United States Department of Agriculture

Office of Inspector General

Farm Service Agency Compliance Activities

03601-0001-22

July 2014

Farm Service Agency Compliance Activities

Audit Report 03601-0001-22

What Were OIG's Objectives

The overall audit objectives were to determine if FSA's compliance activities are adequate to achieve effective and efficient operations, ensure compliance with laws and regulations, and ensure government resources are used to achieve intended program results.

What OIG Reviewed

From January 2013 through March 2014, we reviewed FSA's various compliance activities conducted throughout FSA at the FSA Headquarters in Washington, DC and the Georgia, North Carolina, Tennessee, and Texas State Offices.

What OIG Recommends

FSA should develop and implement an integrated compliance strategy to ensure that compliance activities are efficient and effective in reducing the potential for fraud, waste, and abuse. The NCR, COR, and IPIA reviews should have a clearly defined goal that contributes to FSA's overall compliance strategy and each activity should be effectively designed to achieve that purpose.

OIG reviewed FSA's compliance activities

What OIG Found

OIG determined that FSA has faced a significant reduction in its salaries and expense budget from $1.57 billion in fiscal year (FY) 2010 to approximately $1.4 billion in FY 2013, a reduction of over $170 million, which left the agency with fewer resources to perform essential work. FSA has had to make choices regarding which activities it will perform and which it will curtail. FSA continues to perform a number of compliance reviews, such National Compliance Reviews (NCR), Improper Payment Information Act (IPIA) reviews, County Operations Reviews (COR), Farm Loan Program (FLP) Risk Assessments, Adjusted Gross Income compliance reviews, and end-of-year reviews. However, FSA would benefit from the development of an integrated compliance strategy to ensure that its limited resources are focused on areas posing the most significant risk of noncompliance. FSA officials have explained that they have not developed such a strategy because "significant amounts of time and money can be spent designing and implementing an integrated strategy." We maintain that developing an integrated compliance strategy should help the agency efficiently focus its limited resources on areas of the highest risk, and ensure that FSA programs operate as intended, with a minimum risk of fraud, waste, and abuse.

We found the NCRs, CORs, and IPIA reviews could be better designed to serve their intended purposes and help in identifying trends of noncompliance, directing limited resources to known problem areas, and improving the integrity of FSA's programs. As part of its compliance activities for the FLPs, FSA performs inspections of chattel security and year-end analyses, but it could not ensure that all the required reviews were completed. While FSA believes that these reviews are a relatively smaller portion of FSA's FLP compliance activities, we believe that the completion of these reviews is essential to the success and integrity of FSA's loan portfolio of $8.3 billion. Based on FSA's response to the report, we accepted management decision on six of the nine recommendations.

Table of Contents

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

DATE: July 31, 2014

AUDIT NUMBER: 03601-0001-22

TO: Juan M. Garcia
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 Compliance Activities

This report presents the results of the subject audit. Your written response, dated July 18, 2014, is included in its entirety at the end of the report. Excerpts from your response and the Office of Inspector General's (OIG) position are incorporated in the relevant sections of the report. Based on your July 18, 2014, response and additional information received on July 23, 2014, we were able to accept management decision on Recommendations 2, 3, 4, 5, 6, and 9 in the report. To reach management decision on Recommendations 1, 7, and 8, please see the relevant OIG Position sections 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 recommendations for which management decisions have 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 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.

Background and Objectives

Background

In 1935, the Farm Security Administration was established within the Department of Agriculture (USDA). Over the years, USDA operated its farm programs to improve the economic stability of agriculture and the environment. The Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994[1] reorganized the programs into the Farm Service Agency (FSA). FSA is headquartered in Washington, D.C., where national administrative functions are managed. Computational and statistical work is done in Kansas City, Missouri. Implementation of farm policy through FSA programs is delivered through an extensive network of field offices, consisting of more than 2,100 State and county offices.

FSA supports the delivery of farm credit, disaster assistance, and commodity and related programs and also administers some of USDA's conservation programs. FSA implements Commodity Credit Corporation (CCC)-funded programs for income support, disaster assistance, conservation, and international food procurement. FSA's salaries and expense budget was $1.57 billion for fiscal year (FY) 2010 and $1.4 billion for FY 2013, a decrease of more than $170 million.

Prior Audit History

The Office of Inspector General (OIG) conducted an audit of FSA's compliance activities in September 2005.[2] In this audit, OIG found that FSA required numerous compliance reviews, which were conducted by various staff at the national, State, and county offices. However, FSA did not use these reviews to (1) identify systematic noncompliance trends and direct its limited resources to known problem areas; (2) determine the causes of identified improper payments and take actions to correct those causes; or (3) collect and assess the results of compliance reviews at the national level. OIG concluded that FSA could achieve significant savings by employing advanced techniques, such as statistical sampling or data mining, in selecting individual program participants for reviews or spot checks.

OIG recommended that FSA should develop recommendations for the most efficient and effective methods for performing compliance reviews, specifically considering the combination of reviews and the use of advanced sampling techniques, such as statistical sampling, and develop a schedule to implement those recommendations. OIG also recommended that FSA record the results of all of its compliance reviews in an electronic format that facilitates national office review and analysis, and that FSA analyze those results to identify common problems and to determine the causes of improper payments. In addition, OIG recommended that FSA develop a process for sharing compliance review analyses among the appropriate FSA program divisions and units.

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[1] Public Law 103-354, *Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994*, October 13, 1994.
[2] OIG Audit 03601-0012-Ch, *FSA Compliance Activities*, September 2005.

Other audits have also noted deficiencies in FSA's internal controls over its programs, specifically OIG's audit of FSA farm loan security in 2010.[3] OIG found that FSA county officials did not always take required enforcement actions, did not perform required inspections of loan collateral, and had not completed required annual assessment reviews of farm operations. FSA attributed these deficiencies to inadequate staffing levels and lack of time to conduct the reviews because of other priorities, among other reasons.

Compliance Activities

During the previous audit,[4] OIG determined that FSA's national, State, and county offices performed over 30 different types of compliance reviews. Currently, FSA conducts different reviews to help ensure the accuracy of farm program payments and loans, and compliance with program requirements, including, but not limited to the National Compliance Reviews (NCR), County Operation Reviews (COR), Improper Payment Information Act (IPIA) reviews, Farm Loan Program Risk Assessments (FLPRA), end-of-year reviews,[5] and Adjusted Gross Income (AGI) Reviews.[6]

FSA county offices are required to conduct farm inspections to ensure that producers comply with FSA program requirements. In the past, FSA program divisions would conduct individual spot checks for each program, which was very time consuming for the county office personnel. As a result of the previous OIG audit on FSA's compliance activities, FSA created the NCR to reduce the number of spot checks required and allow FSA to analyze the results of the reviews for any trends. FSA uses a statistical sample of 2,000 program participants from the universe of participants who received a payment in the prior year. The universe is stratified to ensure there is a sample from all of the programs. The sample is selected by the National Agricultural Statistics Service (NASS) and provided to FSA for the NCR. County office employees complete the applicable questionnaires for any participants selected in their county and the results are documented in the NCR database, which is maintained by NASS. Each year NASS provides FSA summary reports of the results of the NCRs, and FSA distributes these reports to appropriate program managers for review.

FSA also uses the CORs as a strategic internal control mechanism to conduct target reviews of high risk programs and activities in county offices and ensure corrective actions are properly implemented. County operations reviewers in the States are responsible for conducting these reviews and the Operations Review and Analysis Staff (ORAS) is responsible for developing the policies and procedures on how to conduct the reviews and prepare reports. CORs were previously conducted on site in the county office; however, with recent budget reductions, FSA performed a majority of the reviews off-site. ORAS is currently re-designing the COR process to improve consistency. Under the new process, ORAS will be defining the scope of the CORs to make them more uniform so that results can be analyzed for trends.[7]

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[3] OIG Audit 03601-0018-Ch, *FSA Farm Loan Security*, August 2010.
[4] OIG Audit 03601-0012-Ch, *FSA Compliance Activities*, September 2005.
[5] End-of-year reviews are conducted to ascertain that farming operations were carried out as represented when initial determinations were made. The purpose of the end-of-year reviews is to maintain the integrity of payment limitation and payment eligibility provisions.
[6] AGI reviews are reviews of individuals that appear to have exceeded income limits to determine whether these producers complied with the AGI limitations.
[7] On July 31, 2013, FSA implemented its first national office-directed COR review.

In addition to the CORs, the county operations reviewers also are responsible for completing the IPIA reviews. The IPIA,[8] as amended by the *Improper Payment Elimination and Recovery Act of 2010*,[9] requires agencies to annually review programs and activities they administer and identify those which may be susceptible to significant improper payments. For programs where the risk of improper payment is significant, agencies are required to estimate and report the annual amount of improper payments, as well as develop a plan to reduce improper payments. FSA's Financial Management Division works with FSA program divisions to identify FSA programs which may be susceptible to significant improper payments[10] and reports to the Office of the Chief Financial Officer estimates of the annual amount of improper payments.

FSA also administers the Farm Loan Programs (FLP), which make direct loans to family farmers and ranchers to purchase farmland and finance agricultural production. The FLPs are designed to help family farmers who are temporarily unable to obtain private commercial credit. FSA conducts various FLP compliance reviews, including the FLPRA. FLPRAs are conducted by both the States and the national office. The primary objectives of FLPRA are to evaluate the effectiveness of FLP delivery systems and ensure compliance with applicable laws and regulations. FLPRA focuses on evaluating program delivery by assessing the condition and performance in the risk areas of program objective, financial integrity, and program management. During the reviews, the reviewers determine the overall degree of risk, identify the factors contributing to the risk, and recommend or require management to take mitigating actions. During the FLPRA, they also monitor the completion of other compliance checks, including the chattel reviews[11] and year-end analyses.[12]

Objectives

The overall audit objectives were to determine if FSA's compliance activities are adequate to achieve effective and efficient operations, ensure compliance with laws and regulations, and ensure government resources are used to achieve intended program results. In pursuing these objectives, we evaluated the impacts of staff and budget cuts, and the agency's restructuring on its compliance activities. We also followed up on recommendations from our prior audit.[13]

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[8] Public Law 107-300, *The Improper Payments Information Act of 2002*, November 26, 2002, as amended.
[9] Public Law 111-204, *Improper Payments Elimination and Recovery Act of 2010*, July 22, 2010.
[10] FSA performs risk assessments on each program at least once every three years to determine whether the program is at high-risk for improper payments. For those determined to be high risk, IPIA testing is performed.
[11] Chattel (movable security, such as livestock) reviews are conducted to confirm that the borrower retains possession of all the property listed in the security instrument and that it is being properly maintained.
[12] The year-end analysis identifies and evaluates significant changes in the borrower's operations, compares actual performance to projections, and analyzes how performance can be improved.
[13] OIG Audit 03601-0012-Ch, *FSA Compliance Activities*, September 30, 2005.

