



United States Department of Agriculture

Office of Inspector General





Farm Service Agency Noninsured Crop Disaster Assistance Program

Audit Report 03702-0001-31

What Were OIG's Objectives

To assess whether FSA established adequate management controls to ensure NAP is effectively and properly implemented in accordance with laws, regulations, policies, and procedures. This includes controls to ensure producer and crop eligibility for NAP, controls to ensure accuracy of the information used to calculate producer loss guarantees and loss payments, and controls to cover payment and income limitations.

What OIG Reviewed

In crop years 2011 and 2012, FSA provided NAP benefits in excess of \$523 million to 38,568 producers, of which we reviewed a judgmental sample of 87 producers who received \$5.6 million in NAP benefits.

What OIG Recommends

We recommended that FSA develop guidelines and examples for State offices to use when evaluating and updating carrying capacities for review and approval by State committees; publish minimum factors for States to consider in determining grazing loss percentages; and develop procedures for State offices to communicate with bordering States to ensure consistency.

OIG reviewed NAP to determine if FSA had adequate management controls over producer and crop eligibility, payment accuracy, and payment and income limitations.

What OIG Found

The Office of Inspector General (OIG) reviewed the Noninsured Crop Disaster Assistance Program (NAP) and did not identify any reportable issues with regard to the Farm Service Agency's (FSA) management controls over eligibility of producers and crops, accuracy of loss guarantees and payments, and limitations on payments and income.

However, FSA has not significantly updated carrying capacities and needs to ensure grazing loss percentages are consistently determined. We found that, although FSA requires State committees to establish county carrying capacities, many of the State offices relied on carrying capacities that were established more than 20 years ago, and adequate documentation was not provided to clearly identify or define what factors were considered when those determinations were made. There was no support that any significant adjustments had been made to those carrying capacity levels, nor did FSA establish a requirement as to how often these carrying capacities should be reviewed.

OIG also found that FSA needs to develop a uniform framework that independent assessors should consider when making the determinations for grazing loss levels. The assessors may use many different methods and consider various factors when making a determination for grazing loss, and the lack of uniformity can cause significant variances in the loss levels established for neighboring counties and States.

The agency generally agreed with our six recommendations. We accept management decision for all recommendations.



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



DATE: September 29, 2014

AUDIT
NUMBER: 03702-0001-31

TO: Val Dolcini
Administrator
Farm Service Agency

ATTN: Philip Sharp
Director
Operations Review and Analysis Staff

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Farm Service Agency Noninsured Crop Disaster Assistance Program

This report presents the results of the subject audit. Your written response to the official draft report, dated September 24, 2014, is included in its entirety at the end of this report. Your responses and the Office of Inspector General's position are incorporated into the relevant sections of the report. Based on your written responses, we are accepting your management decision for all audit recommendations in the report, and no further response to this office is necessary.

In accordance with Departmental Regulation 1720-1, final action needs to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial 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. This report contains publically available information and will be posted in its entirety to our website (<http://www.usda.gov/oig>) in the near future.

Table of Contents

Background and Objectives	1
Section 1: Carrying Capacities and Grazing Loss Levels for NAP	3
Finding 1: FSA Needs to Update Carrying Capacities for NAP	3
Recommendation 1.....	5
Recommendation 2.....	6
Recommendation 3.....	6
Finding 2: FSA Needs to Ensure that Grazing Loss Levels are Consistent.....	7
Recommendation 4.....	10
Recommendation 5.....	10
Recommendation 6.....	11
Scope and Methodology.....	12
Abbreviations	14
Exhibit A: Fieldwork Sites	15
Agency's Response	16

Background and Objectives

Background

The U.S. Department of Agriculture (USDA) offers several permanently authorized programs to help farmers recover financially from a natural disaster, including the Farm Service Agency's (FSA) Noninsured Crop Disaster Assistance Program (NAP).

NAP was first authorized under the *Federal Crop Insurance Reform Act of 1994*¹ and is administered by FSA for the Commodity Credit Corporation, under the permanent authority of Section 196 of the *Federal Agriculture Improvement and Reform Act of 1996*, as amended by the *Agricultural Risk Protection Act, 2000*. The *Food, Conservation, and Energy Act of 2008* (2008 Farm Bill) made a number of NAP changes that were then implemented by FSA.

