United States Department of Agriculture

OFFICE OF INSPECTOR GENERAL

Farm Service Agency Livestock Forage Program

03702-0001-32

December 2014

Farm Service Agency
Livestock Forage Program

Audit Report 03702-0001-32

What Were OIG's Objectives

Our objective was to determine if FSA's procedures for LFP resulted in producers meeting eligibility requirements and complying with program requirements. We also determined if the agency was accurately calculating payments.

What OIG Reviewed

OIG reviewed 120 producers in Texas and Oklahoma who received a total of about $5.7 million in LFP payments in program years 2010 and 2011. We also reviewed FSA's implementation of the program.

What OIG Recommends

OIG recommended that FSA take steps to correct the improper payments we identified, improve the guidance it provides States for administering LFP, and improve its overall controls for the program.

OIG Reviewed FSA's Livestock Forage Program

What OIG Found

The Farm Service Agency's (FSA) Livestock Forage Program (LFP) provides compensation to ranchers who have suffered grazing losses for livestock due to drought or fire. The Office of Inspector General (OIG) initiated this review to determine if FSA's procedures resulted in eligible producers receiving correct payments in compliance with the program's requirements. Based on our review, we found a number of problems. FSA county office staff made administrative errors in the processing of information associated with LFP applications for 78 payments, which resulted in improper payments of $373,135, or 7 percent of the total payments reviewed. One producer was paid $67,838 for ineligible livestock. We also questioned the monthly feed costs FSA was using to calculate these payments.

We also found issues with FSA's controls for ensuring the integrity of its review process:

- County Committees need clear guidance on how to determine the eligibility of leased land.
- Oklahoma and Texas State offices provided different guidance concerning how to administer LFP to producers whose covered livestock grazed in multiple counties.
- District Director reviews are intended to identify and resolve weaknesses in the program, but they do not review producer eligibility or payment accuracy, which limits the reviews' effectiveness.

FSA agreed with our findings and we accepted management decision on 7 of the 10 recommendations.

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

DATE: December 10, 2014

AUDIT NUMBER: 03702-0001-32

TO: Val Dolcini
Administrator
Farm Service Agency

ATTN: Philip Sharp
Director
Operations Review and Analysis Staff

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Farm Service Agency Livestock Forage Program

This report presents the results of the subject audit. Your written response to the official draft report, dated November 18, 2014, is included in its entirety at the end of this report. Your responses and the Office of Inspector General's (OIG) position are incorporated into the relevant sections of the report. Based on your written responses, we are accepting your management decision for Recommendations 1, 5, 6, 7, 8, 9, and 10. We are unable to accept management decision on Recommendations 2, 3, and 4. The documentation or action needed to reach management decision for these recommendations is described under the relevant OIG positions.

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 needs to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publically available information and will be posted in its entirety to our website (http://www.usda.gov/oig) in the near future.

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Background & Objectives

Background

The Farm Service Agency's (FSA) mission includes equitably serving all farmers, ranchers, and agricultural partners through the delivery of effective, efficient agricultural programs for all Americans. The Food, Conservation, and Energy Act of 2008 (Public Law 110-246) amended the Trade Act of 1974 to create an Agricultural Disaster Relief Trust Fund and a supplemental disaster assistance program. The Agricultural Disaster Relief Trust Fund provided funding for five new disaster assistance programs including the Livestock Forage Program (LFP).

LFP provides compensation to eligible livestock producers who have suffered grazing losses for covered livestock on land that is native or improved pastureland with permanent vegetative cover or is planted specifically for grazing. The grazing losses must be due to a qualifying drought condition during the normal grazing period for the county. LFP also provides compensation to eligible livestock producers who have suffered grazing losses on rangeland managed by a Federal agency if the eligible livestock producer is prohibited by the Federal agency from grazing the normal permitted livestock on the managed rangeland due to a qualifying fire.

An eligible livestock producer owns or leases grazing land or pastureland that is physically located in a county that is rated D2, D3, or D4 by the U.S. Drought Monitor.[1] The categories of drought and the respective payments are as follows:

- If the drought is rated D2 (severe drought)-intensity in any area of the county for at least 8 consecutive weeks during the normal grazing period, then producers are eligible to receive assistance in an amount equal to one monthly payment.
- If the drought is rated D3 (extreme drought)-intensity in any area of the county at any time during the normal grazing period, then producers are eligible to receive assistance in an amount equal to two monthly payments.
- If the drought is rated D3 (extreme drought)-intensity in any area of the county for at least 4 weeks during the normal grazing period or is rated D4 (exceptional drought)-intensity at any time during the normal grazing period, then producers are eligible to receive assistance in an amount equal to three monthly payments.

Eligible covered livestock includes cattle (including dairy cattle), buffalo, beefalo, alpacas, deer, elk, emu, equine, goats, llamas, poultry, reindeer, sheep, or swine that would have been grazing the eligible grazing land or pasture land:

- During the normal grazing period for the specific type of grazing land or pastureland for the county.

[1] The U.S. Drought Monitor is a system for classifying drought severity according to a range of D0 (abnormally dry) to D4 (exceptional drought). It is a collaborative effort between Federal and academic partners, produced on a weekly basis, to synthesize multiple indices, outlooks, and drought impacts on a map and in narrative form.

- When the Federal agency excluded the livestock producer from grazing the normally permitted livestock on the managed rangeland due to fire.

The monthly payment rate will be equal to 60 percent of the lesser of the monthly feed cost for all covered livestock owned or leased by the eligible livestock producer, or the normal carrying capacity of the eligible grazing land of the eligible livestock producer. The monthly feed cost for covered livestock is based, in part, on the number of pounds of corn equivalent per head, as established by FSA, determined necessary to provide the energy requirements for the specific type of livestock for 30 days.

Carrying capacity for each specific type of pasture is determined and approved by the State committee and the County Committee (COC). If an eligible livestock producer sold or otherwise disposed of covered livestock due to a qualifying drought in one or both of the 2 production years immediately preceding the current production year, the payment rate is 80 percent of the monthly payment rate. Total LFP payments to an eligible livestock producer in a calendar year for grazing losses will not exceed three monthly payments for the same livestock.

Producers are not eligible to participate in LFP if they have not met FSA's Risk Management Purchase Requirement (RMPR). RMPR requires producers who do not meet the requirements of a socially disadvantaged, limited resource, or beginning farmer or rancher to obtain a policy or plan of insurance for the grazed forage crop under the Federal Crop Insurance Act or file the required paperwork and pay the administrative fee by the applicable State application closing date for the Noninsured Crop Disaster Assistance Program (NAP). Producers are only required to obtain a policy or plan of insurance (such as Risk Management Agency's Pasture, Rangeland, and Forage (PRF) Rainfall Index and Vegetation Index insurance policies) or have NAP coverage on the grazing land or pastureland acres for which benefits are being requested under LFP.

In order to apply for LFP benefits, producers who suffered eligible grazing losses because of a qualifying drought or fire must submit a completed FSA-925, Livestock Forage Disaster Program Application, and supporting documentation to their administrative county office. FSA requires producers to provide a report of acreage for grazing land where losses have occurred; evidence that grazing land is owned or leased; evidence of meeting the RMPR or an approved waiver; Form CCC-931, Average Adjusted Gross Income (AGI) Certification and Consent to Disclosure of Tax Information, to determine compliance with AGI provisions; a copy of the contract grower's contract; and a farm operating plan, if applicable. These documents, as well as FSA-925, have to be submitted to FSA no later than 30 days after the end of the calendar year in which the grazing loss occurred in order to be approved to participate in LFP.

Producers are not eligible for LFP payments for 2009 and subsequent years if they are a person or legal entity with an average AGI that exceeds $500,000 in nonfarm income and $750,000 in farm income, with a separate limit of $1 million in nonfarm income for conservation program eligibility. Direct attribution provisions also apply to LFP for 2009 and subsequent years. Under direct attribution, any payment to a legal entity will also be considered for payment limitation purposes to be a payment to persons or legal entities with an interest in the legal entity or in a sub-entity. No person or legal entity, excluding a joint venture or general partnership, may receive directly or indirectly, more than $100,000 total in payments under the combined LFP; Emergency Assistance for Livestock, Honey Bees, and Farm Raised Fish Program; Livestock Indemnity Program; and Supplemental Revenue Assistance Payments Program.

The Risk Management Agency's PRF insurance program provides Rainfall Index and Vegetation Index policies to farmers to mitigate the production risk for crops intended for grazing and/or harvested for hay. Drought risk for grazing livestock may be partially mitigated with PRF. The PRF's insurable value for grazing acreage is considerably lower than the value for acreage harvested for hay and, therefore, the insurance premiums are also lower. Because LFP also provides compensation to producers for grazing losses due to drought, there appears to be overlap between FSA's disaster assistance program and RMA's PRF insurance program. However, key differences do exist between the programs, such as the mechanisms that trigger compensation to producers, as well as the fact that irrigated land is eligible for compensation through PRF insurance. PRF compensation is triggered when the rainfall index or vegetation index (whichever policy is selected), precipitation or "vegetation greenness," value falls below its long-term historical norm. When the precipitation or "vegetation greenness" value falls below an elected coverage level selected by the producer, the level of protection provided through the purchase of PRF insurance is determined by the county-base value for his or her intended use (haying or grazing) multiplied by the coverage level (between 70 percent and 90 percent) and the productivity factor (between 60 percent and 150 percent) selected by the producer by the established sales closing date. For LFP, compensation is triggered if non–irrigated land intended for grazing is located in a county rated by the U.S. Drought Monitor. While there may be a situation where all requirements are met to allow a producer to receive both LFP and PRF payments, OIG did not determine in this audit if the payments received would cause the producer to be overcompensated.