Section 1: Integrated Compliance Strategy

Finding 1: An Overall Integrated Compliance Strategy Could Help FSA Better Use Its Limited Resources

Like many Federal agencies, FSA has faced a significant reduction in its salaries and expense budget from $1.57 billion in FY 2010 to approximately $1.4 billion in FY 2013, a reduction of over $170 million, which left the agency with fewer resources to perform essential work. Given these restricted resources, FSA has had to make choices regarding which activities it will perform and which it will curtail. FSA continues to perform a number of reviews, such as the IPIA reviews, CORs, FLPRAs, AGI compliance reviews, and end-of-year reviews that do contribute to compliance. However, FSA has not developed an integrated compliance strategy to ensure that its limited resources are focused on areas posing the most significant risk of noncompliance. FSA officials have explained that they have not developed such a strategy because significant amounts of time and money can be spent designing and implementing an integrated strategy. They have argued, moreover, that all relevant performance factors at FSA indicate that the programs are performing well with little comparative risk in relation to other more pressing needs. While OIG acknowledges FSA's budget circumstances, we maintain that developing an integrated compliance strategy should help the agency focus its limited resources on areas of the highest risk, and ensure that FSA programs operate as intended, with a minimum risk of fraud, waste, and abuse.

The Government Performance and Results Act Modernization Act of 2010 required Federal agencies to develop a strategic plan that includes general goals and objectives, including outcome-oriented goals, for the major functions and operations of the agency. The Office of Management and Budget (OMB) Circular A-123[14] requires that agency management have a clear, organized strategy for ensuring effective internal controls and determining how to assess the effectiveness of those controls.

Additionally, the Government Accountability Office (GAO) reported that these requirements can serve as leading practices for planning at lower levels, within agencies, such as individual divisions or programs, because developing goals and measures helps an organization balance competing priorities, particularly if resources are constrained, and helps an agency assess progress toward intended results. GAO has also identified six characteristics of an effective strategy, consisting of (1) a purpose, scope, and methodology; (2) problem definition and risk assessment; (3) goals, subordinate objectives, activities, and performance measures; (4) resources, investments, and risk management; (5) organizational roles, responsibilities, and coordination; and (6) integration and implementation (see Exhibit A). Incorporating these characteristics into an integrated compliance strategy should help the agency effectively shape policies, programs, priorities, and resource allocations and enable achievement of intended results for the various compliance activities performed.[15]

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[14] OMB Circular A-123, *Management's Responsibility for Internal Control*, December 21, 2004.
[15] GAO Testimony GAO-12-276T, *National Capital Region: 2010 Strategic Plan is Generally Consistent with Characteristics of Effective Strategies*, December 7, 2011.

While FSA has taken steps in the past in an effort to improve its compliance activities and continues to take steps today, OIG maintains that the agency can strengthen its efforts to establish efficient and effective internal controls by developing an integrated compliance strategy that focuses on areas of the greatest risk. FSA's Strategic Plan for FYs 2012 through 2016 identifies four goals: (1) provide a financial safety net for America's farmers and ranchers to sustain economically viable agricultural production; (2) increase stewardship of America's resources, while enhancing the environment; (3) ensure commodities are procured and distributed effectively and efficiently to increase food security; and (4) transform and modernize FSA. FSA officials told us that the strategic plan and various handbooks comprised the agency's strategy. The strategic plan, however, does not contain a clear, organized strategy for ensuring effective internal controls, or for assessing the effectiveness of the controls in place, as required by OMB. Likewise, the various handbooks did not provide for coordination of the compliance activities or assessments of the effectiveness of the compliance reviews.

FSA acknowledged that over the last several years, the agency has not prioritized compliance given decreases in staffing and administrative support. Instead, FSA focused resources on mission critical program delivery efforts and continued to perform IPIA reviews, CORs, AGI compliance reviews, and end-of-year reviews. OIG acknowledges that these reviews do serve to identify noncompliance. FSA officials added that the agency has not experienced a material increase in IPIA improper payment rates, and in most cases, improper payment rates have decreased. Further, FSA established receivables to recover payments made to ineligible recipients as a result of the AGI compliance efforts. In all of these important internal control functions, OIG notes that FSA has made improvements, including re-structuring of the COR and working toward verifying AGI compliance before FSA makes payments. OIG maintains that an integrated compliance strategy should help the agency focus its limited resources on issues that pose the greatest risk.

The first step to developing an integrated strategy is to identify a purpose, scope, and methodology to address what FSA is trying to achieve through its compliance activities. Although a purpose was established for each of the specific reviews, the scope and methodologies for the reviews were not always ideally designed to meet the intended purpose of the review. To address certain aspects of compliance, FSA established reviews such as NCRs, CORs, and IPIA reviews. Specifically, the NCR's purpose was to identify whether producers are complying with program requirements, the COR's purpose was to determine whether FSA's county office staff followed policy and procedures, and the IPIA review's purpose was to determine the rate of improper payments in farm programs. We found, however, that these reviews were broad and did not always focus on areas of the greatest risks. If FSA reviewed its compliance activities as a whole, it would learn that NCRs and CORs are not achieving their intended results (see Findings 2 and 3). Likewise, FSA staff would learn that the IPIA reviews were not performed in a manner to effectively identify all improper payments (see Finding 5).

In 2005, OIG reported that the FSA divisions had required compliance or internal reviews of their numerous programs without evaluating the way these activities were deployed over the years or their impact on operations.[16] We concluded that FSA performed an excessive number of compliance reviews to identify inaccurate payments or other deficiencies in its various farm

[16] OIG Audit 03601-0012-Ch, *FSA Compliance Activities*, September 30, 2005.

programs. OIG also reported that FSA did not use reviews to identify systemic noncompliance trends and direct its limited resources to known problem areas or determine the causes of identified improper payments and take actions to correct those causes. In the prior report, we concluded that FSA could achieve significant savings by employing advanced techniques, such as statistical sampling or data mining, to select individual program participants for reviews or spot checks for multiple purposes. To address the 2005 report, FSA developed the current NCR process. However, in designing and implementing the NCR process, FSA did not take into consideration the scope of other reviews, especially the COR program,[17] and created a much broader scope for the NCR than determining producer compliance. At present, NCRs encompass a wide variety of program requirements and do not contain sufficient procedures to identify causes of noncompliance. Steps to perform the reviews are general and do not provide for specific verification of requirements, such as eligibility. Many of the steps focus on whether county office staff is following policies and procedures and paperwork is complete, rather than verifying producer compliance. We also found that without collecting complete and accurate data for NCRs, program and State personnel cannot rely on the NCR results report to identify noncompliance trends, direct limited resources towards areas of significant risk, or improve the integrity of FSA programs (see Finding 2). By developing an integrated strategy for compliance, FSA could better ensure that its different individual reviews contribute to FSA's overall compliance effort.

The second step to developing an integrated strategy is to identify the problems and risks that are to be addressed. In general, OIG found that, although FSA performs many compliance-related reviews, those reviews were not focused on problems posing the greatest risk. NCRs were too broad to focus on specific risks, and did not contain sufficient procedures to address the problems and risks (see Finding 2). CORs were not focused on overall program risk because FSA had given States the flexibility to determine the scope of the reviews. Although FSA implemented the COR program incorporating the concepts of OMB[18] and GAO[19] requirements for internal control in its COR handbook,[20] we found that the COR program itself did not have the scope or resources needed to address the stated function as a strategic internal control mechanism meant to ensure the effectiveness of internal controls over agency assets, measuring farm programs' effectiveness, or preventing and detecting fraud, waste, and abuse.

The third step to developing an integrated strategy is to establish goals, subordinate objectives, and performance measures. Although FSA developed a strategic plan, it did not include an overall goal for compliance or performance measures for each of FSA's compliance activities. The NCRs and CORs did not have specific goals or measures to gauge the effectiveness of the reviews in identifying noncompliance, the causes, and corrective actions to mitigate the noncompliance. Other reviews, such as the AGI compliance reviews[21] and end-of-year

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[17] COR reviews are not performed by the same group of individuals that perform NCRs.
[18] OMB Circular A-123, *Management's Responsibility for Internal Control*, December 21, 2004.
[19] GAO/AIMD-00-21.3.1, *GAO Standards for Internal Control in the Federal Government*, November 1999.
[20] FSA Handbook 1-COR – *County Operations Review Program*, *Revision 3*, Amendment 24, December 27, 2006.
[21]The *Food Conservation and Energy Act of 2008* established AGI limitations for program eligibility. Under a data-sharing agreement with the Internal Revenue Service (IRS), IRS identifies program participants that may have exceeded these limits. FSA then performs an AGI compliance review of those individual that appear to have exceeded the limits to determine whether these producers complied with the AGI limitations.

reviews,[22] were developed to address specific risks, but do not have goals or performance measures for addressing those risks and ensuring corrective actions for systemic problems.

The fourth step to developing an integrated strategy is to identify resources, investments, and risk management practices to allocate finite resources, as appropriate, and develop more effective compliance activities to ensure that resources and compliance review procedures are focused on the most significant risks. Significant reductions in resources over the years and changes in farm programs brought about by the newly passed farm bill[23] will continue to challenge FSA in its efforts to ensure that its compliance activities are focused on the areas of most significant risks. Efficient use of FSA's limited resources is necessary, given the agency's reduced budget and staff. In FY 2010, FSA's salaries and expense budget was $1.57 billion, but in FY 2013, it was $1.4 billion, a decrease of more than $170 million, or almost 11 percent. Similarly, in FY 2010, FSA had an employment ceiling of 12,578. During FY 2010, FSA had 8,743 county office employees and 68 county operations reviewers. However, by the beginning of FY 2013, the employment ceiling had fallen to 10,977 and there were only 7,768 county office employees and 51 county operations reviewers; a reduction of 11.2 percent in county office employees and 25.0 percent of county operations reviewers. As of April 2014, the number of county operation reviewers had dropped to 46, a loss of 32.3 percent from FY 2010. Additionally, by the end of FY 2018, over 40 percent of FSA's staff with compliance activity responsibilities (those selected headquarters positions identified above and State and county office employees) will be eligible to retire, including over 37 percent of the county office employees and over 75 percent of the county operations reviewers. Given these reductions, FSA issued guidance allowing staff to curtail some of its compliance activities, though FSA staff acknowledged that this has resulted in reduced program integrity.[24] As more staff leave, there will be fewer staff available to perform compliance activities, requiring FSA to prioritize its compliance activities to ensure that it is performing those that are the most likely to minimize the risk of fraud, waste, and abuse.