NAP provides financial assistance to producers of noninsurable crops when low yields, loss of inventory, or prevented planting occurs due to natural disaster. NAP provides coverage equivalent to the catastrophic risk protection level of crop insurance, which is 50 percent of the yield for the crop at 55 percent of the expected market price. To be eligible, crops must be noninsurable crops and agricultural commodities for which catastrophic risk protection is not available. Crops covered under NAP must be produced for food, livestock consumption, or fiber. Some crops that are eligible for coverage include, but are not limited to, apples, cantaloupe, olives, pistachios, watermelon, grass, and wheat.

Eligible producers must apply for coverage and pay the applicable service fee at the FSA county office where farm records are maintained. An eligible producer is a landowner, tenant, or sharecropper who shares in the risk of producing an eligible crop. NAP covers the amount of loss greater than 50 percent of the expected production, based on the approved yield and reported acreage. NAP payments are limited to \$100,000 per producer per crop year. FSA provided NAP benefits of approximately \$256.5 million and \$266.8 million in crop years 2011 and 2012, respectively. Approximately 84 percent of the NAP benefits were paid for grazing and forage losses.

Carrying capacities are established for grazing and forage losses. Carrying capacity consists of a stocking rate² and the number of days grazing that can normally be sustained without detrimental effects on the land and without the use of supplemental feedstuff.³ Cooperative extension service manuals and university publications describe the daily forage requirements of a 1000 pound animal to be between 2 to 3 percent of its body weight or 20 to 30 pounds of forage per day. It is the State committee's responsibility to establish carrying capacities for each crop,

¹ Public Law 103-354, *Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994*.

² The specific number of acres of forage capable of supporting one animal unit (one animal unit is commonly recognized as a 1,000 pound cow) for the specified grazing days.

³ Feedstuff is any product, of natural or artificial origin, that has nutritional value in the ration when properly prepared.

before the applicable application closing date, that is intended to be used for forage or grazing for each county in the State.⁴

The county committee has the responsibility to establish the grazing loss percentage on grazed forage acreage, based on the percentage loss of the similar forage acreage on the producer's farm that was mechanically harvested as forage.⁵ However, when there is no similar forage acreage on the same farm or similar farms in the area for which an approved yield has been calculated to determine loss under NAP, obtaining two independent assessments of the grazed forage acreage conditions is the only authorized method for determining a percentage of grazing loss in the area.

To be acceptable, each of the two independent assessments must be completed by forage specialists having no financial interest in the outcome of the assessment. These assessors should be from a Federal, State, or local government agency, such as the Natural Resources Conservation Service (NRCS), Bureau of Land Management, or State land departments, or from an educational institution, such as a State land grant college. These assessments should include, at a minimum, the identification of the assessor and affiliated institution, agency, or company; and a statement or chronological narration of the basis for the assessor's determinations, including statements or chronologies addressing spontaneous or progressive changes in grazing conditions. County committees forward their recommendation for the grazing loss percentage and the independent assessments to the State committee for concurrence and approval.

Objectives

Our overall objective was to evaluate FSA's management controls to ensure NAP is effectively and properly implemented in accordance with laws, regulations, policies, and procedures. This included FSA's controls to ensure producer and crop eligibility for NAP, controls to ensure accuracy of the information used to calculate producer loss guarantees and loss payments, and controls in place to cover payment and income limitations.

During the course of this audit we did not identify any reportable issues related to FSA controls over producer and crop eligibility for NAP, controls over the accuracy of the information used to calculate producer loss guarantees and loss payments, and controls in place to cover payment and income limitations. However, we found that FSA needs to update carrying capacities and ensure grazing loss percentages are consistently determined.

⁴ 1-NAP (Rev. 1) Amendment 28, Paragraph 107.5 B, dated June 26, 2006.

⁵ 1-NAP (Rev. 1) Amendment 41, Paragraph 195 (I), dated June 12, 2008.

Section 1: Carrying Capacities and Grazing Loss Levels for NAP

Finding 1: FSA Needs to Update Carrying Capacities for NAP

We found that five of the six State offices did not adequately evaluate or update carrying capacities. Four of these State offices have not made significant adjustments in decades and relied on carrying capacities that were established over 20 years ago.⁶ This occurred because FSA did not establish controls and guidelines for State offices to ensure that carrying capacities were established consistently, using the most current data available, and supported with adequate documentation. As a result, carrying capacities may not reflect current conditions and may create inequities among producers in various States and counties.