The American Taxpayer Relief Act of 2012 extended LFP for fiscal years 2012 and 2013, but did not provide additional mandatory funding for these programs; rather, the authorizations of $400 million each fiscal year were made but were not appropriated.

The Agricultural Act of 2014 (2014 Farm Bill) made LFP a permanent disaster program funded by the Commodity Credit Corporation. It retroactively provided unlimited funding for fiscal year 2012 and each succeeding fiscal year for forage losses due to drought or fire. The 2014 Farm Bill increased the payment amount an eligible producer may receive based on the length and intensity of the qualifying drought to up to five monthly payments. The 2014 Farm Bill specified that a person or legal entity is ineligible for payments if the person's or legal entity's average AGI for the applicable benefit year is in excess of $900,000. This single AGI limit replaces the multiple limits for farm and nonfarm income, and the separate limit for conservation programs. The 2014 Farm Bill increased the total amount of payments that a person or legal entity can receive, directly or indirectly, in any crop year to a maximum of $125,000 for the combined LFP; Livestock Indemnity Program; and Emergency Assistance for Livestock, Honey Bees, and Farm Raised Fish Program. Further, the 2014 Farm Bill removed the RMPR for all disaster programs.

Recent OIG Audit

OIG recently completed an audit of FSA's compliance activities.[2] In this audit, OIG determined that FSA has faced a significant reduction in its salaries and expense budget from $1.57 billion in fiscal year 2010 to approximately $1.4 billion in fiscal year 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 as the National Compliance Reviews, Improper Payment Information Act reviews, County Operations Reviews, Farm Loan Program Risk Assessments, Adjusted Gross Income compliance reviews, and end-of-year reviews. However, OIG concluded that 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.

Objectives

Our overall objective was to determine whether existing procedures and practices were appropriate to ensure that LFP objectives were achieved. Specifically, we assessed and tested whether producers met eligibility requirements, producers complied with program requirements, payments were accurately computed and properly paid, and compliance operations were effective.

[2] OIG Audit Report 03601-0001-22, *FSA Compliance Activities*, dated July 2014.

Section 1: FSA Needs to Strengthen LFP

Finding 1: FSA Needs to Improve How It Processes LFP Applications

Of the 155 LFP payments OIG reviewed in Texas and Oklahoma, the county office staff made administrative errors[3] in the processing of information associated with 78 applications, including errors when calculating the forage eligible for LFP. FSA county officials have to manually determine the amount of acres eligible for LFP and enter this information in the automated LFP application. As a result, FSA made improper payments of $373,135, or 7 percent of the total payments reviewed.[4]

FSA provides compensation to eligible livestock producers who suffer grazing losses due to drought or fire. To be eligible for compensation for drought, producers must have suffered losses because of a qualifying drought on non-irrigated pastureland that is native or improved. For fire, LFP provides compensation to eligible livestock producers who have suffered grazing losses on Federal rangeland if a fire prevents grazing. FSA instructs county office personnel to enter forage information, such as the number of acres and carrying capacity associated with the pasture, on the LFP application. This information is then used to calculate the producer's payment. Pasture is deemed eligible if the land is leased for cash, privately owned, or the producer otherwise has a material stake in the land. Livestock producers are responsible for providing documentation to county officials to show that their contributions are at risk and land that is cash-leased meets the eligibility requirements.

OIG's review of producers' reported acreage and aerial photos, as well as supporting documentation such as leases, found that county officials in Texas and Oklahoma did not accurately compute the acreage totals of eligible pasture land claimed; ensure that documentation was on file for land cash-leased; classify acreage with the correct carrying capacity according to the characteristics of the pasture; process payments correctly based on the producer's AGI; and ensure that the documentation obtained from the producer to determine if its contributions were at risk for cash-leased land met the eligibility requirements.

Incorrect Acreage Totals

FSA entered incorrect acreage totals for 34 of the 155 payments reviewed. OIG determined these errors were the result of county officials having to manually determine the amount of acres eligible for LFP and calculate the total acres to claim for payment. As a result, OIG identified improper payments totaling $78,330 ($75,110 in overpayments and $3,220 in underpayments).

[3] Administrative errors are caused by the absence of supporting documentation necessary to verify the accuracy of a payment; or by incorrect inputting, classifying, or processing of applications or payments.

[4] Throughout this finding, payments had multiple issues that caused improper payments. Total improper payments include $358,956 in overpayments and $14,179 in underpayments. For clarity's sake, we have isolated these errors. Please see Exhibit E for a payment-by-payment description of how these errors contributed to the total improper payments.

In order to determine the payment amount for an eligible livestock producer, county officials work with the livestock producer to determine the total acres eligible for LFP. Livestock producers claiming a loss are required to report and certify to the amount of acreage owned or leased to be entered into FSA's Crop Acreage Reporting System (CARS).[5] Land eligible for LFP must be grazing land or pasture land owned or leased for an established grazing season, not have been irrigated during the current production year, and be located within the county that qualified for LFP drought compensation. Further, acres where the producer has an ownership share should be reduced to the producer's share of ownership. FSA county officials review the acres the producer certified to determine land eligible for compensation under the LFP, then manually calculates the amount of acres to be claimed for payment on the LFP application. OIG found that acres claimed on the LFP application were incorrectly computed.

- OIG identified 29 payments where the amount of acres controlled by the producer was incorrectly computed. FSA county officials incorrectly computed the amount of acres to claim on the LFP application when adding up the acres they determined eligible for LFP. As a result, FSA issued $75,973 in improper payments ($72,753 in overpayments and $3,220 in underpayments).
- OIG identified four payments where ineligible irrigated acres were incorrectly included in the acreage upon which the producer's payment was based. OIG determined that three of the four payments were due to county office errors in classifying the acreage incorrectly in CARS. County office staff stated that the acreage should have been classified as non-irrigated; however, county office officials could not provide any documentation to support their determination. Without documentation, OIG did not include the acreage in the acreage totals. The remaining error was due to a county office using an old acreage report to determine eligible acreage for LFP. As a result, FSA issued improper payments totaling $35,032 in overpayments.
- OIG identified one payment where the acreage amounts were overstated due to the county office employee not reducing the amount of acres owned to the producer's share of the forage. The employee incorrectly assumed that the LFP payment software performed the calculation automatically, which resulted in an improper payment of $32,675 in overpayments.

Incorrect Carrying Capacity

Oklahoma and Texas established multiple carrying capacities in some counties for the same forage type due to canopy cover.[6] Fields with a significant amount of canopy were determined by FSA to have the capacity to feed less livestock per acre than fields without canopy. OIG found that in counties with multiple carrying capacities due to the amount

[5] CARS is a web-based system used to enter crop information tied to specific acreage on the farm and provides the capability to perform functions such as revise acreage report, certify acreage report data, and summarize acreage.
[6] Canopy cover is a measure of the percentage of ground covered by trees on acreage.

of canopy cover, FSA county officials did not select the correct carrying capacity based on the characteristics of the land when determining payment. Although District Director (DD) reviews were conducted to ensure the accuracy of the first five applications approved for payment, these reviews did not require DDs to verify the accuracy of the information used to determine payments. Instead, the review focused on verifying if required eligibility information was on file before payment was approved (see Finding 6). As a result, OIG identified 47 payments resulting in improper payments, totaling $210,523 ($208,981 in overpayments and $1,542 in underpayments).

In order to determine the payment on the amount of forage eligible for LFP, FSA requires county officials to enter the carrying capacity approved by the State committee or COC for the applicable type of pasture claimed on the application. Multiple carrying capacities may be established, considering factors such as topography, altitude, land mix, etc., in the same county or area within the county for the same forage type, such as native pasture. FSA defines carrying capacity as the stocking rate, and the number of days grazing can normally be sustained without detrimental effects on the land without any supplemental feed. The stocking rate reflects the specific number of acres of forage capable of supporting one animal unit for the specified grazing days. For example, if the number of grazing days in a State is equal to 365 days, and the stocking rate for native grass with 50 percent of the land consisting of trees and brush in a county is 6 acres, then the carrying capacity is 6 acres to support 1 animal unit grazing for 365 days.

In Texas, OIG found 3 counties with 25 improper payments due to incorrect carrying capacities claimed for payment. In one county, employees selected the incorrect carrying capacity for the crop type for two payments. Another county office was not aware that different carrying capacities were established for the same crop type to account for canopy coverage, which resulted in six improper payments, totaling $9,004. In the third county, OIG identified 17 payments that were improper because county officials classified land with substantial canopy as improved pasture,[7] instead of native pasture.[8] OIG found that producers certified acreage as improved, even though they were not able to seed the areas underneath the canopy. By definition, the acreage that could not be mechanically seeded is native pasture, not improved.