The fifth and sixth steps to developing an integrated strategy are to identify organizational roles and responsibilities, ensure efforts are coordinated, and foster effective implementation. Given that FSA's compliance activities are performed by different groups within FSA and its resources are dwindling, the agency needs to review its compliance activities to establish an integrated compliance strategy. By delineating organizational roles and responsibility, clarifying specific roles, particularly where there is overlap, and coordinating among the different FSA groups, the agency can better ensure that compliance activities are efficiently and effectively implemented. This will help to prevent the implementation of reviews that are too broad to address problems and risks, as occurred with the development of the NCRs.

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[22] End-of-year reviews are conducted to ascertain that farming operations were carried out as represented when initial determinations were made. The purpose of the end-of-year reviews is to maintain the integrity of payment limitation and payment eligibility provisions.
[23] Public Law 113-79, *Agricultural Act of 2014*, signed February 7, 2014.
[24] FSA began issuing administrative operations notices (Notice AO-1506, *Nonstatutory FSA Program Recommendations for Cost Savings*) to help reduce operating costs on April 27, 2011. Specifically, this notice and comparable notices that followed (Notice AO-1508, dated May 9, 2011; Notice AO-1511, May 20, 2011; Notice AO-1540, May 8, 2012; and Notice AO-1561, February 4, 2013) allowed FSA staff to not perform field visit/compliance spot checks to measure acreage or production or prevented planted acreage as required by the NCRs; prohibited FSA from using administrative travel funds to complete noninsured crop assistance program field inspections; allowed the COR to be conducted off-site and limited the scope of the CORs so that they could be conducted off-site; and reduced the frequency of required year-end analyses and chattel (security) inspections.

OIG concludes that, by applying the OMB and GAO internal control concepts to develop an integrated compliance strategy encompassing all compliance activities, FSA could better direct its limited and dwindling resources to ensure that compliance activities are focused on the areas of most significant risks. While we do acknowledge that FSA is performing useful compliance functions, an overall strategy for compliance should assist the agency in making the most of its increasingly limited resources.

Recommendation 1

Develop and implement an integrated compliance strategy to ensure that FSA's compliance activities are efficient and effective in reducing the potential for fraud, waste, and abuse.

Agency Response

In its July 18, 2014, response FSA stated:

> FSA agrees that an overarching integrated compliance strategy should be adopted. However, the design and detail of the strategy should be appropriate for the risk. Significant amounts of time and money can be spent designing and implementing an integrated strategy as described in the OIG report. Given the limited resources possessed by FSA we must assess all of our risk factors and allocate our limited resources to the highest risk areas. After assessing the key factors designed to measure compliance at FSA such as improper payment rates and default and loss rates for loans, we have concluded compliance, while important, is not a high risk for the agency at this time and therefore does not warrant the deployment of the necessary resources to design and implement a system as robust as suggested by the subject report. All relevant performance factors at FSA indicate, the programs are performing well with little comparative risk in relation to other more pressing needs.
>
> FSA proposes to create a subgroup to FSA's Executive Leadership Council (ELC) that will meet semi-annually to evaluate FSA compliance activities to ensure such activities are accomplishing the agency's overall mission. The subgroup will represent all FSA program areas and members will be appointed by applicable ELC members. The evaluation will include, but not limited to, the [review of] risk assessments done by program managers, input from State Executive Directors on issues being faced in the field, Office of Inspector General audit and investigation reports, U.S. Government Accountability Office reports, and various internal compliance reports.

We followed up with FSA on July 23, 2014, to determine the expected completion date for the corrective action. FSA expects to create the ELC subgroup by December 31, 2014.

OIG Position

We are unable to reach management decision for this recommendation. We believe that FSA's proposed development and utilization of an ELC subgroup will be very beneficial to help FSA ensure that it continuously monitors internal controls for compliance with laws and regulations. By utilizing the program managers' risk assessments, existing controls, and findings of this subgroup, we believe that an overall strategy can be readily developed and put into place, as well as updated as necessary though the semi-annual evaluations of the subgroup. Per OMB Circular A-123, one of three major goals of establishing internal controls is to ensure compliance with applicable laws and regulations. Through an agency's organization, policies, and procedures, internal controls are important tools to help program and financial managers achieve results and safeguard the integrity of their programs. While we agree that an ongoing assessment of FSA's compliance activities is needed to address OMB Circular A-123 guidance that agency managers should continuously monitor and improve the effectiveness of internal control associated with their programs, an overall strategy is needed to ensure the efficiency and effectiveness of compliance activities. As part of this process, agencies and individual Federal managers must take systematic and proactive measures to develop and implement appropriate, cost-effective internal control. The degree to which studies and analysis are performed will vary depending on the complexity and risk associated with a given program or operation. OMB A-123 also states that decisions made during this process should be documented and readily available for review. An overall strategy should identify risks in particular programs, and ensure internal controls are designed in a manner to mitigate those risks.

As pointed out in Finding 1, FSA continues to perform a number of reviews that contribute toward compliance and addressing risks. Given the limited resources, FSA needs to implement an integrated strategy for its compliance activities to ensure that those activities are efficient and effective. To develop this strategy, FSA can draw upon the semi-annual evaluations by the ELC subgroup as well as the risk assessments done by program managers and input from the various groups. Continuous monitoring by the ELC subgroup should help provide the basis for the agency head's annual assessment of and report on internal control, as required by the Federal Manager's Financial Integrity Act. Even though it is agency management's responsibility to determine the appropriate level of documentation needed to support this assessment, documentation should be appropriately detailed and organized and contain sufficient information to support management's assertions.

To reach management decision, outline plans for documenting an overarching integrated compliance strategy and the proposed date for implementation of the strategy.

Recommendation 2

Ensure that each of FSA's compliance activities has a clearly defined goal that contributes to FSA's overall compliance strategy and that each activity is effectively designed to achieve that purpose.

Agency Response

In its July 18, 2014, response FSA stated:

> While FSA maintains the agency's current compliance activities are adequately defined in a manner that reflects the mission and goals of the agency, FSA management agrees it does not currently assess and monitor all compliance activities at the agency level.
>
> The subgroup [to the ELC] will report to ELC any deficiencies identified in the compliance activities and make recommendations to correct any weaknesses found and what potential

> risks may need additional compliance scrutiny. The ELC will be ultimately responsible for providing applicable program managers the guidance and direction for implementing FSA['s] compliance activities.

We followed up with FSA on July 23, 2014, to determine the expected completion date for the corrective action. FSA expects to create the ELC subgroup by December 31, 2014.

OIG Position

We accept management decision.

Section 2: Compliance Activities

Finding 2: Changes to NCRs are Needed to Help Address Systemic Problems

In response to a prior OIG audit, FSA implemented National Compliance Reviews (NCRs), which are intended to ensure that producers comply with farm program requirements. We found that FSA could better design NCRs to identify the causes of producer noncompliance and to track broader trends. Many of the steps for these reviews focus on whether county office staff is following policies and procedures and whether paperwork is complete. Although OIG acknowledges that such reviews are useful, we maintain that the area of greatest risk is producer compliance with program requirements. When FSA designed and implemented the current NCR process, the agency did not take into consideration the scope of other reviews and created a much broader scope for the NCR process. Additionally, FSA officials told us that they did not have funds to create a dedicated database, and had to rely on an agreement with NASS to store the data collected during the reviews. Without collecting complete and accurate data for NCRs, FSA program and State personnel cannot rely on the NCR results report to identify noncompliance trends, direct limited resources towards areas of significant risk, or improve the integrity of FSA programs.

According to FSA Handbook 2-CP, *Acreage and Compliance Determinations*, counties are responsible for performing NCRs on all producers selected under the national selection process for all programs subject to NCR in which the producer participates. The county office staffs then document their responses to questions for each program in the NCR database, which is controlled and maintained by NASS.[25] NASS then generates a report that summarizes the results of NCRs.

NCRs were developed and implemented in 2007 to address OIG's 2005 audit report[26] on compliance activities. In that report, we concluded that FSA could achieve significant savings by employing advanced techniques, such as statistical sampling or data mining, and by selecting individual program participants for review. To reduce the number of reviews performed, FSA decided to select a nationwide sample of producers and review all programs in which the selected producers participate,[27] rather than selecting individual farms, loans, contracts, etc., for compliance reviews. The selection is made annually by the national office, using a statistical sampling method.[28]

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[25] FSA Handbook 2-CP, *Acreage and Compliance Determinations,* Revision 15, Amendment 74, August 21, 2012.

[26] OIG Audit 03601-0012-Ch, *FSA Compliance Activities*, September 30, 2005.

[27] Sixteen programs/ activities were included in the 2012 NCR: Asparagus Revenue Market Loss Program, Average Crop Revenue Election, Biomass Crop Assistance Program, Conservation Reserve Program maintenance and practice checks, Direct and Counter Cyclical Payment Program, Emergency Livestock Assistance Program, FSA-578's (Report of Acreage Form), Highly Erodible Land Conservation and Wetland Conservation Compliance, Loan Deficiency Program / Market Assistance Loan, Livestock Forage Program (LFP) / Livestock Indemnity Program, Milk Income Loss Program, Noninsured Crop Disaster Assistance Program (approved yield and general), Reimbursement Transportation Cost Payment Program, Supplemental Revenue Assistance Program, Tree Assistance Program, and Trade Adjustment Assistance for Farmers.

[28] NCRs are selected annually; however, the review is not limited to a specific fiscal or calendar year. The review includes any application/contract approved for payment since the last NCR list.

FSA Needs to Ensure that NCRs Review Producer Compliance

FSA Handbook 2-CP states that county offices are to conduct farm inspections to ensure producers comply with FSA program requirements.[29] To facilitate the NCR process, FSA developed questionnaires for each program covered by the NCR. However, many of the steps focus on whether county office staff is following policies and procedures and ensuring that paperwork is complete, rather than verifying that producers complied with program requirements. For example, questions include "Was a valid signature obtained on the [Tree Assistance Program] TAP application in the administrative [c]ounty [o]ffice?"; "Did the applicant meet [risk management purchase requirement] or obtain a waiver on all [Noninsured Crop Disaster Assistance Program] NAP eligible or insurable crops?"; "Did the applicant meet definition of [socially disadvantaged applicant], limited resource, or beginning farmer or rancher?"; and "Was verifiable production record received in the county office for each eligible month before payment was issued to the dairy operation?" These questions require that the reviewer assess file documentation or determine whether the county office followed policy and procedures, not whether the producer complied with the requirements. As such, we concluded that NCRs are not focused on producer compliance and do not verify that the producers met eligibility requirements, as they were intended to be.