Regulations require State committees to establish county carrying capacities before the application closing date for crops with an intended use of forage or grazing. State office personnel prepare and present carrying capacities to the State committee for its review and approval. Multiple carrying capacities may be determined within a county for specific vegetation if factors such as soil type, elevation, and topography result in a significant difference.⁷

With this limited guidance, FSA State committees established carrying capacities using different methods and did not always consider factors such as topography, elevation, soil types, and climate. This resulted in inconsistent carrying capacities between States. For example, the Arkansas State office updates carrying capacities annually, based on harvested production data, without considering other factors. The Missouri State office updated carrying capacities in 2012, based on harvested production data, and made adjustments based on various factors. Four other State offices were unable to provide documentation on what factors were considered when the carrying capacities were established more than 20 years ago.

During our review of carrying capacities in Colorado, we noted that carrying capacities have not been modified since the inception of NAP in 1994. The Colorado State office established only two state-wide carrying capacities – one for irrigated and another for non-irrigated grasses – with a 184-day grazing period, even though the topography, soil types, and climate in the State vary.

Colorado is primarily a mountain state, but nearly 40 percent of its area belongs to the eastern high plains. The local climate is affected by differences in elevation and the orientation of mountain ranges and valleys, with respect to general air movements. Wide variations in climate occur within short distances, and precipitation patterns vary widely across the State. Due to the varying topography and climate, Colorado does not lend itself to one non-irrigated carrying capacity for the entire State.

⁶ Oklahoma carrying capacities were established before 1994 and only minor adjustments have been made since then. New Mexico carrying capacities were established in 1972, for a livestock forage program, and have not changed since that time.

⁷ 7 Code of Federal Regulations 1437.402 (a) (1), dated January 1, 2010.

One Colorado county executive director agreed, stating that the carrying capacity for non-irrigated grasses was set too low for the county's grazing capabilities and 27 to 30 acres to support one animal unit for the grazing period would be a more realistic carrying capacity for the county, rather than the approved 15 acres. If the carrying capacity was adjusted to 30 acres, a producer's NAP payment could be reduced by 50 percent.⁸

FSA national office officials were unaware that Colorado had only two approved State-wide carrying capacities and agreed that this would be insufficient, given the State's diverse topography, soil type, and climate.

In New Mexico, current carrying capacities are based on a 1972 grazing map, established for private grazing lands.⁹ The information supporting the determinations made in the 1972 grazing map is no longer available, according to the State office.

In 2002, the New Mexico State office attempted to adjust the grazing periods for the State to what they believed to be more reflective of the current conditions and capabilities of the land. The State office did not update carrying capacities when these changes were made to grazing periods because they believed that the adjustment to grazing periods better reflected the established carrying capacities. In 2008, the County Operations Review¹⁰ objected to the State office adjusting grazing periods without adjusting the carrying capacities, since the State continued to rely on the 1972 grazing map. Based on the County Operations Review findings, the State office reverted back to the grazing periods and carrying capacities established in the 1972 grazing map.

Similar to New Mexico, both California and Oklahoma relied on carrying capacities established over 20 years ago. The information supporting the determinations made is no longer available, according to the State offices. We believe that the carrying capacities need to be re-evaluated since the information is more than 20 years old.

In contrast, Arkansas based carrying capacities on production data published by the National Agricultural Statistics Service (NASS), but did not adjust the data to reflect grazing efficiencies and other factors. Missouri also established carrying capacities based on published NASS data, but made adjustments for dry weight matter, topography, frost dates, and growth curves. The two different methods created significant variances in carrying capacities for adjacent counties that border both States.

For example, the carrying capacities were set at 0.6 of an acre in northern Arkansas counties for alfalfa, whereas the carrying capacities for the southern Missouri counties were set at 2.0 acres, even though these bordering counties had similar topography, soil types, and climate. Because of the difference in carrying capacities, producers in the bordering States received unequal NAP

⁸ This calculation is based on a 200 acre farm, 184 day grazing period, 75 percent loss percentage, and a national grazing price of \$1.1053. A producer would receive a NAP payment totaling \$373 using a carrying capacity of 15 acres compared to a payment of \$186 using a 30 acre carrying capacity.

⁹ USDA Economics and Agricultural Business, Agricultural Experiment Station and New Mexico State University.