For example, a producer certified 3,644 acres as improved pasture with a carrying capacity of 5 acres per animal unit. Of the 3,644 improved acres, OIG determined, through review of the aerial photographs, that over 700 acres should have been classified as native pasture with a carrying capacity of 25 acres per animal unit, due to the inability for the producer to seed acres with more than 50 percent canopy cover. The county office misunderstood the State office's original guidance that the producer certifies the forage underneath the trees, not the trees, which led the county officials not to question areas that could not be improved unless the producer removed a substantial number of

[7] Improved pasture is acreage that is mechanically seeded with grasses or other vegetation according to good farming practices.
[8] Native pasture is grass or other vegetation not meeting the definition of improved pasture.

trees. FSA has since issued additional guidance to the county offices. Overall, OIG identified improper payments totaling $44,497 in Texas due to issues with the carrying capacity.

In Oklahoma, OIG identified 22 payments in 5 counties that were improper due to county errors in entering the carrying capacity based on the applicable type of pasture. In four of the five counties, OIG identified payments that were improper due to administrative errors by county officials manually inputting the wrong carrying capacities for the pasture type claimed. In the last county, OIG found that the county office used only 1 carrying capacity for native grass, despite the amount of canopy coverage on the field for 9 of the 10 payments OIG reviewed. The county official stated he was not instructed by the State office or DD to enter the carrying capacity based on the applicable type of pasture and did not request the producer to certify this information. However, State officials informed us that they provided training to all counties to review the aerial maps of the acres claimed to determine a reasonable carrying capacity based on the characteristics of the land. The county official, however, used what he considered a conservative carrying capacity for the entire county for native pasture. Overall, FSA issued $166,026 in improper payments in Oklahoma.

FSA Leases

OIG identified weaknesses with the documentation FSA county offices obtained to support that leased land met eligibility requirements. In order for State and Federal lands to be eligible, the pasture or grazing land must be leased for cash or for a fixed amount for an established grazing period. Grazing land that is leased on the basis of weight gained, or cost per head, per day or monthly basis is not eligible for LFP. The COC reviews the lease and ensures that all land that is leased meets the eligibility criteria. However, we found that the documentation that FSA county offices obtained from the producer did not contain enough information for the COC to determine if leased land met the eligibility requirements. For example, a producer in Oklahoma provided county officials with documentation that it leased 299.25 acres; however, the documentation did not contain timeframes for when the land was leased. Therefore, we were unable to verify if the producer was leasing those acres during the time required to qualify for LFP. County office officials stated that the timeframes were not included on the lease because they had received no guidance from the State or national office requiring timeframes on them. Although the documentation provided by the producer did not contain enough information for the COC to make a determination on the eligibility of the land, the COC approved the land as eligible. As a result, OIG identified 5 payments worth $32,092 in improper payments due to ineligible land for 2010. For 2011, OIG found 27 payments with ineligible land, resulting in improper payments of $253,405.

In Finding 3, we discuss that the internal control over leased land eligibility determination was not functioning as designed. OIG determined that the documentation obtained by the county was not sufficient to determine if producers' contributions were at risk and the land eligible for LFP. The documentation did not disclose the time period the lease was in effect, or the basis of the agreement (such as cost per acre or per head per month). Without these elements, OIG could not determine if the producer's contributions were at risk or if the arrangement was valid during the time period a drought was declared. We concluded that the COC determined the land was eligible for LFP without adequate information to determine the producer's risk.

Accounts Receivable

FSA reduces any payment or benefit earned by a legal entity by an amount commensurate with the direct or indirect interest of any member who is determined to have an average AGI for nonfarm income in excess of $500,000. Producers with nonfarm income above that level are not eligible for LFP benefits. FSA verifies the producers' AGI information with the Internal Revenue Service to maintain the integrity of the LFP and to prevent ineligible individuals or entities from receiving an LFP payment.

We found that one county office established an account receivable based on members of an entity who had an average AGI for nonfarm income in excess of $500,000 prior to the disbursement of the LFP payment. The county established an account receivable because it assumed that the payment the entity would receive would not be reduced by the ownership interest of the members with nonfarm income above $500,000. The members immediately paid the account receivable. When the payment was disbursed, the LFP payment system automatically reduced the entity's LFP payment based on the interest of members whose nonfarm AGI exceeded $500,000. Therefore, the accounts receivable that the county established was unnecessary. The county office could not recall why the account receivable was established in addition to the payment being reduced by the LFP payment system. Due to the county office establishing an account receivable before the payment was processed, the producer was underpaid by $9,417.

Overall, 85 percent of the improper payments identified[9] were due to administrative errors in the entry and processing of information into the LFP payment system. OIG believes the administrative errors identified (incorrect acreage totals, irrigated land included in payment, shares not calculated, and issues with the carrying capacity) could be resolved if the forage information section of the application was linked with the data the producer reports and certifies as correct in CARS. At present, FSA county officials must manually calculate and identify eligible acreage reported by the producer in CARS, then manually enter that information into the LFP payment system. Since many of the issues identified were due to administrative errors in the manual calculation and processing of the forage information into the LFP payment system, linking and automating the data between the CARS and the LFP payment system would reduce the amount of administrative errors.

With the enactment of the 2014 Farm Bill, LFP was retroactively reauthorized for 2012 and subsequent fiscal years, changing LFP from a supplemental disaster program to a permanent

[9] Total improper payments identified equal $440,973 ($373,135 was due to administrative errors and $67,838 was due to false certification by producer (see Finding 2)).

disaster program. The 2014 Farm Bill approved the sum of funds necessary to provide compensation to producers who participate in LFP each fiscal year. On April 15, 2014, FSA began accepting applications for LFP, as well as other disaster programs, 60 days after the passage of the 2014 Farm Bill. Within the first 2 weeks of signup, FSA had received 33,000 applications for these disaster programs, with LFP accounting for over 95 percent of the applications received. The Secretary of Agriculture stated that the high number of applicants for LFP was not surprising, considering the widespread, ongoing drought that has plagued livestock producers in many portions of the United States over the last several years.

With LFP becoming an important program to livestock producers to provide financial relief and help due to drought, it is important that FSA invest its resources to reduce errors in the administration of LFP that cause improper payments. Accordingly, OIG discussed with an FSA national office official if the agency had thought about integrating the LFP payment system with CARS to automatically load LFP data to prevent administrative errors. The official stated that during the initial rollout of the program that was something he would have liked to have seen; however, the lack of resources prevented FSA from moving forward. After LFP was reauthorized in the 2014 Farm Bill, the official stated that there was not enough time to modify the software and be ready to accept applications for LFP by April 2014. Further, FSA officials stated the resources were stretched thin and taking on a large project of integrating the LFP application software and CARS database so that acreage data is read directly from CARS is not feasible at this time. We realize that FSA is in the process of modernizing its information technology. The modernization effort seeks to bring together disparate organizations, resources, programs, applications, and a diverse workforce to better serve farmers and ranchers. This effort will enable FSA to deliver new information technology solutions more rapidly, and also generate cost savings, improve accountability, and gain efficiencies in information technology services for farm programs, farm loans, commodity operations headquarters staff, field office staff, as well as for the farmers, producers, and ranchers. In the absence of fully integrating the LFP payment system with CARS, OIG contends that FSA needs to implement an automated process to reduce the amount of improper payments due to administrative errors in the manual calculation of acres eligible for LFP.

Recommendation 1

Establish an automated process to calculate the total acres eligible to be claimed for payment in order to reduce errors resulting from manually inputting acreage data into the Livestock Forage Program (LFP) application system.

Agency Response

FSA is continually improving its automated processes through various initiatives. One of FSA's many goals is to be able to automate the process of calculating total acres under the LFP and eliminate the need for manually inputting these acres on the application as resources permit. Estimated completion date is March 31, 2015.

OIG Position

We accept management decision for this recommendation.

Recommendation 2

Review and recover improper overpayments of $358,956 due to errors in calculating LFP payments.

Agency Response

County Offices will be instructed to review and recover resultant overpayments for each application for which it is determined errors occurred in calculating LFP payments according to Finding 1 in the audit report. Estimated completion date is March 31, 2015.

OIG Position

We are unable to reach management decision for this recommendation. In order to reach management decision, FSA needs to provide us the decisions made on each cited application and a copy of the bill for collection for amounts owed to the Government and evidence that these amounts have been entered as a receivable on the agency's accounting records or collected.

Recommendation 3

Review and issue improper underpaid amounts of $14,179 plus any prompt payment interest due to errors in calculating LFP payments.

Agency Response

County Offices will be instructed to review and issue resultant underpayment amounts plus any prompt payment interest due to errors for each application for which it is determined errors occurred in calculating LFP payments according to Finding 1 in the audit report. Estimated completion date is March 31, 2015.

OIG Position

We are unable to reach management decision on this recommendation. In order to reach management decision, FSA needs to provide us the monetary amount decisions made on each cited application.