Additionally, the questionnaires do not contain sufficient procedures to identify the causes of producer noncompliance. Instead, the steps to perform the reviews are general and do not provide for specific verification of requirements, such as eligibility. For example, the questionnaire asks, "did the [Milk Income Loss Contract] MILC program participant meet all eligibility criteria?" but does not provide detailed steps to indicate what the reviewer should do to make this determination so that the cause of noncompliance can be identified.

FSA Needs to Improve its System to Ensure that the Results of Reviews are Adequately Tracked and Analyzed for Trends

FSA Handbook 2-CP states that reports generated from the NCR database are intended to identify noncompliance trends, direct limited resources to known problem areas, and improve the integrity of FSA programs. The reports generated from the NCR database will consist of analysis that identifies any discrepancies, noncompliance trends, and problems, including errors resulting in improper payments and steps taken to reduce them.[30]

We found, however, that the reports generated from the database were not sufficient to identify noncompliance trends, direct limited resources to known problem areas, and improve the integrity of FSA programs. First, the information captured by FSA was usually in a yes/no format, which did not identify the cause of the noncompliance. In order to determine the underlying causes, FSA officials stated they would have to request that the county office staff analyze each issue on a case-by-case basis. One FSA official

[29] FSA Handbook 2-CP, *Acreage and Compliance Determinations*, Revision 15, Amendment 74, August 21, 2012.
[30] FSA Handbook 2-CP, *Acreage and Compliance Determinations*, Revision 15, Amendment 74, August 21, 2012.

stated the reports generated give some indication of an issue, but cannot really address systemic problems, since so little information is provided.

Second, FSA did not always capture whether the determinations were based on a field visit. This information is vital to those utilizing the information as some of the programs would be best reviewed through a field visit. This information becomes even more important in light of guidance FSA issued to address its budget cuts.[31] This guidance states that, during extreme budget shortages, county offices should try to avoid using travel funds to complete the acreage compliance reviews, and rely on digital imagery as much as possible to determine acreages. Additionally, the guidance states that, again, due to budget shortages, field visits will not be required to verify production for certain programs. The guidance stated that, if field inspections are not completed for producers selected for the NCR, the applicable producer's program file folder will be documented for the reason why the field inspection was not completed. However FSA did not capture this information in the NCR database. Further, if reviewers answer the NCR questions based on their assumptions about a producer's operations, instead of performing actual verification/validation of the information, the results may not be supported, which reduces the NCR's effectiveness.

Without collecting the level of detail necessary to identify if NCR reviews were completed based on a field visit, FSA officials limit their ability to use the NCR results report to identify risks and program vulnerabilities. During our review we noted that only two of the program questionnaires[32] in FSA Handbook 2-CP specifically ask the reviewer to document whether a farm visit was conducted to complete the spot check. The NCR database does not capture this information and thus it is not made available to those utilizing the NCR results report.

Third, FSA does not ensure that all reviews are completed or that the reason for non-completion is documented. OIG determined that, for the 2010 annual NCR, FSA county offices documented responses for at least one program for only 1,860 of the 2,000 producers selected. For the 2011 annual NCR, the number of responses decreased to 1,741 out of 2,000. Although FSA has procedures in place which require the county offices to document in the NCR database when a selected producer is not farming or participating in FSA programs during the year under review,[33] we found that the NCR results report does not capture this information. As a result, report users do not know why reviews were not completed, which limits the usability of the data.

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[31] FSA Notice AO-1561, *Nonstatutory FSA Program Recommendations for Cost Savings*, February 4, 2013.

[32] *Marketing Assistance Loans* and *Loan Deficiency Payments*.

[33] Because the national selection process is based in part on prior years' payments and program participation, some producers selected may not be farming or participating in FSA programs for the current year. FSA Handbook 2-CP instructs the county office to notate "N/A" on the national producer selection list and forward the list to the District Director for review, and for the District Director to review, initial, and date the list indicating their agreement that the producer is not farming or participating in FSA programs for the year. In the cases where the District Directors concur that a selected producer was not farming or participating in any FSA programs for the year, county offices shall access each program survey in the NCR database and click "Not Applicable." This will indicate that the selected producer did not participate in the program for the year.

Additionally, we found that the database lacks controls to ensure that followup questions are addressed by all required respondents and *only* by those required respondents. For example, the NAP questionnaire for the 2011 annual NCR asks, "Did the producer exceed the acreage or production tolerances when reporting acreage or production?" The NCR report noted a "yes" for 17 contracts for 7 producers. The following question asks, "If yes, did the [county office committee] determine the producer eligible or ineligible?" Sixteen contracts for six producers were noted here as eligible. One response was not captured. We also identified instances in the 2010 NCR Results where more respondents submitted information in response to a followup question than those that answered the question with the specific yes/no response. The Direct and Counter-Cyclical Payments Review for the 2010 annual NCR asks, "If fruits and vegetables were planted on base acres on the farm, does one of the fruit and vegetable planting exceptions apply?" In response, 131 contracts were marked yes for 69 producers. The followup question asked, "If yes, which exception applies?" In response, 165 responses were captured for contracts and 75 producers. These numbers exceed those that marked yes on the prior question. As such, the validity of the information of these reports is questionable.

Finally, we found that the NCR results report does not identify whether an issue or noncompliance is nationwide or localized. For example, the 2011 annual NCR asks for the Conservation Reserve Program (CRP), "Has the approved cover been maintained according to conservation plan?" The NCR report noted that, for 14 contracts for 9 producers, the reviewer answered "no." However, an FSA official cannot determine if this problem is specific to a certain county or spread across the nation, which would be important for determining the magnitude of the problem and what type of corrective action is needed.

In discussing these problems related to NCR, we learned that FSA officials believed the reviews had limitations. Officials stated the NCR database is a slow system that is not user-friendly and the State and national offices do not have access to monitor the progress of the counties as they complete the reviews and enter the information into the database. They stated that these problems occurred because FSA did not have the funds to develop a management system of its own, and thus relied on a NASS agreement to capture the results of the reviews and run reports.

Based on these observations, we concluded that FSA could better design NCRs to serve its intended purpose of identifying trends of noncompliance, directing limited resources to known problem areas, and improving the integrity of FSA's programs. FSA should revise the NCR process to ensure that it identifies the cause of errors or noncompliance, ensure that county offices are completing and accurately documenting all NCR results, and revise the reporting process to ensure FSA can identify potential systemic issues and develop appropriate corrective actions.

Recommendation 3

Revise the NCR process to ensure that it focuses on producer compliance and identifies the cause of errors or noncompliance.

Agency Response

In its July 18, 2014, response FSA stated:

> FSA agrees with the recommendation. FSA will revise the NCR process for the 2014 compliance year to focus on producer compliance and capture additional information to aid in identifying the causes of errors or noncompliance.

We followed up with FSA on July 23, 2014, to determine the expected completion date for the corrective action. FSA expects to revise its NCR process for the 2014 compliance year by December 31, 2014.

OIG Position

We accept management decision.

Recommendation 4

Ensure that county offices are completing and accurately documenting all NCR results..

Agency Response

In its July 18, 2014, response FSA stated:

> FSA agrees with the recommendation. For the 2014 compliance year FSA handbook 2-CP will be revised to require, in coordination with the Deputy Administrator for Field Operations, State offices ensure NCR reviews are completed by established deadlines. In addition, the NCR reporting process will be modified to identify those cases where a selected producer is not farming or participating in a program during the year under review.

We followed up with FSA on July 23, 2014, to determine the expected completion date for the corrective action. FSA expects to make the revisions to the FSA Handbook 2-CP, including changes to the NCR process, by December 31, 2014.

OIG Position

We accept management decision.

Recommendation 5

Revise the reporting process to ensure that FSA is capturing useful information from NCRs so that FSA can identify potential systemic issues and develop appropriate corrective actions.

Agency Response

In its July 18, 2014, response FSA stated:

> FSA agrees with the recommendation. As noted in the responses for recommendations 3 and 4, beginning with the 2014 compliance year FSA will capture more useful information to identify potential systemic issues and develop appropriate corrective actions.

We followed up with FSA on July 23, 2014, to determine the expected completion date for the corrective action. FSA expects to capture the 2014 compliance year data by March 31, 2015.

OIG Position

We accept management decision.

Finding 3: Changes to County Operations Reviews Could Help FSA Improve Review Effectiveness

FSA intended that its County Operation Reviews (CORs) would be a strategic internal control mechanism that would improve county office administration of farm service programs. In April 2013, FSA acknowledged that the COR program was not operating effectively because there was a lack of uniformity in the scope of the reviews. This lack of uniformity does not allow for meaningful analysis of findings on a national scale. As a result, FSA issued its plan to change how it performs COR activities.[34] Our review confirmed this observation and found that FSA's COR procedures were not sufficiently detailed, performed in a uniform manner, adequately documented, or analyzed to report results of CORs on a nationwide basis. These problems occurred because, since 2006, FSA's ORAS allowed State executive directors flexibility in determining the scope of CORs performed in their States. Furthermore, since 2006, FSA's national office has not updated COR policies and procedures to reflect changes in FSA's programs. FSA's handbook did not provide sufficiently detailed review steps to ensure that review steps were adequately performed and documented.[35] We reviewed the latest two COR reviews and concluded that the review steps still needed to be more detailed to ensure that the steps were adequately performed. As a result, CORs were not sufficient to ensure that adequate internal controls were in place and to determine whether controls over county office program and administrative functions are appropriate, operating as intended, and effective.

FSA Handbook 1-COR states that *The Federal Managers' Financial Integrity Act of 1982* (FMFIA) requires performing detailed program and administrative reviews to ensure that adequate internal controls and reporting of material weaknesses and nonconformance are accomplished. The COR program is intended to meet the requirements of FMFIA for county office operations. Further, the handbook states that the purpose of the CORs is to:

- Improve county office administration of farm service programs by ensuring that operations comply with established policies and procedures.
- Ensure the effectiveness of internal controls over agency assets.
- Prevent and detect fraud, waste, and abuse.
- Measure farm programs' effectiveness.
- Implement improvement actions and followup systems to ensure that deficiencies are corrected.
- Determine whether controls over county office program and administrative functions are appropriate, operating as intended, and effective.