¹⁰ FSA implemented County Operations Review in the fall of 1986 as a strategic internal control mechanism to meet Federal Managers' Financial Integrity Act requirements for county office operations.

payments for similar losses. We estimate that a producer in Arkansas would receive a payment over 100 percent larger than a producer in Missouri for the same loss.¹¹

Even though the guidance provides that the carrying capacities are to be set prior to the application closing date by the State committee, it does not specify what factors should be considered and the frequency at which carrying capacities should be re-evaluated to ensure they reflect current conditions. National officials agreed that there are no best practice guidelines on what is to be considered when reevaluating carrying capacities, and no requirements concerning the documentation necessary to support these determinations.

FSA needs to take steps to improve how it establishes and updates these carrying capacities. Without accurate and consistently updated carrying capacities, producers may receive inequitable shares of NAP benefits among the various States and counties.

Recommendation 1

Provide further guidance to State offices to use in evaluating and establishing carrying capacities before review and approval by State committees.

Agency Response

FSA handbook procedures will be written to provide that State offices must, on an annual basis, for each county or area within a county, gather the most current documentation available for carrying capacities and grazing periods established for each crop, to determine if, for:

- carrying capacity, whether the stocking rate for the specific crop still reflects the number of acres of forage capable of supporting one animal unit for the specified grazing days,
- grazing periods, if the grazing days for the specific crop considering factors as topography, altitude, land mix, and etc. are still correct.

FSA handbook procedure will be written to provide that State offices are to complete their review and provide their findings to State committees no later than 90 days before the earliest applicable closing date for forage. County committees and State committees will be instructed in handbook procedure to document annual reviews of carrying capacities and grazing days in county and State committee minutes. County and State committees will be instructed to carry forward all documentation from year to year that is used as a basis to document established carrying capacities and grazing days.

The applicable handbook procedures are expected to be issued by December 30, 2014.

¹¹ This calculation is based on a 200 acre farm, approved grazing periods for each State, a 75 percent loss percentage, and a national grazing price of \$1.1053. A producer would receive a NAP payment totaling \$7,599 using a carrying capacity of 0.6 acre (approved for Arkansas) compared to a payment of \$3,465 with a 2.0 acre (approved for Missouri) carrying capacity.

OIG Position

We accept management decision for this recommendation.

Recommendation 2

Establish controls to ensure that State offices periodically re-evaluate NAP carrying capacities to reflect the most current data available on conditions and land capabilities when presented for review and approval to State committees.

Agency Response

FSA handbook procedure will be written to provide controls to ensure that State offices periodically re-evaluate NAP carrying capacities reflecting the most current data available on conditions and land capabilities when presented for review and approval to State committees.

The applicable handbook procedures are expected to be issued by December 30, 2014.

OIG Position

We accept management decision for this recommendation.

Recommendation 3

Develop and implement procedures to monitor State offices to ensure they have adequate documentation supporting updated carrying capacities presented to State committees and that those carrying capacities are periodically re-evaluated in accordance with the established guidelines.

Agency Response

FSA handbook procedure will be written to provide procedures for monitoring State offices to ensure adequate documentation supporting updated carrying capacities is provided to State committees and carrying capacities are periodically re-evaluated within established guidelines.

The applicable handbook procedures are expected to be issued by December 30, 2014.

OIG Position

We accept management decision for this recommendation.

Finding 2: FSA Needs to Ensure that Grazing Loss Levels are Consistent

Our review identified inconsistencies in the loss percentages established in neighboring counties along State borders. This occurred because FSA did not develop criteria for determining grazing loss percentages to ensure they are established consistently. In addition, neighboring FSA State offices did not communicate when setting loss percentages in order to identify variances between bordering counties. As a result, producers may have received inequitable NAP payments in bordering counties that have similar topography, soil types, and climate conditions, and that suffered comparable losses. In addition, we estimate that producers received between 96 and 233 percent larger NAP payments in Arkansas as compared to Missouri.

NAP guidelines state that, to be acceptable, independent assessments should include, at a minimum, the identification of the assessor and affiliated institution, agency, or company; and a statement or chronological narration of the basis for the assessor's determinations, including statements or chronologies addressing spontaneous or progressive changes in grazing conditions.¹² However, these guidelines do not establish an objective framework to document what should be considered and included in the assessment report when determining the percentage of grazing loss.