Finding 2: FSA Needs to Determine Whether Producer Falsely Certified 2010 and 2011 LFP Applications

OIG found that a producer was paid for livestock that did not meet the eligibility requirements for covered livestock, as defined in FSA Handbook 1-LDAP. This occurred because the producer self-certified to ineligible livestock on the LFP application. As a result, FSA made improper payments in the amount of $67,838 to the producer for LFP program years 2010 and 2011.

FSA Handbook 1-LDAP states that to be eligible covered livestock, the livestock must be livestock that the eligible livestock producer owned, leased, purchased, entered into a contract to purchase, or was a contract grower of the livestock at any time during the 60 calendar days before the beginning date of a qualifying drought.[10] The handbook specifically excludes any wild, free-roaming livestock from the definition of eligible covered livestock.[11] In addition, the handbook states that, to be eligible covered livestock, the livestock must be maintained for commercial use as part of the producer's farming operation on the beginning date of the qualifying drought.[12] The handbook also states that, when signing the LFP application, the participant is certifying the information on the application is true and correct and that the livestock claimed on the application are eligible covered livestock and is acknowledging that providing a false certification to FSA is cause for disapproval of the LFP application and is punishable by imprisonment, fines, and other penalties.[13]

OIG reviewed inventory count sheets and sales receipts provided by the producer, as well as conducted interviews with the producer to validate the livestock inventory claimed on the LFP applications. The producer claimed that he owned cows, horses, and goats as part of a commercial operation in 2010 and 2011. However, based on the documents provided by the producer, we found that the producer did not own 490 and 294 goats as claimed on the LFP applications in 2010 and 2011, respectively. The producer could not provide evidence, such as sales receipts or purchase receipts, to support owning the goats during the period of drought in 2010 and 2011. After several interviews and attempts by OIG to validate the livestock claimed, the producer stated that he did not own, lease, or purchase the goats claimed on his applications. The producer stated that the land he leased had free-roaming goats that were never provided care. Although the producer did not own the goats, the producer estimated the number of goats remaining on the leased land and claimed them on the 2010 and 2011 LFP applications.

[10] *FSA Handbook 1-LDAP*, "Livestock Disaster Assistance Programs," Amendment 6, Subparagraph 171E, dated March 16, 2010.
[11] *FSA Handbook 1-LDAP*, "Livestock Disaster Assistance Programs," Amendment 3, Subparagraph 171F, dated September 16, 2009.
[12] *FSA Handbook 1-LDAP*, "Livestock Disaster Assistance Programs," Amendment 6, Subparagraph 171E, dated March 16, 2010.
[13] *FSA Handbook 1-LDAP*, "Livestock Disaster Assistance Programs," Amendment 5, Subparagraph 200B, dated November 30, 2009.

OIG concluded that because the goats in question were not owned by the producer and were not maintained for commercial use as part of the producer's farming operation, the goats were not eligible for payment under LFP. FSA State and national officials agreed with this assessment. FSA should use its established administrative processes to determine if the producer's LFP applications for 2010 and 2011 should be disqualified, based on providing false certifications that the goats claimed were eligible covered livestock.

Recommendation 4

Determine whether the producer falsely certified claimed livestock on the 2010 and 2011 LFP applications. If it is determined that the producer falsely certified livestock on the 2010 and 2011applications, recover improper payments of $67,838 and take action as deemed necessary and appropriate. If it is determined that the producer did not falsely certify livestock on the 2010 and 2011 applications, recover any identified improper payments based on ineligible livestock.

Agency Response

FSA concurs. The COC shall determine whether the producer deliberately misrepresented certifying to ineligible livestock or otherwise used a scheme or device with the intent to receive benefits for which the participant would not otherwise be entitled to with respect to the 2010 and 2011 LFP applications, recover improper payments, and take the appropriate action accordingly. If it is determined that the producer did not misrepresent or use a scheme or device with the intent to receive benefits, recover any identified improper payments based on ineligible livestock. Estimated completion date is March 31, 2015.

OIG Position

We are unable to reach management decision. In order to reach management decision, FSA needs to provide us the decisions made on the cited producer and a copy of the bill for collection for amounts owed to the Government and evidence that these amounts have been entered as a receivable on the agency's accounting records or collected.

Finding 3: FSA Needs to Provide County Committees With Clear Guidance on How to Determine the Eligibility of Leased Land

Although COCs are required to review leases and document that the land meets the eligibility criteria for leased pasture under LFP, we found that this control is not functioning as designed. Through review of COC minutes and interviews with the County Executive Directors we found that the COCs are not conducting reviews of leases for all LFP participants. Instead, COCs are relying on the determinations made by the County Executive Director. Additionally, since FSA Handbook 1-LDAP did not provide adequate guidance regarding what information leases should contain, COCs had little guidance about how they should determine if the leased land is eligible. As a result, we found that FSA made payments to 32 producers whose leases were questionable for a number of reasons, resulting in $285,497 in improper payments.[14]

LFP requires producers to prove that they have risk in the pasture or grazing land for which the producer is requesting payment. Land can be owned or leased. Land that producers own is eligible. However, land that producers lease is ineligible if the lease allows producers to mitigate their risk by removing the livestock entirely, or to pay owners based on the livestock's growth. FSA allows leases where producers share risk with the land owner, but reduce the producer's payment to reflect the mitigated risk. For these reasons, FSA requires producers to provide documentation that they have risk in the land such as, but not limited to, ownership documentation or written leases. The COC is required to review these leases to ensure that producers have risk in the enrolled pasture, and then document the results in the COC minutes.[15]

In 8 of the 12 counties we reviewed, the COC did not identify key information regarding leases that in our view rendered the land ineligible.

- In nine cases, producers were paid, even though their leases did not contain a year or timeframe during which the lease was in effect. Because LFP determines the producer's losses day to day based on drought information, FSA must establish that the producer controlled the land when the drought was in effect, which cannot be done if the lease does not specify a time period.
- In 21other cases, producers were paid with no lease on file for the relevant program year.
- One producer provided a sworn statement from a land owner stating he leased the property, but the terms of the lease stating how the lease was to be paid were missing. The producer stated that he was paying on a per-head per-month basis, which is specifically ineligible according to the FSA Handbook 1-LDAP.
- Another producer's lease stated that the land owner would be paid 25 percent of the calf sales, so that lease was essentially a share lease; however, the producer was still paid at the 100 percent payment rate.

[14] These amounts are captured in recommendations associated with Finding 1 because OIG is unable to distinguish between amounts directly resulting from deficient leases and other errors associated with these same producers.
[15] *FSA Handbook 1-LDAP,* "Livestock Disaster Assistance Programs," Subparagraph 171S, dated October 16, 2012.

In all, we found that 32 producers[16] were paid based on inadequate lease documentation that rendered their land ineligible.

Although the COC is required to review leases to determine if cash leased land is eligible, the time that COCs have to conduct their business is extremely limited. In 2011, COCs were encouraged to limit meetings to only those times necessary to conduct business, preferably not more than one meeting each quarter. Unless an agenda required face-to-face meetings with producers or employees, such as program appeals or personnel matters, teleconferences were determined to be an appropriate means of conducting business. FSA implemented these changes in 2011 due to budget constraints. By reducing the number of face-to-face meetings, FSA determined that significant savings could be achieved from salary and travel costs paid to COC members when they met. We found that the COCs in our sample rarely met for more than 2 hours. In 1 county, a committee met for just 2 hours, and certified that its 3 members reviewed all eligibility documents for 91 applications for 1 program, 32 LFP applications with eligibility documents, and 3 applications for another program. A total of 126 applications were reviewed, which allows only about 3 minutes per application.

Based on the limited time the COC has to meet, it is important that the criteria used to determine the eligibility of leased land for LFP are clear. FSA Handbook 1-LDAP did not elaborate on specific elements that a cash lease should contain. Leases can vary in terms and structure, but there are certain elements, such as the time period and terms of payment, that are necessary to determine that land meets the eligibility criteria for leased pasture. FSA national office officials were amenable to revising guidance regarding leased land requirements.

Recommendation 5

Revise guidance to better define the required elements for eligible leased land.

Agency Response

FSA handbook procedure in 1-LDAP (Rev. 1) has been written to provide:

- better defined required elements for eligible leased land.
- in tabular format, State committee's and COC's guidance for determining whether written agreements between livestock owners of eligible livestock that set the specific terms, conditions, and obligations of the parties involved about the production of the livestock, constitutes risk to the party providing care for (that is, survival of the livestock) the livestock as contract grower, including risk in the livestock and grazing land/pastureland for which loss is being claimed.
- if written acreage lease or rental agreement was not entered into, a copy of CCC-855 must be completed and signed by the lessor, certifying to the number of acres leased; date lease commenced; date lease expired; terms of the lease agreement such as term of lease such as

[16] Our review disclosed that 49 out of 155 payments reviewed had leases that were not documented as reviewed in the COC minutes.

dollar per acre rental arrangement, cash or fixed dollar amount, share rent, rate of gain, cost per head, per day or month, animal unit month basis, etc.

OIG Position

We accept management decision for this recommendation.

