept FSA's management decision on this recommendation.

Recommendation 5

Review the unsupported disbursements totaling almost $2.2 million and recover any unsupported disbursements that have not been paid in full.

Agency Response

Memorandums from the national office will be issued to the State Executive Directors instructing the State offices to work with the applicable county offices to collect from the Farm Storage Facility Loan Program producers the required documentation to support the disbursed farm storage facility loans. The memorandums will provide corrective actions needed to resolve the findings and instructs the State offices to provide evidence to the national office within 30 calendar days after the date of the memorandum. The national office will conduct a video teleconference with the State Executive Directors and applicable State Office Price Support Specialists to review required corrective actions to resolve the unsupported disbursements. The estimated completion date is July 30, 2012.

OIG Position

Although FSA agreed with the recommendation, we need additional information before management decision can be accepted. FSA needs to provide OIG with a copy of the bill for collection for unsupported disbursement amounts owed to the Government and support that the amounts have been entered as receivables on FSA's accounting records. If final action occurred, evidence of collection would suffice.

Scope and Methodology

We conducted our audit of the Farm Storage Facility Loan Program with FSA's national office personnel in Washington, D.C., and FSA State and county office personnel from 19 State offices and 38 county offices (see exhibits B and C). We performed audit fieldwork between October 2010 and November 2011.

We obtained and analyzed the State Office Reporting System loan data file from FSA as of November 2, 2010. We did not evaluate the effectiveness of the information system or its controls, as it was not used extensively throughout the farm storage facility loan approval process that was under review. The information system was not relied upon to obtain sufficient, appropriate evidence to support the findings presented in this report. For loan processing and approval review, the loan universe consisted of 1,608 loans in 41 States totaling $101.7 million that were approved and disbursed in fiscal year 2010.

For the loan approval review, we divided the universe into three strata—first stratum loans of $500,000 (5 loans), third stratum loans of less than $100,000 (1,378 loans), and second stratum loans falling between these amounts (225 loans). We selected all of the $500,000 loans and randomly selected 75 loans from the second and third strata for a total of 105 loans in 31 States totaling $11.4 million (11.2 percent of the dollars in the universe) for review (see exhibit D). We then judgmentally selected a sample of 25 of the 75 loans from the second and third strata considering the number of loans in each stratum and sequential order in each stratum. The survey sample represented all 5 $500,000 loans, 8 loans from the second stratum, and 17 loans from the third stratum for a total of 30 loans in 19 States totaling $4.9 million. We did not review the remaining loans in the universe because of the high error rate found in the sample of loans reviewed. Therefore, we did not make statistical projections.

For the delinquent loan servicing review, the universe consisted of 196 loan payments that were past due as of the last fiscal year 2010 monthly delinquency report, dated September 17, 2010, with past due payments totaling $1.1 million. We judgmentally selected a sample of 10 loans totaling $728,078 with payments at least 90 days past due totaling about $117,000 for review. The basis of the selection excluded (1) delinquent loans that were in bankruptcy, (2) loans that were known not to be delinquent due to software issues, or (3) loans of very small amounts. We selected delinquent loans that were in States where we had already selected loans for the processing and approval phase of our review.

To accomplish our objectives, we assessed the program's policies and procedures, as well as its internal controls. We identified key controls over the processing, approval, and servicing of farm storage facility loans based on our review of agency policy and procedures and discussions with FSA officials. With cooperation from FSA personnel, we requested the selected borrower files for copying and then returned the files to the respective county office. We performed loan file reviews and documented the results of our review in proformas. We did not conduct site visits to inspect the facilities under loan or interview borrowers because the weaknesses identified in our review did not warrant such visits or interviews. As we identified potential issues, we followed up with FSA personnel at the county, State, and national office levels.

We found FSA has issued notices to its offices notifying them of changes to the Farm Storage Facility Loan Program, as mandated by the 2008 Farm Bill. We reviewed and compared the notices to the revised FSA handbook. We determined all those notices were incorporated into the handbook.

Based on its risk assessments, FSA has determined that the Farm Storage Facility Loan Program is at low risk for improper payments. Since FSA does not calculate a farm storage facility loan delinquency rate, we obtained and analyzed the monthly delinquency reports for fiscal years 2009 and 2010. We calculated the fiscal years' 2009 and 2010 delinquency rates to be 0.5 and 0.66 percent, respectively. We concluded that the delinquency rates are low.