During our review of grazing loss percentages established for counties in multiple States, we evaluated 72 independent assessment reports from 7 States.¹³ The independent assessors were inconsistent in the methodology they used, the data they reviewed, and how they reported the information used to determine grazing loss percentages. Many of the reports did not include details that described the analysis used in determining grazing loss percentages, including analysis from clippings of controlled grazing areas, rainfall data, monitoring of drought conditions, growing season inspections, and comparisons with the losses of other mechanically harvested forage.

For example, one assessment report estimated grazing loss percentages for seven different counties based only on a statement about spring and summer temperatures and below normal rainfall, without comparison to normal temperatures, normal rainfall levels, or an explanation of how they affected grazing losses. In contrast, another assessment report estimated the grazing loss percentage based on a detailed analysis of National Oceanic and Atmospheric Administration precipitation and average monthly temperature data for the current and prior years. This assessment also included analyses of the U.S. Drought Monitor, exclusion cage¹⁴ clippings from seven different areas located in the county, and producer feedback.

The various methodologies used by the independent assessors may cause inconsistencies in the grazing loss percentages established in neighboring counties. One State official contended that usually when there is a wide range of loss percentages, it is due to one assessor merely driving by looking at the area, visiting with producers, and ultimately making an educated guess, while other assessors base loss assessments on the production clipped inside exclusion cages, and

¹² 1-NAP (Rev. 1) Amendment 41 Paragraph 195 (J), dated June 12, 2008.

¹³ We reviewed independent assessment reports from Arkansas, California, Kansas, Missouri, Nebraska, New Mexico, and South Dakota.

¹⁴ A device used to restrict grazing on an area to be used for the purpose of measuring annual forage production.

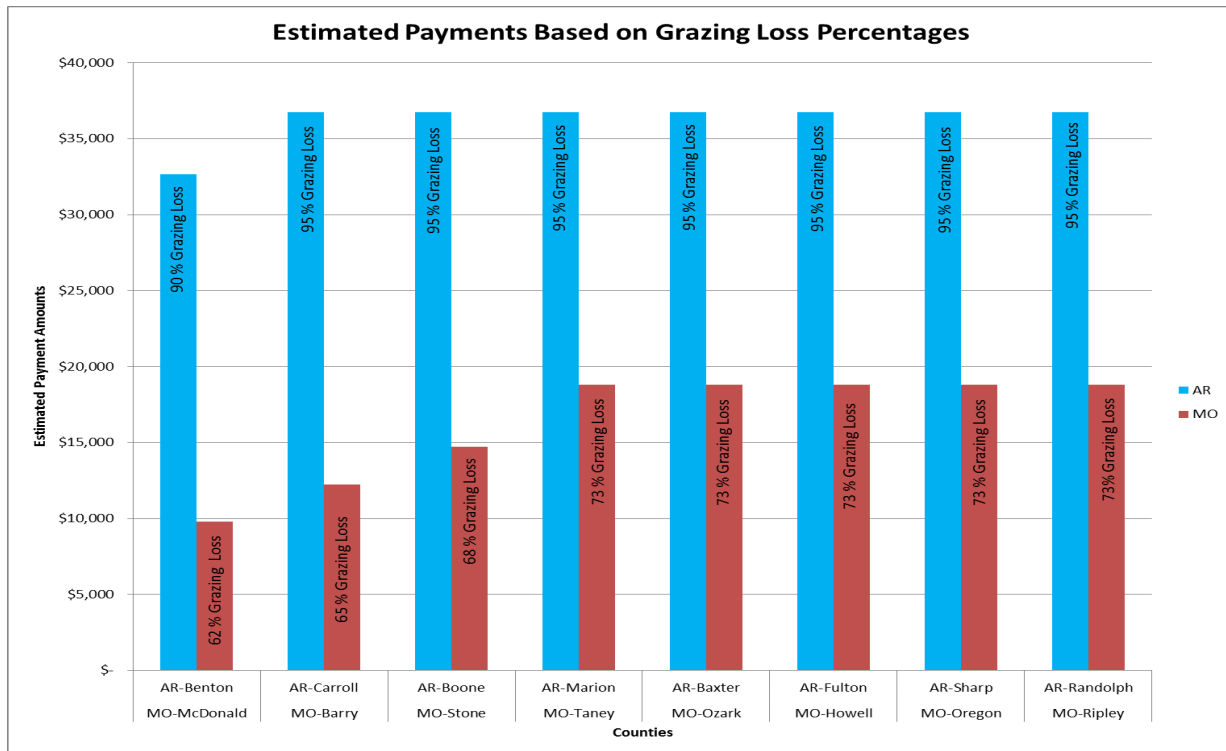
compare clipped production to totals in a normal year, based on moisture and soil type. A NRCS grazing lands specialist stated that multiple assessors could evaluate the same area and determine different loss levels because there is no methodology in place that assessors should follow when establishing grazing loss percentages.