Finding 4: FSA Needs to Provide Clear Guidance to Counties on Administering LFP for Producers Operating in Multiple Counties

FSA State offices in Oklahoma and Texas provided county offices with different guidance concerning how to administer LFP to producers whose covered livestock grazed in multiple counties:

- In Oklahoma, counties were instructed to pro-rate the livestock between two applications in order to maximize the payment the eligible producer would receive, using a spreadsheet that the State office created for multi-county producers.
- In Texas, counties were instructed either to complete one application for the multi-county producer and include all the land from both counties and livestock; or complete an application for each county and have producers pro-rate the number of livestock they would like to claim in each county.

The State offices explained that they issued their respective guidance because FSA's guidance was not clear on how to administer LFP for multi-county producers whose covered livestock grazed multiple counties at the same time. Although the way each State administered LFP for multi-county producers met the intent of the guidance provided by FSA's national office, the different methods in the way LFP was administered for multi-county producers could result in a producer receiving higher or lower compensation depending on how the payment was processed.

Eligible livestock producers may apply for LFP benefits anytime during the year in their respective counties after the State and county offices are notified by the national office that their county has a qualifying drought.[17] Many producers graze livestock at different times during the year on ground that may span several counties, and FSA issued a notice addressing this situation.[18] The notice stated that, due to limitations with the LFP payments software that limits a livestock producer's payment to three monthly payments, county officials are to make manual adjustments to LFP payments to ensure that an eligible livestock producer's payment for the same covered livestock does not exceed the maximum three monthly payments in all counties combined.

In Oklahoma, the State office provided guidance to the county offices to use a spreadsheet when administering LFP for multi-county producers. The county offices were instructed to enter all the livestock the producer owned, along with all the forage information for each county that the producer's livestock grazed in. Based on the information entered, the spreadsheet would calculate a percentage and pro-rate the livestock to claim in each county in order to maximize the payment the multi-county producer would receive.

[17] *FSA Handbook 1-LDAP*, "Livestock Disaster Assistance Programs," Amendment 21, Paragraph 170, dated July 28, 2011.
[18] *FSA Notice LDAP-44*, "Issuing LFP Payments to Eligible Livestock Producer for Same Covered Livestock Grazing in Multiple Counties," dated June 2, 2011.

The FSA national office was not aware that Oklahoma was using a spreadsheet to determine producers' payments. FSA Handbook 1-LDAP states that State and county offices shall not develop, design, or use any forms, worksheets, applications, or other documents to obtain or collect the data required from participants to complete LFP application.[19]

Although Oklahoma State FSA officials were aware of the requirement stated in FSA Handbook 1-LDAP, they felt that a spreadsheet was the best tool for helping counties to administer LFP for multi-county producers. They believed that the guidance provided by FSA would limit a multi-county producer to the acreage in only one county. Oklahoma interpreted the guidance to require if the same livestock grazed in multiple counties at the same time, then the producer would have to pick the county in which to claim all of the livestock. Because the producer could only select one county in which to claim its livestock, this would prevent the producer from being paid on forage that it owned or leased in other counties. This would in effect cause a lower payment than if all of the forage had been allowed. Oklahoma felt that this would cause inequitable payments to multi-county producers. As a result, the Oklahoma State office issued guidance to their counties to use a spreadsheet to pro-rate the livestock between counties. Oklahoma felt this was the best way to prevent inequitable payments to multi-county producers, while also meeting the intent of the guidance, which was to prevent livestock that grazed in multiple counties from receiving more than three monthly payments.

Oklahoma State officials contacted the FSA national office for additional guidance, but never received a clear understanding as to how to administer LFP for multi-county producers. Although the national office did not approve the use of the spreadsheet, the national office did not object to how Oklahoma administered LFP for multi-county producers.

In Texas, the State office took a different approach in administering LFP for multi-county producers. Texas' State office guidance required its counties to determine if all the land eligible for LFP was administered under one county office or different county offices. Because current LFP software allows for processing LFP payments by the producer's administrative county, if the producer's land in multiple counties was administered by one county, then Texas only required one application to be completed. However, if the producer's land was administered by different county offices, then an application was required to be completed for each county in which the land was located. In the case where multiple applications were required to be completed, Texas required the producer to choose how it wanted to pro-rate the livestock between the counties. In instances where the same county administered the land located in multiple counties, all forage owned or leased would be entered on one application. The one application would have different line items in the forage section to address the different carrying capacities associated with each county. The national office did not object to how the livestock was pro-rated between counties; its main concern was to ensure LFP payments did not exceed more than three monthly payments for the same livestock.

[19] *FSA Handbook 1-LDAP*, "Livestock Disaster Assistance Programs," Amendment 3, Subparagraph 160E, dated September 16, 2009.

When OIG compared the different methods applied by each State to administer LFP for multi-county producers, OIG found variations in the amount of compensation received by a multi-county producer, depending on which method was used to calculate the payment, as demonstrated by the following example.

- A producer whose same livestock grazed between two counties in Texas was asked by an FSA county office official to complete an LFP application in each county and determine the amount of livestock to pro-rate between the two counties. Processing the multi-county producer's application using this method resulted in the producer receiving two payments (one from each county) totaling $15,630.
- If the producer's application had been processed using the single application method in Texas, with all the livestock and forage owned or leased on one application, or using Oklahoma's spreadsheet method, which automatically pro-rates the amount of livestock to claim in each county in order to maximize the payment the producer could receive, then the producer would have received a payment of $18,092, $2,462 more than the first method.

FSA should clarify its guidance on how to administer LFP for multi-county producers to ensure that States apply LFP consistently and equitably to multi-county producers.

Recommendation 6

Clarify guidance to ensure that multi-county producers whose same covered livestock graze multiple counties are administered consistently and equitably throughout all States.

Agency Response

FSA handbook procedure in 1-LDAP (Rev. 1) has been written to provide and clarify guidance to ensure that multi-county producers whose same covered livestock graze multiple counties are administered consistently and equitably throughout all States.

OIG Position

We accept management decision for this recommendation.

Finding 5: FSA Needs to Support the Monthly Feed Costs Used to Compensate Producers for Eligible Livestock

Although an important step in determining LFP compensation involves calculating a monthly cost based on the amount of pounds of feed necessary to sustain eligible livestock, we found that FSA could not support most of its established costs. FSA generally relied on historical data developed 20 to 30 years ago on the pounds of feed necessary to feed livestock per day and did not question the data or attempt to document how it arrived at these determinations. FSA does not have any controls to document the basis for its determinations of the amount of feed necessary to sustain eligible livestock for a month. Without support for the cost it established, FSA cannot provide reasonable assurance that the monthly feed cost its payments are based on results in equitable compensation to livestock producers.

LFP provides compensation for losses to eligible livestock producers due to grazing losses for covered livestock because of drought or fire. LFP compensation is 60 percent of the lesser of the monthly feed cost of covered livestock, or the monthly feed cost of the normal carrying capacity of the eligible grazing land. For losses caused by fire on managed public land, the producer is compensated based on 50 percent of the monthly feed cost for the total number of livestock covered by the Federal lease. The monthly feed cost for covered livestock is determined, in part, on the number of pounds of corn equivalent determined necessary to provide the energy requirements for the specific kind/type of livestock for 30 days. In the case of an adult beef cow, agency regulations state that the feed necessary to sustain its energy requirements was 15.7 pounds of corn a day. For all other eligible livestock, the feed amount will be determined by the Secretary (see Exhibit C for the daily feed requirements that FSA established on the Secretary's behalf).[20]

However, FSA did not document the basis for its determinations of the amount of feed necessary to sustain the energy requirements of all eligible livestock. OIG asked the economist responsible for establishing the payment rates for LFP why he did not document the basis for the rates FSA established to provide compensation to livestock producers. The economist stated that the animal units, which are used to determine feed necessary to sustain livestock per day/month, are based on information established a long time ago and FSA had been using the data for a long while. He stated that he did not know what study they came from and could not support any, except the three that he developed – Alpaca, Llama, and Emu. Although the work predates him, he thought they may have come from work as far back as the 1980s. The economist stated that there are no requirements for FSA to document the basis of its determinations. However, he documents his conclusions to be able to know what he did in order to recreate work or update work if needed, and to provide a successor with information needed to know how he came to the conclusion he has made. The Office of Management and Budget requires management to develop policies and procedures to help program managers achieve results and safeguard the integrity of their programs. While procedures may vary from agency to agency, management should have a clear, organized strategy with well-defined documentation processes that contain