We found that FSA's policies and procedures for performing CORs were not sufficient to ensure that the reviews were uniform and consistent. For example, for some programs subject to

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[34] Under the April 2013 revisions to the COR program, FSA stated that it would have the ORAS staff direct two thirds of the county office reviewers' time, requiring county office reviewers to perform nationally directed CORs, including IPIA reviews, during that time. The remaining one third of the reviewers' time will be directed by the State. As of May 9, 2014, FSA had conducted and completed two nationally directed CORs. The nationally directed CORs included lists of verification items and reportable findings. The results of these first two nationally directed reviews were analyzed and summarized and reports were issued.

[35] FSA Handbook 1-COR, *County Operations Review Program*, Revision 3, Amendment 24, December 27, 2006, hereinafter referred to as the "COR Handbook."

review, FSA provided what it termed "verification items" that should be examined during a COR.[36] However, many of these verification items were vague in nature. For example, for the CRP, the verification items include, "appeals correctly handled," "applicant met eligibility requirements," and "cropping history eligibility requirements met." However, the verification items did not provide details, such as how to determine that appeals were handled correctly, what eligibility criteria are required to be tested, how they are to be tested, or how to determine whether cropping history eligibility requirements are met. The CRP handbook[37] establishes both producer eligibility requirements (which include eligible person provisions, ownership provisions, landlord/tenant provisions, AGI provisions, and Federal Crop Insurance requirements) and land eligibility requirements. However, the COR Handbook does not clarify which of these provisions must be verified or how these provisions are to be verified. For example, when determining ownership, should the COR rely on an assertion (documented in the file) that the producer owns the land or should the COR independently verify ownership of the land, by checking courthouse records? We noted that even under the revised COR process, the verification items continue to lack detailed review procedures. Without adequately detailed review procedures, the extent of the review may not be sufficiently in-depth to achieve the goals of the COR. Specifically, the review may not be sufficient to determine if noncompliance actually exists or the cause of the noncompliance. As a result, FSA cannot ensure that the CORs, as currently designed, are uniformly and consistently performed.

Additionally, we found that, for many programs, the COR Handbook did not include specific verification items for numerous programs and activities, such as AGI operations, the Livestock Indemnity Program, and Milk Income Loss Contracts. For these programs, the scope of the review was left entirely to the discretion of the State or county operations reviewers. Further, we found that some programs, such as Supplemental Revenue Assistance Payments, LFP, Emergency Assistance for Honey Bees and Farm-raised Fish, and Average Crop Revenue Election, were not included in the handbook.[38] Since the scope of these reviews was not defined by the handbook, they may have varied from State to State, making comparison of the results impossible. Thus, FSA could not use the results of these reviews to identify potential trends.[39]

FSA's ability to compare review results was further hindered by the lack of clearly documented review procedures.[40] For example, in one COR report, the reviewer explained that the county

[36] The Director of ORAS stated that FSA will continue to use verification items for the nationally directed CORs.

[37] Program requirements for CRP are found in FSA Handbook 2-CRP, *Agricultural Resource Conservation Program Handbook*, Revision 5, amendment 17, August 7, 2013.

[38] The Supplemental Revenue Assistance Payments and Average Crop Revenue Election programs were not extended by *The Agricultural Act of 2014* (Public Law 113-79, February 7, 2014).

[39] The Director of ORAS stated that FSA will continue to use verification items for the nationally directed CORs, but all verification items would be removed from the revised COR Handbook, thus leaving State-directed reviews entirely at the discretion of the State. The director also stated that the results of State-directed reviews would not be analyzed or summarized to identify trends.

[40] We had completed our field visits before FSA conducted its first nationally directed CORs; as such we were unable to assess how these reviews were documented. However, we noted that as of May 9, 2014, FSA had not issued any additional policies or procedures which would require more detailed documentation of work performed.

operations reviewer examined five LFP applications, and the items reviewed included FSA-925s,[41] county office committee minutes, CCC-926s,[42] AD-1026s,[43] FSA-770 LFPs,[44] power of attorneys, eligible producer and eligible livestock, owner statements, pasture land leases, and eligible cause of losses. However, the report did not state what was reviewed for each of these documents or what information, if any, was verified by the reviewer. As a result, we were unable to determine the purpose of the review and were unable to determine whether the conclusions reached by the reviewer were supported.

Similarly, another COR report stated that the reviewer looked at payment eligibility determinations. However, the COR report (and supporting documentation) did not indicate what steps the reviewer performed or how the reviewer determined that there were no findings. Because the reports did not clearly indicate what actions were performed during the review or identify specifically what steps were performed, we cannot determine whether the reviewer was validating that the determinations previously made were correct or whether the reviewer simply evaluated whether determinations were documented. As such, we could not compare the results reflected in the different reports, even when they are reviews of the same program.

OIG concluded that CORs are not achieving their intended purposes of preventing fraud, waste, and abuse, and ensuring controls over county office program and administrative functions are appropriate, operating as intended, and effective. To help ensure consistency and adequacy of the reviews, FSA needs to develop more specific, detailed review procedures for each program subject to COR to ensure that the same scope of work and methodology is being performed by each reviewer. Once FSA has done this, FSA should be able to summarize and review the results of CORs to identify trends or areas where improvement is needed.[45]

When we spoke to FSA officials about how CORs were being conducted, the Director of ORAS stated that verification items were general in nature to allow the county operations reviewers to use their own discretion as to how to accomplish the review. However, to ensure uniformity of review and comparability of review results, FSA will need to develop more specific review steps, identifying what is to be accomplished during the review and how it is to be done. FSA will also need to capture more detail in the COR reports to clearly document the purpose of the review, the actions completed during the review, and the outcome of those actions.

Additionally, FSA has lost many of its county operations reviewers, the staff who perform CORs, which leaves the agency fewer resources to perform the necessary reviews. In September 2010, FSA had 68 county operations reviewers. By April 2014, FSA's staffing had dropped to 46 county operations reviewers, a loss of over 32 percent of its reviewers. As we discuss in Finding 1, FSA needs to consider its staffing reductions to ensure that it is performing the most meaningful compliance activities, which may require further changes to the COR process.

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[41] Form FSA-925, *Livestock Forage Disaster Program Application*.
[42] Form CCC-926, *Average Adjusted Gross Income Statement*.
[43] Form AD-1026, *Highly Erodible Land Conservation and Wetland Conservation Certification*.
[44] Form FSA-770, *LFP Livestock Forage Disaster Program Checklist*.
[45] FSA has analyzed and summarized the results of its first two nationally directed CORs. However, FSA currently does not have a policy or procedure that requires it to do so.

Recommendation 6

Develop more specific, detailed county operations review procedures to ensure that reviews are adequately and consistently performed and documented.

Agency Response

In its July 18, 2014, response FSA stated:

> FSA maintains that newly implemented procedures for National office-directed reviews provide more specific procedures that will ensure reviews are adequately and consistently performed.
>
> National CORP Training is being provided to COR's August 26 and 27, 2014. This training will provide COR's with the basic review skill required to conduct and document reviews in uniform manner.

We plan to issue FSA handbook 1-COR, Revision 4 by September 30, 2014. The revised handbook will incorporate general guidance on CORP review policies and procedures.

OIG Position

We accept management decision

Recommendation 7

Analyze, summarize, and report COR results on a nationwide basis.

Agency Response

In its July 18, 2014, response FSA stated:

FSA has in the past and will continue in the future to analyze, summarize, and report CORP review results. In the future only the results of National office-directed reviews and IPIA reviews will be reported on a nationwide basis.

OIG Position

We are unable to accept management decision. Although FSA reports that it has in the past and will continue in the future to analyze, summarize, and report county operations review results, we noted that FSA previously stated that it was unable to perform meaningful analysis of the results of the county operations reviews on a nationwide scale. We also acknowledge that FSA did analyze, summarize, and report on its two most recently performed nationally directed county operations reviews. However, FSA lacks a current policy or procedure, which would ensure that these activities are routinely performed. To reach management decision, please provide references to which policies or procedures will be revised to incorporate FSA's intention to analyze, summarize, and report the results of county operations reviews on a nationwide basis.

In addition, please also provide the timeframes for including these requirements into applicable policies or procedures.

Finding 4: Changes to the Process for Monitoring Completion of Farm Loan Reviews Could Help FSA Better Oversee Compliance with Farm Loan Requirements

As part of its compliance activities for the FLP, FSA performs inspections of chattel security[46] and year-end analyses.[47] While FSA believes that these reviews are a relatively smaller portion of FSA's FLP compliance activities, which is comprised of activities including comprehensive FLPRA, the completion of these reviews is essential to the success and integrity of FSA's loan portfolio. For FY 2012, FSA had a direct loan portfolio totaling $8.3 billion, and nearly 47 percent of FSA's direct borrowers had loans secured by only chattel.[48] With such a large amount of loans at stake, the completion of these reviews is imperative to ensuring that FSA is aware of situations which, if uncorrected, could lead to loan defaults or loss of loan security. During our review of FSA's compliance activities, we found that FSA cannot ensure chattel reviews or year-end analyses are completed when required. The FSA national and State offices are unable to accurately monitor the completion of these reviews because the Direct Loan System[49] (DLS) used to track the reviews does not identify which loans required a review. The completion of required chattel reviews and year-end analyses helps FSA better manage its loan portfolio and helps ensure that loans are adequately secured.

According to OMB Circular A-123,[50] agencies are required to develop and monitor internal controls to ensure programs are in compliance with laws and regulations and are protected from waste, fraud, and mismanagement. Periodic reviews and reconciliations of data should be included as part of the regular assigned duties of personnel, and reliable and timely information should be communicated to relevant personnel at all levels within the agency. FSA Handbook 4-FLP requires that chattel security be inspected annually, except in cases where the authorized agency official has justified in the assessment or analysis that no undue risk exists. However, all chattel security will be inspected at least every 2 years.[51] Year-end analyses may be performed at FSA's discretion, except that they must be performed if the borrower has received any direct loan, loan collateral subordination, or primary loan servicing action within the last year; is financially distressed or delinquent; has a loan deferred; or is receiving a limited resource interest rate on any loan.[52]

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[46] The purpose of a chattel inspection is to confirm that the borrower retains possession of all of the property listed in the security instrument and that it is being properly maintained.
[47] The purpose of the year-end analysis is to identify and evaluate significant changes in the borrower's operations, compare actual performance to projections and calculate the variances, and analyze how performance can be improved.
[48] This includes the number of direct borrowers with loans secured only by (1) note or chattel, (2) machinery, (3) livestock, or (4) crops; but does not include loans secured by real estate, a combination of real estate and chattel, or bonds.
[49] The DLS is part of the FLP Information Delivery System. It is a single point of data-entry, web-based system. It performs actions required to make and service loans. We did not assess the internal controls of this computer-based application.
[50] OMB Circular A-123, *Management's Responsibility for Internal Controls*, December 21, 2004.
[51] FSA Handbook 4-FLP, *Regular Direct Loan Servicing*, Amendment 16, May 10, 2013.
[52] FSA Handbook 1-FLP, *General Program Administration*, Revision 1, Amendment 87, August 19, 2013.