Due to these inconsistencies, one State office used a more objective approach for determining losses by providing supplemental guidance to the NAP handbook. This guidance amended previous policy and required county offices and independent assessors to establish a basis or method for formulating their assessments and mandated that when establishing loss percentages, at least one assessment be based on data from controlled grazing area clippings. County offices were also encouraged to provide independent assessors with precipitation reports compiled by the State Climatologist, copies of the U.S. Drought Monitor, loss adjusters' monthly growing season inspections, NRCS grazing data, and comparisons of losses on mechanically harvested crops in the same area.¹⁵ Another State office issued a NAP notice that provided county offices with recommendations and guidelines for establishing grazing losses. These guidelines stipulated that each county shall be assessed independently. A list of recommended supporting documentation was provided to include rainfall data, dated pictures, information from local ranchers, data from the NRCS drought management calculator, and precipitation data.¹⁶ The other State offices reviewed did not issue any supplemental guidance.

An analysis was conducted of grazing loss percentages for 16 counties along the State borders of Arkansas and Missouri that had similar topography, soil types, and climate. Our analysis identified that there were inconsistencies in the grazing loss percentages established for Arkansas and Missouri adjacent counties. Northern Arkansas' loss percentages were set at 90 to 95 while southern Missouri's loss percentages were set at 62 to 73 percent. The differences in the grazing loss percentages for adjacent counties ranged from 22 to 30 percent. Because of these inconsistencies, Arkansas producers received larger NAP payments than producers in Missouri, even though they suffered comparable losses. We estimated that Arkansas producers would receive between 96 and 233 percent larger NAP payments than producers in bordering counties in Missouri. In addition, an NRCS grazing lands specialist questioned the 95 percent grazing losses reported in the northern half of Arkansas because that would mean that only 12 days out of the 215 day grazing period were available for grazing. The graph below illustrates the differences between these bordering States and the impact on NAP payments when the grazing loss percentage increases.

¹⁵ Kansas Exhibit 4 (1-NAP (Rev. 1) KS Amendment 19), dated May 23, 2007.

¹⁶ New Mexico Notice NAP 77, dated May 7, 2013.



The grazing loss percentages in each bar demonstrate the differences for producers located geographically across the State line. The calculations for this graph are based on a 1,000-acre farm, 1.60 acre carrying capacity, 215 day grazing period, national grazing price of \$1.1053, and the approved grazing loss percentage for each county.

We attribute the inconsistencies in grazing loss percentages in the bordering counties of Arkansas and Missouri to the different methodologies used by each State's independent assessors. Missouri consulted with two NRCS forage specialists from the State and established the loss percentages for each county based on analysis of growth curve data, frost dates, rainfall data, and drought adjustment factors. Missouri FSA State office officials stated that this methodology was used in order to ensure that the loss percentages were established consistently throughout the State. In contrast, Arkansas relied on multiple assessors throughout the State to determine grazing loss percentages. The assessment reports did not always disclose that these assessors conducted a detailed analysis of rainfall data, the U.S. Drought Monitor, and growing season inspections. Arkansas assessors also combined the assessments of multiple counties together in one report.

FSA officials believed that assessments may vary significantly because independent assessors are associated with many organizations and the training they receive varies. They also stated that they have no authority to issue requirements on how independent assessors determine grazing loss percentages. We believe that, since independent assessors are employed by either Federal, State, or local government agencies, or by educational institutions and private organizations, FSA should publish minimum factors or criteria that should be considered by independent assessors when determining grazing loss percentages to ensure they are established consistently. We also believe that State offices should communicate with bordering States to ensure that

grazing loss levels are consistent along borders with similar topography, soil types, weather conditions, and crops.

Recommendation 4

Publish minimum factors or criteria for State independent assessors to consider in determining grazing loss percentages to ensure they are established consistently.