We conducted this performance 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 the audit objective. The evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Abbreviations

2008 Farm Bill .... Food, Conservation, and Energy Act of 2008
FSA .... Farm Service Agency
OIG .... Office of Inspector General
USDA .... United States Department of Agriculture

Exhibit A: Summary of Monetary Results

The table below summarizes the monetary results for the audit report by finding number.

Finding	Recommendation	Description	Amount	Category
1	5	Unsupported Disbursements	$2,199,728	Unsupported Loans, Recovery Recommended

Exhibit B: Loan Processing and Approval Audit Sites

The table below presents information about the loan processing and approval sites including loan count, State, county, loan amount, and office location.

Loan Number	State	County	Loan Amount	Location
Loan 1	Alabama	Lawrence	$500,000	Moulton, AL
Loan 2	Alabama	Cullman	29,141	Cullman, AL
Alabama State FSA Office				Montgomery, AL
Loan 3	Arkansas	Randolph	500,000	Pocahontas, AR
Arkansas State FSA Office				Little Rock, AR
Loan 4	Georgia	Lanier	146,606	Valdosta, GA
Georgia State FSA Office				Athens, GA
Loan 5	Illinois	La Salle	100,000	Ottawa, IL
Loan 6	Illinois	Montgomery	29,261	Hillsboro, IL
Illinois State FSA Office				Springfield, IL
Loan 7	Indiana	Howard	500,000	Kokomo, IN
Loan 8	Indiana	Warren	49,999	Williamsport, IN
Indiana State FSA Office				Indianapolis, IN
Loan 9	Iowa	O' Brien	35,138	Primghar, IA
Iowa State FSA Office				Urbandale, IA
Loan 10	Kansas	Harvey	38,398	Newton, KS
Kansas State FSA Office				Manhattan, KS
Loan 11	Kentucky	Logan	500,000	Russellville, KY
Loan 12	Kentucky	Logan	500,000	Russellville, KY
Loan 13	Kentucky	Hickman	69,105	Clinton, KY
Kentucky State FSA Office				Lexington, KY
Loan 14	Louisiana	Richland	221,850	Rayville, LA
Louisiana State FSA Office				Alexandria, LA
Loan 15	Minnesota	Hubbard	425,000	Park Rapids, MN
Minnesota State FSA Office				St. Paul, MN
Loan 16	Mississippi	Coahoma	369,750	Clarksdale, MS
Mississippi State FSA Office				Jackson, MS
Loan 17	Montana	Sheridan	81,000	Plentywood, MT
Loan 18	Montana	Teton	33,493	Choteau, MT
Loan 19	Montana	Daniels	26,180	Scobey, MT
Montana State FSA Office				Bozeman, MT
Loan 20	Nebraska	Wayne	37,693	Wayne, NE
Nebraska State FSA Office				Lincoln, NE
Loan 21	New York	Tompkins	107,000	Cortland, NY
New York State FSA Office				Syracuse, NY
Loan 22	Oklahoma	Texas	49,999	Guymon, OK
Loan 23	Oklahoma	Bryan	40,580	Durant, OK
Oklahoma State FSA Office				Stillwater, OK
Loan 24	Pennsylvania	Lancaster	38,396	Lancaster, PA
Pennsylvania State FSA Office				Harrisburg, PA
Loan 25	South Dakota	Beadle	128,735	Huron, SD
Loan 26	South Dakota	Lake	46,823	Madison, SD
Loan 27	South Dakota	Spink	40,393	Redfield, SD
Loan 28	South Dakota	Brown	35,973	Aberdeen, SD

Loan Number	State	County	Loan Amount	Location
South Dakota State FSA Office				Huron, SD
Loan 29	Tennessee	Lincoln	160,000	Fayetteville, TN
Tennessee State FSA Office				Nashville, TN
Loan 30	Texas	Hill	50,000	Hillsboro, TX
Texas State FSA Office				College Station, TX
TOTAL			**$4,890,513**	

Exhibit C: Loan Servicing Audit Sites

The table below presents information about the loan servicing sites including loan count, State, county, loan amount, and office location.