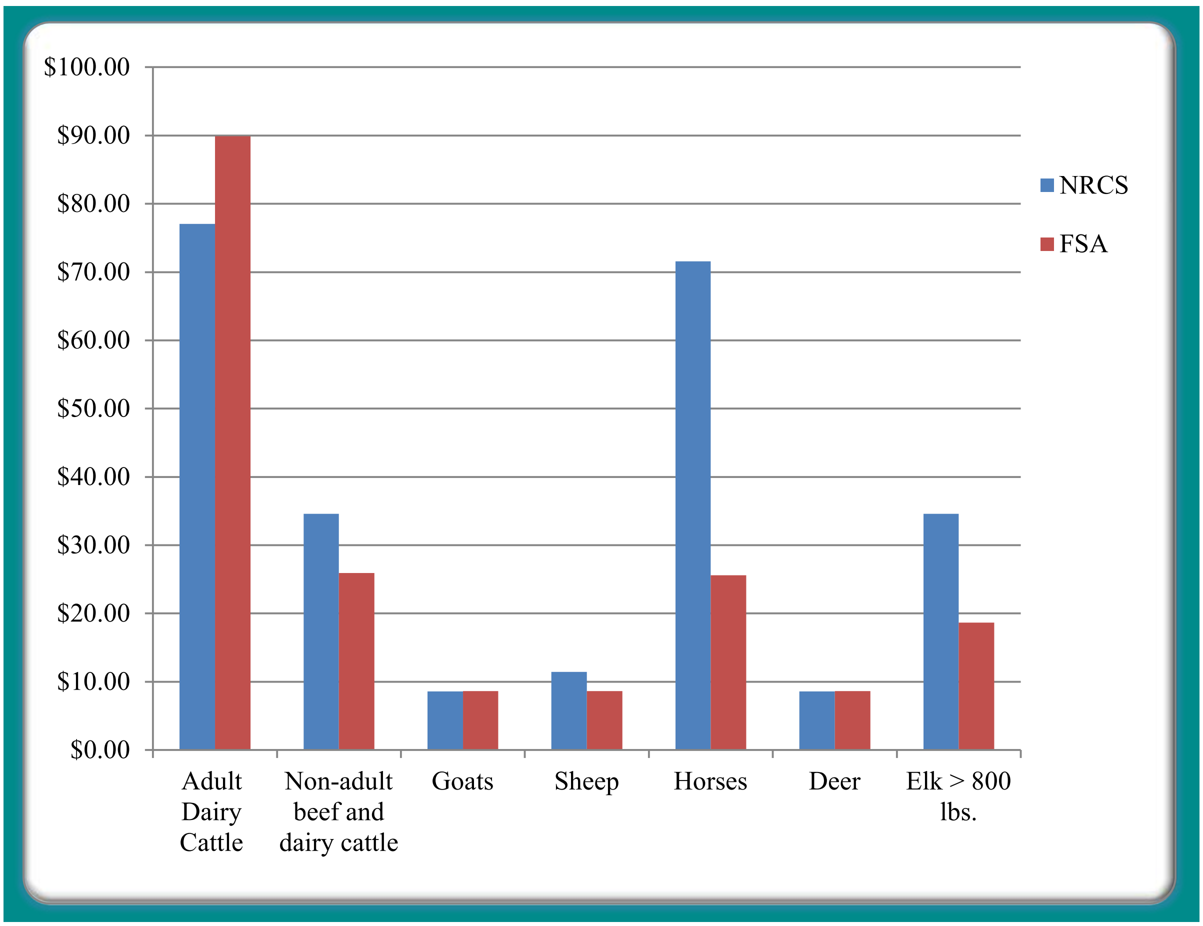
[20] Title 7, *Code of Federal Regulations,* Part 760, Subpart D, Sections 307 (g)(3) and (h)(1), dated May 10, 2013.

an audit trail, verifiable results, and specific document retention periods, so that someone not connected with the procedures can understand the assessment process.[21]

OIG notes that the Natural Resources Conservation Service (NRCS) has developed a handbook[22] to provide its basic policy and procedures for assisting producers in planning and applying resource conservation on non-Federal grazing lands. NRCS determined the amount of forage consumed daily by different domestic livestock and common wildlife species to determine their impact on forage resources (see Exhibit D).

Based on this more current resource, OIG compared NRCS' daily forage consumption data with the monthly feed cost FSA established. In 2011, we found that FSA's and NRCS' rates varied on the compensation needed to feed livestock.

The chart below is a comparison of the monthly feed cost FSA established to the monthly feed cost determined based on NRCS daily consumption data.



[21] Office of Management and Budget *Circular A-123*, "Management's Responsibility for Internal Control," Sections (I) and (I.A), dated December 21, 2004.
[22] NRCS National Range and Pasture Handbook, Revision 1, dated December 2003.

When we discussed these differences with an FSA national official, he stated that there will always be variances in different studies, or by region of the country, but that the FSA rates are in line with other established rates. The official stated he does not have time to go and try to research where they come from; he relies on the FSA economist to relay the rates that should be used. He stated that he has never questioned the rates because they are historical data. OIG is not questioning if FSA's monthly feed cost for eligible livestock is correct; rather, OIG believes that if the purpose of the monthly feed cost is to provide compensation to livestock producers due to feed losses because of drought, then the compensation should be supported by some form of documentation.

Our comparison between FSA's and NRCS' data showed that, while there is relatively little variance between the costs of sheep, goats, and deer, there is a large difference in the monthly feed cost for adult dairy cattle, non-adult beef and dairy cattle, horses, and elk. For example, for an adult dairy cow, FSA pays about $13.00 more in monthly feed cost than the monthly feed cost based on NRCS' data. For horses, FSA pays about $46.00 dollars less based on NRCS' data. Without support for the differences in rates, FSA cannot ensure that the rates of compensation it has established are equitable to livestock producers.

OIG contends that FSA must document the basis for its monthly feed costs in order to provide reasonable assurance that compensation to eligible livestock producers is equitable.

Recommendation 7

Document the monthly feed costs for all eligible livestock in order to ensure they are reasonable and equitable.

Agency Response

FSA will conduct a review of the conversion factors used in determining the feed grain equivalent of the average number of pound of corn per day necessary to feed the applicable livestock to ensure they are reasonable and equitable in determining and documenting monthly feed cost. Estimated completion date is March 31, 2015.

OIG Position

We accept management decision for this recommendation.

Section 2: District Director Reviews

Finding 6: FSA Needs to Improve Its District Director Reviews of LFP

We found that FSA's District Director (DD) reviews do not provide the agency with assurance that possible weaknesses in the administration of LFP are being identified and resolved. Specifically, DD reviews did not identify issues with 4 of the 12 payments that were also reviewed by OIG. This occurred because FSA only requires the DD to ensure that supporting documentation required for program eligibility is properly completed and on file—the DD is not required to review the eligibility of participants or accuracy of LFP payments. As a result, FSA lacks assurance that it is preventing as many erroneous payments as possible.

FSA requires its DDs to review the first five applications submitted in each FSA's service center before approval to ensure that LFP is being administered according to the agency's procedures. FSA requires that the DDs ensure that (1) separate LFP applications are submitted by participant and physical location county office, (2) signature requirements are met, (3) no State or county office forms or documents are being used to obtain or collect the data required from participants, and (4) supporting data required for payment eligibility are properly completed and on file. DD review of the initial LFP applications is critical to ensuring LFP is administered correctly. DD reviews are intended to (1) identify possible weaknesses in the administration of LFP that may be resolved by additional training, clarified procedures, or modified software; (2) prevent numerous participants from being affected by erroneous LFP administration; and (3) allow corrections to be made in a timely manner before erroneous payments are issued.[23]

In order to conduct the DD reviews, the Texas and Oklahoma DDs were instructed to use form FSA-770 LFP checklist. FSA had developed form FSA-770 LFP checklist as the only authorized checklist for LFP. County offices were required to complete applicable FSA-770 LFPs before issuing payments. While this checklist covers some of the required elements of a DD review, it does not explicitly include verifying if all eligibility documentation is on file prior to approval of the LFP application. In addition, the checklist does not require the DDs to review the information used to determine an LFP participant's payment, such as verifying accuracy of the acres claimed and the carrying capacity selected, to determine if the payment was calculated correctly.

For example, OIG reviewed 155 payments to verify the accuracy of the payments and ensure all eligibility documentation was on file, and found that 12 payments were previously reviewed by the DDs. Of those 12 payments, we identified 3 payments having issues with carrying capacity and 1 payment where the lease was not documented as reviewed by the COC. Two of the four producer payments, totaling close to $500 in improper payments, were due to issues with using the incorrect carrying capacity. In total, OIG found that 47 of 155 total payments reviewed

[23] *FSA Handbook 1-LDAP*, "Livestock Disaster Assistance Programs," Amendment 3, Subparagraph 201D, dated September 16, 2009.

included improper payments totaling $210,523 based on using the incorrect carrying capacity (see Finding 1).

Because DDs are not reviewing the accuracy of LFP payments, FSA is not accomplishing what it intended by establishing this review. Without a complete review, including eligibility and the payment calculation, FSA cannot ensure that weaknesses in the administration of LFP are being identified and resolved. FSA national officials agreed that more clarity is needed to ensure that DDs review payment calculations and eligibility.

Recommendation 8

Revise the FSA Handbook 1-LDAP to clarify the procedures the DD should perform when conducting this review to ensure that DDs review payment calculations and eligibility.

Agency Response

FSA will revise program provisions to clarify the procedures the DD should perform when conducting reviews to ensure DD's review payment calculations and eligibility for future program years. Estimated completion date is March 31, 2015.

OIG Position

We accept management decision for this recommendation.