Agency Response

FSA handbook procedures will be written to provide more alternatives for establishing collective loss percentages for geographical regions to ensure they are established consistently such as independent assessments, U. S. Drought Monitor, information obtained from loss adjusters with sufficient forage knowledge to provide grazing loss assessments, data obtained from approved areas where clippings are obtained on a regular basis to compare with expected levels of production in a geographical region, and information from Natural Resources Conservation Service technical service providers having a specialized knowledge.

The applicable handbook procedures are expected to be issued by December 30, 2014.

OIG Position

We accept management decision for this recommendation.

Recommendation 5

Develop and implement procedures for State offices to communicate with bordering States to ensure that grazing loss levels are consistent along borders with similar topography, soil types, weather conditions, and crops.

Agency Response

FSA handbook will be written to provide procedure for State offices to communicate with bordering States to ensure grazing loss levels are consistent along borders with similar topography, soil types, weather conditions, and crops.

The applicable handbook procedures are expected to be issued by December 30, 2014.

OIG Position

We accept management decision for this recommendation.

Recommendation 6

Develop and implement a process to monitor State offices to ensure that grazing loss percentages are documented and that State offices fully support their determinations according to agency recommended criteria.

Agency Response

FSA handbook will be written to provide a process for monitoring State offices to ensure that grazing loss percentages are documented and determinations are fully supported according to agency recommended criteria.

The applicable handbook procedures are expected to be issued by December 30, 2014.

OIG Position

We accept management decision for this recommendation.

Scope and Methodology

We performed our audit fieldwork from May 2013 through June 2014 at the FSA National office, 6 FSA State offices, and 12 FSA county offices (see Exhibit A). In addition, we obtained independent assessment reports from Kansas, Nebraska, and South Dakota for review. Our review focused on FSA's management controls to ensure NAP is effectively and properly implemented in accordance with laws, regulations, policies, and procedures.

Our audit covered NAP loss payments issued for crop years 2011 and 2012. Based on FSA data, 38,568 producers received over \$523 million in NAP payments for the two crop years. We judgmentally selected 12 counties in 6 States that generally experienced a high level of NAP loss payments for crop years 2011 and 2012.¹⁷ Within each county, we non-statistically selected up to 10 producers with high loss payments on multiple crops. In total, we reviewed 87 producers who received a total of over \$5.6 million in NAP payments within these counties.

To accomplish our objectives, we performed the following audit procedures:

- Reviewed producer NAP files to determine eligibility, accuracy of payments, producer compliance with income and payment limitations, and whether controls were implemented by FSA.
- Performed analysis of grazing loss percentages established for Missouri and Arkansas counties bordering each other.
- Reviewed applicable laws, regulations, handbooks, and agency procedures pertaining to the administration of NAP.
- Interviewed officials at FSA's National office in Washington, D.C., to gain an understanding of FSA's expectations of the State and county offices that administer NAP.
- Interviewed FSA State and county office personnel to ascertain the controls in place to ensure producer and crop eligibility, loss payment accuracy, and payment and income limitations.
- Interviewed NRCS field office personnel and county extension agents to gain an understanding of carrying capacities and grazing periods.
- Assessed the reliability of information systems by comparing data in FSA's database to information on record at the selected county offices for our sampled producers.

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

¹⁷ Producers in the sampled counties listed in Exhibit A received about \$36.9 million in NAP payments for crop years 2011 and 2012.

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.

Abbreviations

FSA	Farm Service Agency
NAP.....	Noninsured Crop Disaster Assistance Program
NASS	National Agricultural Statistics Service
NRCS	Natural Resources Conservation Service
OIG	Office of Inspector General
USDA.....	United States Department of Agriculture

Exhibit A: Fieldwork Sites

<u>OFFICE</u>	<u>LOCATION</u>
FSA National Office	Washington, DC
Arkansas State Office	Little Rock, AR
Boone County Office	Harrison, AR
Madison County Office	Huntsville, AR
California State Office	Davis, CA
Glenn County Office	Willows, CA
Tehama County Office	Red Bluff, CA
Colorado State Office	Denver, CO
Otero County Office	Rocky Ford, CO
Pueblo County Office	Pueblo, CO
Missouri State Office	Columbia, MO
Hickory County Office	Hermitage, MO
Howell County Office	West Plains, MO
New Mexico State Office	Albuquerque, NM
Chaves County Office	Roswell, NM
Lea County Office	Lovington, NM
Oklahoma State Office	Stillwater, OK
Cotton County Office	Walters, OK
Jackson County Office	Altus, OK