Loan Number	State	County	Loan Amount	County Office Location
Loan 1	Arkansas	Lee	$114,944	Marianna, AR
Arkansas State FSA Office				Little Rock, AR
Loan 2	Georgia	Miller	42,371	Colquitt, GA
Loan 3	Georgia	Worth	143,447	Sylvester, GA
Georgia State FSA Office				Athens, GA
Loan 4	Indiana	St. Joseph	39,075	South Bend, IN
Indiana State FSA Office				Indianapolis, IN
Loan 5	Minnesota	Traverse	34,385	Wheaton, MN
Loan 6	Minnesota	Stearns	49,555	Waite Park, MN
Minnesota State FSA Office				St. Paul, MN
Loan 7	Mississippi	Claiborne	89,250	Fort Gibson, MS
Mississippi State FSA Office				Jackson, MS
Loan 8	Montana	Sheridan	31,611	Plentywood, MT
Montana State FSA Office				Bozeman, MT
Loan 9	New York	Erie	14,180	East Aurora, NY
New York State FSA Office				Syracuse, NY
Loan 10	Texas	Ellis	169,260	Waxahachie, TX
Texas State FSA Office				College Station, TX
Total			**$728,078**	

Exhibit D: Statistical Plan – Sampling Methodology

OIG designed a sample to project noncompliance rates and associated dollar amounts in support of the audit.

Objective:
This sample was designed to support the audit of FSA's Farm Storage Facility Loan Program (Audit Report 03601-0001-32). The sample objective was to project noncompliance rates and associated dollar amounts in support of this audit.

Audit Universe:
Our universe consisted of 1,608 loans totaling $101,723,464.33. The audit team provided the loan universe list to OIG statisticians. The team obtained the universe list from the FSA State Office Reporting System.

Sample Design and Modifications:
Given the data structure diversity in the audit programs (data factors) and audit resource requirements (resource factors), we developed several design types that helped us make informed decisions about which of the designs would be feasible. For this audit, we considered a simple random design, and a few two-stage sample designs using clustering and stratification. We had no prior information, or historical data, to help us size our sample.

The audit team was interested in reviewing high-dollar-value loans. To ensure those were captured by our sample, we stratified the audit universe and separated the high-dollar-value loans in a census stratum. Stratum I included all loans valued at $500,000 or more. There were five loans in this stratum and all five were to be reviewed (a census stratum). Stratum II included loans $100,000 to $499,999. There were 225 loans in the second stratum and we selected 30 for review. Stratum III included all remaining loans, valued at $99,999 or less. We selected 70 out of 1,378 total loans in this stratum. The total sample size of our sample consisted of 105 loans (all three strata combined) for review.

We had no information on which to base a sample size calculation. We used the following set of criteria: an assumed error rate of 50 percent and desired precision of +/-10 for attribute measures, at a 95 percent level of confidence. If a simple random sample was selected, this set of conditions would require a sample size of 92 loans. Since we used a stratified sample design for this audit, we increased the total sample size to 105 loans, expecting to again achieve +/-10 percent precision at the 95 percent confidence level.

Results:
After reviewing 30 cases and finding exceptions for almost all cases, OIG management made the decision to stop the review. Therefore, the entire sample was not reviewed and no projections were made.

USDA’S
FARM SERVICE AGENCY
RESPONSE TO AUDIT REPORT

USDA

United States Department of Agriculture

Farm and Foreign Agricultural Services

Farm Service Agency

Operations Review and Analysis Staff

1400 Independence Ave., SW
Stop 0540
Washington, DC 20250-0541

DATE: June 5, 2012

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

FROM: Philip Sharp, Director
Operations Review and Analysis Staff

SUBJECT: Response to Official Draft Report, Farm Storage Facility Loan Program, Audit 03601-0001-32

The Deputy Administrator for Farm Programs has provided the information below which responds to the subject's audit recommendations.

Recommendation 1

Obtain an Office of the General Counsel (OGC) opinion to determine if the current law allows the program to be delivered as a guaranteed loan program.