Recommendation 9

Create a new checklist form or modify FSA's current checklist form to be specifically designed for the DD review of LFP applications to ensure payment eligibility and payment documentation are correctly reviewed and documented.

Agency Response

FSA will create a checklist for DD review of LFP applications to ensure payment eligibility and payment documentation are correctly reviewed and documented when reviews are conducted for future program years. Estimated completion date is March 31, 2015.

OIG Position

We accept management decision for this recommendation.

Finding 7: FSA Needs to Ensure District Directors Complete Their Reviews

We found that, although DDs are required to submit a report to the State office within 10 days detailing the results of their reviews, the State offices in Texas and Oklahoma did not track reports to determine if the DDs completed their reviews. This occurred because FSA State officials rely on their DDs to complete the required reviews and resolve issues identified during their review, but do not closely oversee their work. FSA does not have a standard/established way of tracking the results of the reviews. As a result, FSA lacks assurance that DDs are (1) identifying and resolving weaknesses in the administration of LFP, (2) preventing participants from being affected by erroneous LFP administration, and (3) correcting errors before FSA issues erroneous payments.

FSA State Committees shall require reviews be conducted by DDs to ensure that county offices comply with LFP provisions, and State Executive Directors (SED) shall ensure that DDs conduct reviews.[24] Specifically, FSA requires DDs to review the first five LFP applications submitted in each service center before they are approved and, within 10 workdays of completing the review, provide a written report to the SED describing the review findings, including a list of errors discovered, and the overall status of the implementation of LFP in the FSA county office.[25]

OIG determined that the Oklahoma and Texas State offices did not effectively track DD reports.

- In Texas, 172 out of 173 service centers in 2010 and 2011 participated in LFP. However, OIG determined only 31 of the 172 service centers had the DD review reports that were timely filed with the State. Although the Texas State office stated that it reviews the results of the reviews with the DDs, it was unable to explain why it did not have reports from all of the 172 participating service centers. State officials further stated that the budget has had a significant impact on their ability to conduct additional training and visit counties that are experiencing problems administering FSA programs. As a result, they rely on the DDs to address any issues.

- In Oklahoma, all 60 service centers in 2011 participated in LFP. OIG determined that none of the service centers had DD review reports filed with the State. Instead, prior to OIG's visit to the State office, the State office requested from the service centers the FSA-770 LFP checklists that the DDs used to complete and document their reviews. The State office received copies of the checklists from 55 of the 60 service centers. However, OIG was unable to determine the timeframe in which the checklists were provided to the FSA State office for review. Oklahoma State officials admitted that they did not do a good job of ensuring that the reports were being prepared and filed with the State; they stated that, if any issues were identified during the reviews, the DDs are responsible for ensuring that the problems are resolved. The State provided information bulletins and

[24] *FSA Handbook 1-LDAP*, Livestock Disaster Assistance Programs, Amendment 3, Paragraph 161, dated September 16, 2009.
[25] *FSA Handbook 1-LDAP*, Livestock Disaster Assistance Programs, Amendment 3, Subparagraph 201D, dated September 16, 2009.

guidance to the counties and the DDs to help them address specific issues. However, Oklahoma also stated that budget restrictions prevented State officials from traveling to follow up and ensure that weaknesses were corrected.

OIG acknowledges that FSA State and county offices faced significant challenges in administering their programs during a period of sharp budget constraints. We concluded that State offices must ensure that the DDs are completing and filing a report of their reviews, as required, so that LFP functions as intended.

Recommendation 10

Develop and implement a tracking system for the required DD reviews in each State in order to ensure DD reviews are done timely and a report is filed with the SED within the required timeframe.

Agency Response

One of FSA's goals will be to develop and implement a tracking system for monitoring required DD reviews to ensure they are done timely and that reports are filed with SED's within the required timeframe. Estimated completion date is December 31, 2015.

OIG Position

We accept management decision for this recommendation.

Scope and Methodology

We conducted our audit of FSA's Livestock Forage Program (LFP) at the FSA national office, Texas and Oklahoma State FSA offices, and 12 FSA county offices (see Exhibit B). We performed fieldwork between April 2013 and April 2014.

Our audit covered LFP payments for the 2010 and 2011 program years. Using FSA-supplied data, the largest amount of payments were to producers in Texas and Oklahoma for the 2 program years ($170.6 million of $290.8 million nationally).

We judgmentally selected six counties in both Texas and Oklahoma that generally had producers who received at least $30,000 in payments and either had the highest number of payments, highest dollar amount of payments, or anomalies identified through analysis of payments with carrying capacities. Within each county, we judgmentally selected 10 producers based on largest payments and/or other criteria, including multi-county producers, employees, DD reviews, new producers, and county office recommendations. In total, we reviewed 120 producers who received a total of $5,676,446 in LFP payments. These 120 producers received 155 payments in the 2010 and 2011 program years.

To accomplish our objectives, we:

- Reviewed applicable laws, regulations, handbooks, and agency policy and procedures to gain sufficient knowledge of LFP.
- Interviewed FSA officials to ascertain the controls in place to ensure producer eligibility, payment accuracy, and payment and income limitations.
- Reviewed selected producer files to ensure program eligibility, producer compliance, and payment accuracy.
- Interviewed selected producers and conducted site visits to confirm the reasonableness of a producer's application information.
- Assessed the reasonableness of State and COC actions and compliance reviews.
- Interviewed FSA officials to determine the cause of deficiencies noted during the review of sampled producers and identify any related program weaknesses.

We did not perform tests of any FSA database or information system used by the agency to determine the overall reliability of the information obtained from them. Therefore, we make no representation as to the adequacy of the information systems.

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

Abbreviations

AGI .... Adjusted Gross Income
CARS .... Crop Acreage Reporting System
COC .... County Committee
DD .... District Directors
FSA .... Farm Service Agency
LFP .... Livestock Forage Program
NAP .... Noninsured Crop Disaster Assistance Program
NRCS .... Natural Resources Conservation Service
OIG .... Office of Inspector General
PRF .... Pasture, Rangeland, and Forage
RMPR .... Risk Management Purchase Requirement
SED .... State Executive Director

Exhibit A: Summary of Monetary Results

Exhibit A below summarizes the finding number, recommendation number, description of error, program dollar amount impacted, and OIG management tracking classification associated with the monetary results from the report's findings.

Finding	Recommendation	Description	Amount	Category
1	2	FSA overpayments of LFP benefits to producers	$358,956	Questioned Costs, Recovery Recommended
1	3	FSA underpayments of LFP benefits to producers	$14,179	Underpayments and Overcollections
2	4	Producer falsely certified LFP applications	$67,838	Questioned Costs, Recovery Recommended
TOTAL			**$440,973**	

Exhibit B: Fieldwork Sites

Exhibit B below lists the fieldwork office and location sites.

OFFICE	LOCATION
FSA National Office	Washington, DC
Oklahoma State Office	Stillwater, OK
Caddo County Office	Anadarko, OK
Garvin County Office	Pauls Valley, OK
Jefferson County Office	Waurika, OK
Kiowa County Office	Hobart, OK
Osage County Office	Pawhuska, OK
Washita County Office	Cordell, OK
Texas State Office	College Station, TX
Crockett County Office	Big Lake, TX
Edwards County Office	Rocksprings, TX
Houston County Office	Crockett, TX
Jeff Davis County Office	Alpine, TX
Matagorda County Office	Bay City, TX
Milam County Office	Cameron, TX

Exhibit C: FSA's Determination of Animal Units and Feed Consumed Per Day

Exhibit C below provides information about FSA's determination by animal type of animal units and feed consumed per day.

Animal Type	Animal Units	Feed Consumed Per Day
Adult Cattle, Buffalo or Beefalo	1	15.7
Adult Dairy Cattle	2.6	40.8
Non-Adult Beef and Dairy Cattle	0.75	11.8
Goats	0.25	3.9
Sheep	0.25	3.9
Horses	0.74	11.6
Deer	0.25	3.9
Reindeer	0.22	3.5
Elk < 400 lbs.	0.22	3.5
Elk 400 lbs. to 799 lbs.	0.41	6.4
Elk > 800 lbs.	0.54	8.5
Swine < 45 lbs.	0.03	0.5
Swine 45 lbs. to 124 lbs.	0.07	1.1
Swine 125 lbs. to 234 lbs.	0.12	1.9
Sow > 235 lbs.	0.41	6.4
Boar > 235 lbs.	0.24	3.8
Poultry < 3 lbs.	0.01	0.2
Poultry 3 lbs. to 7.9 lbs.	0.01	0.2
Poultry > 8 lbs.	0.03	0.5
Alpaca	0.82	12.9
Llama	0.36	5.7
Emu	0.51	8.0

Exhibit D: NRCS' Determination of Animal Units and Forage Consumed Per Day

Exhibit D below provides information about NRCS' determination by kinds/classes of animals or animal unit equivalent and forage consumed per day.