A prior OIG audit report[53] found that FSA was not completing all of the required chattel reviews and year-end analyses. OIG recommended that FSA establish controls to ensure that FSA county officials perform required annual inspections. In its response, FSA stated that the ability to track and determine compliance with required annual inspections was made available to FSA in April 2010 as part of the DLS automated system. FSA stated that this system allows State executive directors and Farm Loan chiefs to determine compliance by county offices in their respective States.

Despite these changes made by FSA, we found that FSA is still unable to adequately track and ensure completion of required chattel reviews and year-end analyses. The national and State offices are not able to accurately track which required chattel reviews and year-end analyses are completed because DLS does not identify which loans require a review. While DLS is an automated system, it does not automatically identify or schedule all required reviews. The determination of whether a borrower requires a chattel review or year-end analysis is made at the county office. If county office staff determines that a review is needed, they manually schedule the review in DLS. If they determine that a review is not needed, they do not schedule a review in DLS and the reason the review is not performed is documented and maintained in the case file at the county office. However, since this information is not documented in DLS, the national and State offices are not able to determine which borrowers that do not have a review scheduled or completed in DLS actually require a review. For example, if a loan does not have a completed chattel review in DLS for the year, the national and State offices do not know whether the review was required and not completed or whether it was determined at the county office that the loan was low risk and a review was not required. Since FSA cannot identify all reviews that are required each year, they are unable to ensure that all required reviews are being completed.

FSA's ability to monitor completion of chattel reviews and year-end analyses is further complicated by its issuance of a temporary notice outlining recommended cost-saving measures.[54] Budget constraints have severely limited the number of reviews FSA is able to complete. As a result, FSA has been forced to issue guidance that sets priorities on which reviews should be completed. This notice recommends that States only review chattel security if the borrower received an annual operating loan, is 90 calendar days or more past due on loan payments, or requires additional FSA counseling. In addition, this notice also suggested completing the year-end analyses only on borrowers who have received an annual operating loan and are 90 calendar days or more past due. However, because DLS does not track which loans require a review, FSA cannot ensure that it is even meeting the reduced review suggestions outlined in this notice. If procedures and regulations are modified, as exemplified by this administrative notice, FSA still needs to know the extent to which it is completing the reviews required by regulation, as well as the ones required in the notice, so it can make supportable changes to the procedures, handbooks, and potentially the regulations.

Officials at FSA's national office stated that chattel reviews and year end analyses reflect only a small portion of its compliance strategy and their loan portfolio performance has been exceptional compared to commercial lending standards. In addition, they stated that because FSA resources are inadequate to complete all chattel reviews and year-end analyses, they issued the cost savings notice to give the counties discretion to determine, based on highest risk, those

[53] OIG Audit 03601-0018-Ch, *FSA Farm Loan Security*, August 2010.
[54] FSA Notice AO-1561, *Nonstatutory FSA Program Recommendations for Cost Savings*, February 4, 2013.

borrowers that needed chattel reviews and year end analyses. Additionally, an FSA official stated that if concerns arise regarding whether chattel reviews are being completed when required, the FLP staff could request a COR be performed to address the concern. We contend it is important that FSA be aware of which borrowers require review and which borrowers are actually reviewed, so it can determine compliance with FSA requirements. If FSA is unaware that chattel reviews on specific properties have not been scheduled when required and completed, FSA's ability to make a recovery may be jeopardized. Without proper oversight of chattel reviews and year-end analyses, FSA officials may not be aware of changes in borrower operations that could adversely impact FSA's loan portfolio and result in losses to the Government. As such, we believe FSA should identify all chattel reviews and year-end analyses that are required each year and ensure that they are completed or that there is sufficient justification for those that are not completed.

Recommendation 8

Develop a process that identifies in any given year all chattel reviews and year-end analyses that are required (according to criteria outlined in 1-FLP and 4-FLP) to be completed and all that are actually completed to ensure counties are complying with FSA requirements. If a review is determined to not be required, document in the tracking system why the review is not required. If a review is required, but not completed (including required reviews that are not completed due to a cost savings notice), document in the tracking system why the review was not completed, so that FSA can ensure that all loans are periodically reviewed or that the lack of review was justified.

Agency Response

In its July 18, 2014, response FSA stated:

> FSA will make no changes to DLS at this time (In the past several years, funds have been limited and are seldom even available for DLS.) and continue using existing system capabilities. FSA Handbook 1-FLP currently states that "The authorized agency official shall use knowledge, experience, and judgment to identify high-risk operations requiring such additional supervisory attention. Supervisory judgments must be objective and apply sound credit and financial management principles." FSA loan officers who are authorized to approve loans in excess of $1 million can and should be trusted to make the decision on which accounts need attention under the currently issued notice giving them the discretion based on budgetary constraints. Language can be added to handbooks to strengthen the requirements that loan officers review accounts and schedule all required reviews for the current year in the system. If required reviews cannot be completed, the system will be updated with comments as to why a review was not completed.

The Farm Loan Programs Risk Assessment data inputs will be reviewed to determine a more accurate way to measure if an office is completing all scheduled, required reviews and inspections.

OIG Position

We are unable to reach management decision. We agree with adding language to FSA handbooks to strengthen the requirements that loan officers review accounts, schedule all required reviews, and update the system with comments to explain why a review was not completed. Additionally, we agree that the Farm Loan Program Risk Assessment data inputs should be reviewed to determine a more accurate way to measure whether an office is completing all required reviews and inspections. To reach management decision, please provide references to which handbooks and data inputs will be revised to strengthen or add these requirements and timeframes for these updates.

Section 3: Improper Payments

Finding 5: Producer Eligibility Was Not Always Verified During Improper Payment Information Act Reviews

We found that FSA needs to improve its IPIA review process to ensure that producer eligibility is independently verified during the review process. The IPIA review procedures do not include specific requirements to verify producer eligibility or the eligibility determinations that were made by the county office committee or county executive director. This occurred because, according to an FSA official, detailed review steps are not necessary and the review is not designed to “second guess” determinations made by the county office committee or the county executive director, when reviewed by the county office committee. As a result, inappropriate or unsupported eligibility decisions may not be identified during the IPIA review, thereby allowing ineligible individuals to go undetected. Additionally, this would allow improper payments to go unreported.

The Improper Payments Information Act of 2002,[55] as amended, requires that an agency identify programs subject to improper payments, determine the rate of improper payments, and develop a plan to reduce improper payments.[56] 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.[57] Improper payments also include any payment that was made to an ineligible recipient. In addition, when an agency’s review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.

The Act anticipates that agencies will examine the risk of improper payments in all programs and activities they administer. In addition, all agencies shall institute a systematic method of reviewing all programs and identify programs susceptible to significant improper payments. This systematic method could be a quantitative evaluation based on a statistical sample or it could take into account risk factors likely to contribute to significant improper payments. Among other things, the risk factors should include the complexity of the program or activity reviewed, and whether payments or payment eligibility decisions are made outside of the agency, for example, by a State or local government, or a regional Federal office.

Program eligibility determinations are generally made at the county office, usually by the county office committee. County committee members are local farmers and ranchers, elected by their peers to help with the decisions necessary to administer the programs in their counties and apply their judgment and knowledge to make local decisions such as eligibility. The members are not FSA employees. Each program has its own set of eligibility requirements. The county office is responsible for documenting the determination in the producer’s files. However, we found that FSA did not ensure that producer eligibility is independently verified during the IPIA review

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[55] Public Law 107-330, *Improper Payments Information Act of 2002*, November 26, 2002.
[56] Public Law 111-204, *Improper Payments Elimination and Recovery Act of 2010*, July 22, 2010. This Act amended the *Improper Payments Information Act of 2002*.
[57] OMB Memorandum M-11-16, *Memorandum for the Heads of Executive Departments and Agencies*, April 14, 2011.

process. Although the IPIA questionnaire has a question about eligibility, we found that FSA does not always actually verify that the eligibility determination was correct and supported. For example, the CRP requires that the owner owned the land for 12 months before the close of general signup offers, owned land for 12 months before submitting the offer for continuous signup, acquired the land by will or succession as a result of death, or acquired the land under circumstances other than for placement in CRP. The CRP questionnaire asks whether the "producer meets the basic payment eligibility requirements,"[58] but does not provide any instruction as to how the reviewer should make this determination because the IPIA questionnaires lack specific procedures to ensure that information is being independently verified by the county operations reviewer.

Similarly, for the Direct and Countercyclical Payment /Average Crop Revenue Election programs, the IPIA questionnaire asks whether the producer meets basic eligibility requirements. However, there is no detailed guidance as to how the reviewer is to make this determination. Additionally, in talking with one reviewer, we asked how the reviewer determined if a producer met eligibility requirements. The reviewer stated that she would check the file to ensure that the county office committee's eligibility determination for that producer was documented and would rely on that determination. We further discussed this with the Director of ORAS, who stated that the reviews are not designed to "second guess" determinations made by the county office committee or county executive director, as long as the county executive director's determinations were reviewed by the county office committee. As such, there is no assurance that producer eligibility is being verified as part of the IPIA review.

In a recent audit report, GAO found that compliance (end-of-year) reviews conducted by FSA to determine if farming operation members meet the payment eligibility requirements, such as being actively engaged in farming, identified that producers are not always "actively engaged in farming" which is a key eligibility requirement for some programs.[59] To be considered "actively engaged in farming" all program participants must provide significant contributions to the farming operation. Contributions can consist of capital, land and/or equipment, as well as active personal labor and/or active personal management. In addition, the management contribution must be critical to the profitability of the farming operation and the contributions must be at risk.[60] During the reviews, FSA officials noted that the requirements for what constitutes a management contribution are subjective and making such a determination is complex and subject to interpretation.

Although FSA does not verify eligibility as part of the IPIA review, during the end-of-year review process, FSA determined that 2.1 percent (11 of 534) of the participants claiming active personal management were found not to have met the requirements for providing active personal management. Similarly, 10.8 percent (14 of 130) of participants reviewed that claimed both active personal management and personal labor contributions were found not to have met the

[58] FSA Handbook 2-CRP, *Agricultural Resource Conservation Program*, Revision 5, Amendment 17, August 7, 2013.