Agency Response:

OGC was contacted on April 20, 2012, for a legal opinion to determine if the current law allows the Farm Storage Facility Loan (FSFL) Program to be delivered as a guaranteed loan program. OGC has determined that the FSFL program will continue to be administered using direct loans. Guaranteed loans are not authorized. The OGC legal opinion will be provided under separate cover.

Recommendation 2

If the result of Recommendation 1 does not allow a guaranteed loan program, or if FSA chooses not to implement one, then develop and implement a plan to strengthen the oversight and accountability of the program.

Agency Response:

To improve FSA employees' skills at approving, processing, and servicing FSFL's, the National Office will provide AgLearn FSFL training on or before July 2, 2012; and annually thereafter. A list of all employees that complete the training will be maintained. If necessary, video training conference training sessions will be conducted by the Price Support Division (PSD) to review ongoing FSFL policies and procedures.

The National Office will:

- require new employees with the primary responsibility of FSFL to complete the AgLearn FSFL training the earlier of 30 calendar days after their start date, or before completing their first FSFL.

- monitor FSFL County Office Review (COR) findings through the e-CORP system. The National Office will frequently determine if FSFL policy should be strengthened and/or clarified based on newly reported COR findings. The National Office will also work with the applicable State Offices to ensure that approved corrective action plans associated with the County Offices reviewed are completed in a timely manner.

- conduct annual National Office review of FSFLs. The State and County Offices will be reviewed on a rotational basis and the loan files will be reviewed at the National Office.

Additional details are provided in Recommendations 3, 4, and 5.

Recommendation 3

If FSA does not deliver the program as a guaranteed loan program, amend FSA Handbook 1-FSFL (Revision 1) to incorporate interim notices including eligibility requirements, obligation requirements, final facility costs, release of liability documentation, and servicing delinquent loans.

Agency Response:

The following table provides the National FSFL Notices and the Amendments to Handbook 1-FSFL (Rev. 1):

National FSFL Notice	Handbook 1-FSFL (Rev. 1)
FSFL-82, New Policy for FSFL Program Approvals	Amendment 6
FSFL-80, FSFL Program Cost Certification and Disbursement Calculator	
FSFL-76, Authorized Methods for Determining FSFL Real Estate Security Values	Amendment 4

FSA Notices and Handbook Amendments will be provided under separate cover.

Additionally, PSD will develop a FSFL Servicing Checklist to assist with FSFL actions to address the audit findings for the lack of collateral checks, documentation of real estate taxes being paid, adequate insurance coverage, security instrument filings, and proper notifications. The FSFL Servicing Checklist will be issued by October 1, 2012.

Recommendation 4

If FSA does not deliver the program as a guaranteed loan program, conduct additional training on the critical program requirements.

Agency Response:

A video teleconference will be held with all State Executive Directors and applicable State Office staff with FSFL assigned responsibilities to review Notice FSFL-83 and highlight specific findings to ensure consistency of corrective actions. The Executive Summary of OIG's Audit report will be reviewed in detail during the video teleconference.

The National Office will instruct State Offices to:

- conduct annual FSFL training to address FSFL policy, review findings and required corrective actions with County Offices and District Directors.

- perform annual reviews of County Office disbursed FSFLs and report to the National Office the review findings and corrective actions taken. PSD will select a sample of the State Office annual reviews on a rotational basis for review at the National Office.

The estimated completion date is June 29, 2012

Recommendation 5

Review the unsupported disbursements totaling almost $2.2 million and recover any unsupported disbursements that have not been paid in full.

Agency Response:

Memorandums from DAFP will be issued to the 19 State Executive Directors instructing State Offices to work with the applicable County FSA Offices to collect from the FSFL producers the required documentation to support the disbursed FSFL. The memorandums also provide corrective actions needed to resolve the findings and instructs the State Office to provide evidence to PSD within 30 calendar days after the date of the memorandum.

The National Office will conduct a video teleconference with the 19 SED's and applicable State Office Price Support Specialists to review required corrective actions to resolve the unsupported disbursements. The estimated completion date is July 30, 2012.

Informational copies of this report have been distributed to:

Administrator, Farm Service Agency Attn: Agency Liaison Officer	(2)
Government Accountability Office	(1)
Office of Management and Budget	(1)
Office of the Chief Financial Officer Attn: Director, Planning and Accountability Division	(1)

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