**USDA'S
FARM SERVICE AGENCY
RESPONSE TO AUDIT REPORT**



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Agricultural
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DATE: September 24, 2014

TO: Gil Harden
Assistant Inspector General for Audit
Office of Inspector General

FROM: Philip Sharp, Director, 
Operations Review and Analysis Staff

SUBJECT: Response to Official Draft – Noninsured Crop Disaster Assistance
Program (NAP), Audit 03702-0001-31

This is the Farm Service Agency's (FSA) response to your August 21, 2014, memorandum requesting comments on the official draft report of the subject audit.

RECOMMENDATION 1

Provide additional guidance to State offices to use in evaluating and establishing carrying capacities before review and approval by State committees.

FSA Response

FSA handbook procedures will be written to provide that State offices must, on an annual basis, for each county or area within a county, gather the most current documentation available for carrying capacities and grazing periods established for each crop, to determine if, for:

- carrying capacity, whether the stocking rate for the specific crop still reflects the number of acres of forage capable of supporting one animal unit for the specified grazing days
- grazing periods, if the grazing days for the specific crop considering factors as topography, altitude, land mix, and etc. are still correct.

FSA handbook procedure will be written to provide that State offices are to complete their review and provide their findings to State Committees (STC) no later than 90 days before the earliest applicable closing date for forage. County Committees (COC) and STC's will be instructed in handbook procedure to document annual reviews of carrying capacities and grazing days in COC/STC minutes. COC's and STC's will be instructed to carry forward all documentation from year to year that is used as a basis to document established carrying capacities and grazing days.

Gil Harden

Page 2

RECOMENDATION 2

Establish controls to ensure that State offices periodically re-evaluate NAP carrying capacities to reflect the most current data available on conditions and land capabilities when presented for review and approval to State committees.

FSA Response

FSA handbook procedure will be written to provide controls to ensure that State offices periodically re-evaluate NAP carrying capacities reflecting the most current data available on conditions and land capabilities when presented for review and approval to State committees.

RECOMENDATION 3

Develop and implement procedures to monitor State offices to ensure they have adequate documentation supporting updated carrying capacities presented to STC's and that those carrying capacities are periodically re-evaluated in accordance with the established guidelines.

FSA Response

FSA handbook procedure will be written to provide procedures for monitoring State offices to ensure adequate documentation supporting updated carrying capacities is provided to State committees and carrying capacities are periodically re-evaluated within established guidelines.

RECOMENDATION 4

Publish minimum factors or criteria for State independent assessors to consider in determining grazing loss percentages to ensure they are established consistently.

FSA Response

FSA handbook procedures will be written to provide more alternatives for establishing collective loss percentages for geographical regions to ensure they are established consistently such as independent assessments, U. S. Drought Monitor, information obtained from loss adjustors with sufficient forage knowledge to provide grazing loss assessments, data obtained from approved areas where clippings are obtained on a regular basis to compare with expected levels of production in a geographical region, and information from Natural

Resources and Conservation Service technical service providers having a specialized knowledge.

RECOMENDATION 5

Develop and implement procedures for State offices to communicate with bordering States to ensure that grazing loss levels are consistent along borders with similar topography, soil types, weather conditions, and crops.

FSA Response

FSA handbook will be written to provide procedure for State offices to communicate with bordering States to ensure grazing loss levels are consistent along borders with similar topography, soil types, weather conditions, and crops.

RECOMMENDATION 6

Develop and implement a process to monitor State offices to ensure that grazing loss percentages are documented and that State offices fully support their determinations according to agency recommended criteria.

FSA Response

FSA handbook will be written to provide a process for monitoring State offices to ensure that grazing loss percentages are documented and determinations are fully supported according to agency recommended criteria.

The applicable handbook procedures are expected to be issued by December 30, 2014.

To learn more about OIG, visit our website at
www.usda.gov/oig/index.htm

How To Report Suspected Wrongdoing in USDA Programs

Fraud, Waste and Abuse

e-mail: USDA.HOTLINE@oig.usda.gov

phone: 800-424-9121

fax: 202-690-2474

Bribes or Gratuities

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