[59] GAO Audit, GAO-13-781, *Farm Programs: Changes Are Needed to Eligibility Requirements for Being Actively Involved in Farming*, September 2013.

[60] FSA Handbook 4-PL, *Payment Eligibility, Payment Limitation, and Average Adjusted Gross Income*, Amendment 20, August 29, 2013, and FSA Fact Sheet, *Actively Engaged in Farming and Payment Limits*, January 2013.

requirements.[61] This demonstrates that failure to meet producer eligibility requirements, such as actively engaged in farming, may result in improper payments. Therefore, it is important that FSA independently verify producer eligibility, including eligibility determinations made by the county office committee or county executive director, as part of its IPIA testing. By incorporating specific steps to verify producer eligibility, similar to the end-of-year review process, into the IPIA review process, FSA could potentially identify more improper payments.

The Director of ORAS stated that FSA does verify all eligibility determinations, other than those requiring county office committee judgments, based on the documentation required to be on file. The Director further stated that he believed that more detailed review steps were not needed because the county office reviewers have the program knowledge as to what constitutes eligibility. However, we believe specific, detailed procedures for assessing eligibility are needed to ensure that eligibility is independently verified during the IPIA review.

Recommendation 9

Include specific steps in its IPIA review process to ensure that producer eligibility, including eligibility determinations made by the county office committee or county executive director, is independently verified during the IPIA review process.

Agency Response

In its July 18, 2014, response FSA stated:

> When conducting IPIA reviews, COR's verify whether all required documentation is on file and completed with sufficient information to support payment eligibility and the payment amount. If COR's find cases where the documentation does not support the determination made, they are required to be report the issue. FSA's long standing policy has been that COR's are not to question a determination made by a County Committee (consisting of three to five producer elected members) which is based upon the committee member's knowledge of local farming practices and/or a specific producer's farming operation. FSA maintains that these kind of subjective determinations are not within the scope of a COR's review. However, this policy is not applicable to non-COC determinations or determinations of a non-subjective nature.

FSA maintains the current IPIA review process has the adequate level of specific steps to ensure that producer eligibility is independently verified. FSA also recognizes that not all COR's may have been properly trained in the basic requirements of how eligibility determinations are to be verified and additional training and guidance may be needed.

OIG Position

We accept management decision.

[61] FSA's end-of-year reviews are conducted on a judgmental selection of producers. As such, the results of the end-of-year reviews cannot be projected to all producers.

Scope and Methodology

We conducted our fieldwork to determine if FSA's compliance activities were adequate to achieve effective and efficient operations, ensure compliance with laws and regulations, and ensure government resources are used to achieve intended program results. We evaluated the impacts of staff and budget cuts, and the agency's restructuring on its compliance activities. We reviewed the farm programs and FLPs under FSA; however, commodities were excluded from our review because they are low risk.[62] The audit covered FYs 2010 to 2013. To accomplish our audit objectives, we performed fieldwork at the FSA national office in Washington, D.C., and at four judgmentally selected FSA State offices. To select the judgmental sample, we ranked the State offices based equally on FY 2012 expenditures, percentage of FSA offices closed between FY 2009 and 2013, and percentage of incomplete AGI reviews for FYs 2009 and 2010. In addition, we took into account recommendations from FSA staff. Based on these criteria, we selected and performed our fieldwork at the FSA State offices in Athens, Georgia; Nashville, Tennessee; and College Station, Texas. We also selected and performed fieldwork at the FSA State office in Raleigh, North Carolina (which came in seventh in our rankings), due to its close proximity.

During our fieldwork, we reviewed FSA compliance activities, including the NCR, COR, RMA Spot Checks (performed by FSA), FSA spot checks (performed by the Natural Resources Conservation Service), FLP reviews (including FLPRA, credit quality reviews, year-end analysis, chattel reviews, and graduation reviews), IPIA reviews, AGI reviews, and end of year reviews. We performed our audit work from January 2013 through March 2014.

To accomplish our objectives we:

- Reviewed applicable laws, regulations, policies, procedures, FSA directives, handbooks, and other published guidance to gain sufficient knowledge to complete the audit.
- Evaluated FSA’s organizational structure for compliance.
- Evaluated FSA’s compliance strategy.
- Interviewed FSA officials to gain an understanding of the roles and responsibilities for compliance.
- Examined prior audits of FSA’s compliance structure and strategy and followed up on significant findings that affect our audit objectives.
- Determined what reviews FSA performs to ensure compliance with program regulations and policies.
- Evaluated FSA’s compliance reviews and activities to determine if they are effective and adequate at ensuring compliance with laws and regulations.
- Identified and assessed the impact of reduced staffing on compliance activities.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions

[62] There has been little forfeiture of commodities into the CCC inventory for approximately 3 to 4 years. Additionally, warehouse stored commodities are generally regulated by cooperatives that must meet USDA requirements and perform spot checks and eligibility verifications. FSA monitors the work of the cooperatives.

based on our audit objectives. We believe that the evidence we obtained provides reasonable basis for our findings based on our audit objectives.

We did not assess the data systems used by FSA as part of its compliance activities to determine the overall reliability of these systems.

Abbreviations

AGI ....Adjusted Gross Income
CCC..Commodity Credit Corporation
COR ....County Operation Review
CRP..Conservation Reserve Program
DLS..Direct Loan System
FLP...Farm Loan Program
FLPRA ....Farm Loan Program Risk Assessment
FMFIA ....Federal Managers Financial Integrity Act
FSA ....Farm Service Agency
FY ....Fiscal Year
GAO.......................................Government Accountability Office
IRS ....Internal Revenue Service
IPIA..Improper Payment Information Act
LFP...Livestock Forage Program
NASS ....National Agricultural Statistics Service
NCR ....National Compliance Review
OIG ....Office of Inspector General
OMB ....Office of Management and Budget
ORAS.....................................Operations Review and Analysis Staff
USDA....................................Department of Agriculture

Exhibit A: Six Desirable Strategy Characteristic[63]

Characteristics	Description	Benefit
Purpose, scope, and methodology	Addresses why the strategy was produced, the scope of its coverage, and the process by which it was developed.	A complete description of the purpose, scope, and methodology in a strategy could make the document more useful to the entities it is intended to guide, as well as to oversight organizations, such as Congress.
Problem definition and risk assessment	Addresses the particular problems and threats the strategy is directed towards.	Use of common definitions promotes more effective intergovernmental operations and more accurate monitoring of expenditures, thereby eliminating problematic concerns. Comprehensive assessments of vulnerabilities, including risk assessments, can help identify key factors external to an organization that can significantly affect that organization's attainment of its goals and objectives and can help identify risk potential if such problem areas are not effectively addressed.
Goals, subordinate objectives, activities, and performance measures	Addresses what the strategy is trying to achieve, steps to achieve those results, as well as the priorities, milestones, and performance measures to gauge results.	Better identification of priorities, milestones, and performance measures can aid implementing entities in achieving results in specific time frames—and could enable more effective oversight and accountability.
Resources, investments, and risk management	Addresses what the strategy will cost, the sources and types of resources and investments needed, and where resources and investments should be targeted based on balancing risk reductions with costs.	Guidance on resource, investment, and risk management could help implementing entities allocate resources and investments according to priorities and constraints, track costs and performance, and shift such investments and resources as appropriate. Such guidance could also assist organizations in developing more effective programs to stimulate desired investments, enhance preparedness, and leverage finite resources.
Organizational roles, responsibilities, and coordination	Addresses who will be implementing the strategy, what their roles will be compared to others, and mechanisms for them to coordinate their efforts.	Inclusion of this characteristic in a strategy could be useful to organizations and other stakeholders in fostering coordination and clarifying specific roles, particularly where there is overlap, and thus enhancing both implementation and accountability
Integration and implementation	Addresses how a strategy relates to other strategies' goals, objectives, and activities (horizontal integration), and to subordinate levels of government and their plans to implement the strategy (vertical integration).	Information on this characteristic in a strategy could build on the aforementioned organizational roles and responsibilities— and thus further clarify the relationships between various implementing entities, both vertically and horizontally. This, in turn, could foster effective implementation and accountability.

The above chart lists the six desirable characteristics of a strategy and provides a description of these characteristics and the benefits provided by these characteristics.

[63] GAO Testimony GAO-12-276T, "National Capital Region: 2010 Strategic Plan is Generally Consistent with Characteristics of Effective Strategies," December 7, 2011.

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 20250-0540

Date: July 18, 2014

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

FROM: Philip Sharp, Director
Operations Review and Analysis Staff

SUBJECT: Response to Official Draft Report, Farm Service Agency Compliance Activities, Audit 03601-0001-22

The Farm Service Agency (FSA) acknowledges that over the last 2 to 3 years, compliance efforts have not been a top priority for the agency given the budget situation that caused decreased staffing and administrative support resources. FSA has focused resources on mission critical program delivery efforts. FSA has continued to accomplish Improper Payment Information Act of 2002 (IPIA) reviews, County Operations Review Program (CORP) reviews, Adjusted Gross Income (AGI) compliance efforts, National Compliance Reviews (NCR), chattel checks, end-of-year reviews, and other internal controls functions. In all of these important internal control functions, FSA continues to make process improvements such as the re-structuring of the CORP and the improvements in both our AGI compliance efforts and identification of deceased producers. FSA has not experienced any material increase in error rates or cases of non-compliance. In fact most improper payment rates have decreased in recent years and losses on direct and guaranteed loans are at an all-time low. FSA understands the report identified areas where the agency did not complete all parts of every process and there may be some overlap; however the impact to program operations appears to be insignificant.

The following is FSA's response to the subject report's findings and recommendations:

Finding 1: An Overall Integrated Compliance Strategy Could Help FSA Better Use Its Limited Resources

FSA Response:

FSA agrees that an overarching integrated compliance strategy should be adopted. However, the design and detail of the strategy should be appropriate for the risk. Significant amounts of time and money can be spent designing and implementing an integrated strategy as described in the OIG report. Given the limited resources possessed by FSA we must assess all of our risk factors and allocate our limited resources to the highest risk areas. After assessing the key factors designed to measure compliance at FSA such as improper payment rates and default and loss rates for loans, we have concluded compliance, while important, is not a high risk for the agency at this time and therefore does not warrant the deployment of the necessary resources to design and implement a system as robust as suggested by the subject report. All relevant performance factors at FSA indicate, the programs are performing well with little comparative risk in relation to other more pressing needs.

Recommendation 1:

Develop and implement an integrated compliance strategy to ensure that FSA's compliance activities are efficient and effective in reducing the potential for fraud, waste, and abuse.

Recommendation 2:

Ensure that each of FSA's compliance activities has a clearly defined goal that contributes to FSA's overall compliance strategy and that each activity is effectively designed to achieve that purpose.

FSA Response:

While FSA maintains the agency's current compliance activities are adequately defined in a manner that reflects the mission and goals of the agency, FSA management agrees it does not currently assess and monitor all compliance activities at the agency level.

FSA proposes to create a subgroup to FSA's Executive Leadership Council (ELC) that will meet semi-annually to evaluate FSA compliance activities to ensure such activities are accomplishing the agency's overall mission. The subgroup will represent all FSA program areas and members will be appointed by applicable ELC members. The evaluation will include, but not limited to, the of review risk assessments done by program managers, input from State Executive Directors on issues being faced in the field, Office of Inspector General audit and investigation reports, U.S. Government Accountability Office reports, and various internal compliance reports. The subgroup will report to ELC any deficiencies identified in the compliance activities and make recommendations to correct any weaknesses found and what potential risks may need additional compliance scrutiny. The ELC will be ultimately responsible for providing applicable program managers the guidance and direction for implementing FSAs' compliance activities.

Finding 2: Changes to NCRs are Needed to Help Address Systemic Problems

Recommendation 3:

Revise the NCR process to ensure that it focuses on producer compliance and identifies the cause of errors or noncompliance.

FSA Response:

FSA agrees with the recommendation. FSA will revise the NCR process for the 2014 compliance year to focus on producer compliance and capture additional information to aid in identifying the causes of errors or noncompliance.

Recommendation 4:

Ensure county offices are completing and accurately documenting all NCR results.

FSA Response:

FSA agrees with the recommendation. For the 2014 compliance year FSA handbook 2-CP will be revised to require, in coordination with the Deputy Administrator for Field Operations, State offices ensure NCR reviews are completed by established deadlines. In addition, the NCR reporting process will be modified to identify those cases where a selected producer is not farming or participating in a program during the year under review.

Recommendation 5:

Revise the reporting process to ensure that FSA is capturing useful information from NCRs so that FSA can identify potential systemic issues and develop appropriate corrective actions.

FSA Response:

FSA agrees with the recommendation. As noted in the responses for recommendations 3 and 4, beginning with the 2014 compliance year FSA will capture more useful information to identify potential systemic issues and develop appropriate corrective actions.

Finding 3: Changes to County Operations Reviews Could Help FSA Improve Review Effectiveness

FSA Response:

As noted in the report, FSA had already recognized the need to improve the CORP due to the lack of uniformity in reports. Beginning in Fiscal Year 2013, FSA implemented National Office-directed reviews where the scope of review is defined in a manner that will provide reasonable assurance that the reviews are conducted and documented in a uniform manner, allowing for an analysis and summarization of review results on a nationwide basis.

OIG stated they reviewed the results of FSA's first two National Office-directed reviews and concluded that the review steps still needed to be more detailed to ensure that the steps were adequately performed. The auditors did not provide any insight on why they came to that conclusion; however, FSA respectfully disagrees with that conclusion. FSA believes the instruction and guidance provided to the County Operations Reviewers (COR's) was adequate to perform these reviews in a manner which accomplished the goals of the reviews. FSA is confident that the reviews were conducted uniformly and the results are accurate reflection of the operation targeted.

CORP reviews are management reviews and as such are not conducted in accordance with general auditing standards. The individual review reports are internal to the Agency and not normally available to the public. CORP reviews are conducted by COR's who are employees of FSA who have extensive FSA county office experience and are knowledgeable in the programs administered by FSA.

FSA agrees that a COR needs to clearly understand the scope of the review, but FSA does not see the need to have a detailed scope be repeated in every report issued. For National Office-directed reviews the scope is defined in the applicable FSA directive that announces the review. Along with the scope, the goals of the review will be addressed. Also included in the specific directive are verifications items, defined as thought provoking statements or questions. In addition to the verification items, a list of possible reportable findings are provided to the COR's that further defines the scope. Combined with all this information and the basic review skills COR are trained in, FSA maintains there is no need for a "detailed" step by step procedure on how a specific review needs to be conducted, provided COR's are adequately trained in basic review skills.

The subject report indicates that verifications items FSA used in the past are vague in nature. FSA acknowledges the FSA Handbook 1-COR, Revision 3 has not been updated since 2006 and that many of the verification items are outdated; however, FSA disagrees that verification items were vague in nature. Verification items are designed to be thought provoking statements or questions and the intended to be used by COR's who are familiar with FSA program or operations. Verification items have been written in the same manner since 1987 when CORP was first implemented and no previous OIG report that accessed CORP took exception to this methodology. Verification items will not be included in the FSA Handbook 1-COR, Revision 4. Verification will now be included only in specific directives issued defining the scope of each future National Office-directed review.

Recommendation 6:

Develop more specific, detailed county operations review procedures to ensure that reviews are adequately and consistently performed and documented.

FSA Response:

FSA maintains that newly implemented procedures for National Office-directed reviews provide more specific procedures that will ensure reviews are adequately and consistently performed.

National CORP Training is being provided to COR's August 26 and 27, 2014. This training will provide COR's with the basic review skill required to conduct and document reviews in uniform manner.

We plan to issue FSA handbook 1-COR, Revision 4 by September 30, 2014. The revised handbook will incorporate general guidance on CORP review policies and procedures.

<u>Recommendation 7:</u>

Analyze, summarize, and report County Operation results on a nationwide basis.

FSA Response:

FSA has in the past and will continue in the future to analyze, summarize, and report CORP review results. In the future only the results of National Office-directed reviews and IPIA reviews will be reported on a nationwide basis.

<u>Finding 4:</u> Changes to the Process for Monitoring Completion of Farm Loan Reviews Could Help FSA Better Oversee Compliance with Farm Loan Requirements

FSA Response:

While FSA agrees that not all Farm Loan reviews are being completed, FSA disagrees with OIG that the inability to do so is in any way essential to the success and integrity of the loan portfolio as the report suggests. Losses on direct loans are at an all-time low of 1.6% for direct loans and 0.3% for guaranteed loans. Most if not all direct loans are secured at a level significantly greater than the outstanding balance leaving little chance of losses occurring and certainly not warranting the expense of revising the IT systems to accommodate the proposed recommendations contained in this report.

<u>Recommendation 8:</u>

Develop a process that identifies in any given year all chattel reviews and year-end analyses that are required (according to criteria outlined in 1-FLP and 4-FLP) to be completed and all that are actually completed to ensure counties are complying with FSA requirements. If a review is determined to not be required, document in the tracking system why the review is not required. If a review is required, but not completed (including required reviews that are not completed due to a cost savings notice), document in the tracking system why the review was not completed, so that FSA can ensure that all loans are periodically reviewed or that the lack of review was justified.

FSA Response:

FSA will make no changes to Direct Loan System (DLS) at this time (In the past several years, funds have been limited and are seldom even available for DLS.) and continue using existing system capabilities. FSA Handbook 1-FLP currently states that "The authorized agency official shall use knowledge, experience, and judgment to identify high-risk operations requiring such additional supervisory attention. Supervisory judgments must be objective and apply sound credit and financial management principles." FSA loan officers who are authorized to approve loans in excess of $1 million can and should be trusted to make the decision on which accounts need attention under the currently issued notice giving them the discretion based on budgetary constraints. Language can be added to handbooks to strengthen the requirements that loan officers review accounts and schedule all required reviews for the current year in the system. If required reviews cannot be completed, the system will be updated with comments as to why a review was not completed.

The Farm Loan Programs Risk Assessment data inputs will be reviewed to determine a more accurate way to measure if an office is completing all scheduled, required reviews and inspections.

<u>Finding 5:</u> Producer Eligibility Was Not Always Verified During Improper payment Information Act Reviews.

FSA Response:

FSA disagrees that producer eligibility is not being verified during IPIA reviews. FSA maintains that the instructions and guidance provided to the COR's conducting the review is sufficient to ensure producer eligibility is being independently verified. The methodology used to conduct IPIA reviews has not changed since we first began conducting IPIA reviews in 2006. This process was audited by OIG in 2007 (OIG Audit Report 03601-0016-CH) and at that time OIG concluded that the process used by FSA was sufficient and would result in reliable estimates of improper payments.

When conducting IPIA reviews, COR's verify whether all required documentation is on file and completed with sufficient information to support payment eligibility and the payment amount. If COR's find cases where the documentation does not support the determination made, they are required to be report the issue. FSA's long standing policy has been that COR's are not to question a determination made by a County Committee (consisting of three to five producer elected members) which is based upon the committee member's knowledge of local farming practices and/or a specific producer's farming operation. FSA maintains that these kind of subjective determinations are not within the scope of a COR's review. However, this policy is not applicable to non-COC determinations or determinations of a non-subjective nature.

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FSA maintains IPIA review questionnaires are written with enough specificity for the COR to understand how they are to verify eligibility. COR's are experienced FSA employees with extensive knowledge of FSA programs and operations and knows how to verify eligibility, be it producer, land, crop, etc. They are trained in the CORP review process and do not need be provided "detailed" step by step procedures for assessing eligibility. Program requirements are already defined in applicable directives and what kind of documentation that is needed to support eligibility and these procedures do not need to be repeated.

End-of-year reviews referenced in the report are conducted to determine that farming operations were carried out as represented when initial determinations were made. These reviews are conducted by a team of FSA employees and in most cases take a considerable amount of time to complete. These reviews require producers to provide additional documentation that was not required to make the initial eligibility determination. These reviews are producer compliance reviews and are not conducive to the IPIA review process.

The suggestion that FSA could incorporate specific steps to verify producer eligibility into the IPIA review process reflects a misunderstanding of the end-of-year process.

Recommendation 9:

Include specific steps in its Improper Payment Information Act (IPIA) review process to ensure that producer eligibility, including eligibility determinations made by the county office committee or county executive director, is independently verified during the IPIA review.

FSA Response:

FSA maintains the current IPIA review process has the adequate level of specific steps to ensure that producer eligibility is independently verified. FSA also recognizes that not all COR's may have been properly trained in the basic requirements of how eligibility determinations are to be verified and additional training and guidance may be needed.

National CORP Training is being provided to COR's August 26 and 27, 2014. This training will include what is expected of COR's when verifying eligibility determinations.

We plan to issue FSA handbook 1-COR, Revision 4 by September 30, 2014. The revised handbook will incorporate general guidance on how eligibility determinations are to be reviewed.

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

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