Kinds/Classes of Animals	Animal Unit Equivalent	Forage Consumed Per Day (lbs.)
Cow, dry	0.92	24
Cow, with calf	1.00	26
Bull, mature	1.35	35
Cattle, 1 year old	0.60	15.6
Cattle, 2 years old	0.80	20.8
Horse, mature	1.25	32.5
Sheep, mature	0.20	5.2
Lamb, 1 year old	0.15	3.9
Goat, mature	0.15	3.9
Kid, 1 year old	0.10	2.6
Deer, white-tailed, mature	0.15	3.9
Deer, mule, mature	0.20	5.2
Elk, mature	0.60	15.6
Antelope, mature	0.20	5.2
Bison, mature	1.00	26
Sheep, bighorn, mature	0.20	5.2
Exotic species (To be determined locally)		

Source: NRCS National Range and Pasture Handbook, Revision 1, dated December 2003.

Exhibit E: FSA Improper Payments

Exhibit E below identifies multiple issues that caused some LFP payments to be improper. Sample payment numbers 1 through 30 identify the errors by payment in Oklahoma, and sample payment numbers 31 through 78 identify the errors by payment in Texas.

Sample Payment Number	Year	Payment	Overpayment/ (Underpayment)	Incorrect Carrying Capacity	Incorrect Acres	Irrigated Acres	Incorrect Owner's Share	Inadequate Leases	Erroneous Accounts Receivable
1	2011	$55,661	$0	1	0	0	0	0	0
2	2011	$40,698	$0	1	0	0	0	0	0
3	2011	$39,600	$117	1	0	0	0	0	0
4	2011	$65,152	$0	1	0	0	0	0	0
5	2011	$48,600	$0	1	0	1	0	0	0
6	2011	$44,516	$32,675	1	1	1	1	1	0
7	2011	$43,979	$43,979	0	0	0	0	1	0
8	2011	$14,530	$0	0	0	0	0	1	0
9	2011	$100,000	$0	0	0	0	0	1	0
10	2011	$100,000	$0	0	0	0	0	1	0
11	2011	$100,000	$1,984	1	0	1	0	0	0
12	2011	$36,060	$2,916	0	1	0	0	0	0
13	2011	$8,525	$124	0	1	0	0	0	0
14	2011	$6,503	$0	0	1	0	0	0	0
15	2011	$31,900	$18,316	1	0	0	0	1	0
16	2011	$3,998	$23	1	0	0	0	0	0
17	2011	$91,869	$15,873	1	0	0	0	0	0
18	2011	$9,888	$0	1	0	0	0	0	0
19	2011	$10,585	$463	1	0	0	0	0	0
20	2011	$100,000	$0	1	0	0	0	0	0
21	2011	$72,030	$20,250	1	0	0	0	0	0
22	2011	$77,584	$14,296	1	1	0	0	1	0
23	2011	$100,000	$0	1	1	0	0	1	0
24	2011	$100,000	$9,517	1	0	0	0	0	0
25	2011	$89,847	$0.00	1	0	0	0	0	0
26	2011	$86,080	$13,335	1	0	0	0	1	0
27	2011	$43,350	$19,416	1	0	0	0	1	0
28	2011	$42,615	$0	1	0	0	0	0	0
29	2011	$13,140	$8,118	0	0	0	0	1	0
30	2011	$32,143	$19,761	1	0	0	0	1	0

Sample Payment Number	Year	Payment	Overpayment/ (Underpayment)	Incorrect Carrying Capacity	Incorrect Acres	Irrigated Acres	Incorrect Owner's Share	Inadequate Leases	Erroneous Accounts Receivable
Oklahoma Subtotal		**$1,608,853**	**$221,163**	**22**	**6**	**3**	**1**	**12**	**0**
31	2010	$62,502	$10	0	1	0	0	0	0
32	2010	$29,192	$3,222	0	1	0	0	0	0
33	2011	$42,798	$4,737	0	1	0	0	0	0
34	2010	$6,814	$12	0	1	0	0	0	0
35	2010	$25,130	-$3,220	0	1	0	0	0	0
36	2010	$23,464	$3,504	1	0	0	0	0	0
37	2010	$21,252	-$1,542	1	0	0	0	0	0
38	2011	$20,046	$858	0	1	0	0	0	0
39	2011	$49,773	$20,583	0	0	0	0	1	0
40	2011	$43,875	$210	0	0	0	0	1	0
41	2011	$75,115	$0	0	0	0	0	1	0
42	2011	$10,810	$0	0	1	0	0	0	0
43	2011	$100,000	$0	0	1	0	0	0	0
44	2011	$25,744	$829	0	1	0	0	0	0
45	2011	$21,765	$1,407	0	1	0	0	0	0
46	2011	$47,495	$0	1	1	0	0	1	0
47	2011	$47,495	$89	1	1	0	0	1	0
48	2011	$47,495	$0	1	1	0	0	1	0
49	2011	$47,495	$89	1	1	0	0	1	0
50	2011	$3,796	$373	0	0	1	0	0	0
51	2011	$5,850	$2,328	1	1	0	0	1	0
52	2011	$26,583	$6,498	1	0	0	0	1	0
53	2010	$14,016	$124	1	1	0	0	0	0
54	2011	$50,505	$4,071	1	1	0	0	1	0
55	2011	$47,961	$33	1	0	0	0	0	0
56	2010	$23,652	$4,166	1	0	0	0	1	0
57	2011	$37,594	$14,970	1	0	0	0	1	0
58	2010	$17,082	$1,630	1	1	0	0	0	0
59	2011	$34,734	$1,338	1	1	0	0	0	0
60	2010	$21,634	$17,354	0	0	0	0	1	0
61	2011	$31,084	$24,808	0	0	0	0	1	0
62	2010	$11,618	$16	1	0	0	0	0	0
63	2011	$20,760	$48	1	0	0	0	0	0
64	2010	$13,522	$676	1	1	0	0	0	0

Sample Payment Number	Year	Payment	Overpayment/ (Underpayment)	Incorrect Carrying Capacity	Incorrect Acres	Irrigated Acres	Incorrect Owner's Share	Inadequate Leases	Erroneous Accounts Receivable
65	2011	$19,827	$993	1	1	0	0	0	0
66	2010	$6,152	$512	1	0	0	0	0	0
67	2011	$9,740	$1,469	1	0	0	0	0	0
68	2010	$3,848	$134	1	1	0	0	0	0
69	2011	$5,640	$195	1	1	0	0	0	0
70	2010	$1,102	$72	1	0	0	0	0	0
71	2011	$1,386	$0	1	0	0	0	0	0
72	2010	$31,578	-$9,417	0	0	0	0	0	1
73	2010	$27,429	$3,555	0	0	0	0	1	0
74	2011	$26,826	$3,474	0	0	0	0	1	0
75	2010	$4,074	$4,074	0	0	0	0	1	0
76	2011	$3,515	$3,515	0	0	0	0	1	0
77	2010	$38,571	$2,943	0	0	0	0	1	0
78	2011	$31614	$2,874	0	0	0	0	1	0
Texas Subtotal		**$1,319,953**	**$151,972**	**25**	**23**	**1**	**0**	**20**	**1**
Overall Total			**$373,135**	**47**	**29**	**4**	**1**	**32**	**1**

FARM SERVICE AGENCY’S RESPONSE TO AUDIT REPORT

Farm and
Foreign
Agricultural
Services

Farm
Service
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DATE: November 18, 2014

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

FROM: Philip Sharp, Director
Operations Review and Analysis Staff

SUBJECT: Response to Office of Inspector General (OIG) Official Draft Report 03702-0001-32 – Livestock Forage Program

The Farm Service Agency's (FSA) responses to the report's ten recommendations are listed below.

Recommendation 1

Establish an automated process to calculate the total acres eligible to be claimed for payment in order to reduce errors resulting from manually inputting acreage data into the Livestock Forage Program (LFP) application system.

FSA Response:

FSA is continually improving its automated processes through various initiatives. One of FSA's many goals is to be able to automate the process of calculating total acres under the LFP and eliminate the need for manually inputting these acres on the application as resources permit. Estimated completion date is March 31, 2015.

Recommendation 2

Review and recover improper overpayments of $358,956 due to errors in calculating LFP payments.

FSA Response:

County Offices will be instructed to review and recover resultant overpayments for each application for which it is determined errors occurred in calculating LFP payments according to Finding 1 in the audit report. Estimated completion date is March 31, 2015.

Recommendation 3

Review and issue improper underpaid amounts of $14,179 plus any prompt payment interest due to errors in calculating LFP payments.

FSA Response:

County Offices will be instructed to review and issue resultant underpayment amounts plus any prompt payment interest due to errors for each application for which it is determined errors occurred in calculating LFP payments according to Finding 1 in the audit report. Estimated completion date is March 31, 2015.

Recommendation 4

Determine whether the producer falsely certified claimed livestock on the 2010 and 2011 LFP applications. If it is determined that the producer falsely certified livestock on the 2010 and 2011applications, recover improper payments of $67,838 and take action as deemed necessary and appropriate. If it is determined that the producer did not falsely certify livestock on the 2010 and 2011 applications, recover any identified improper payments based on ineligible livestock.

FSA Response:

FSA concurs. The COC shall determine whether the producer deliberately misrepresented certifying to ineligible livestock or otherwise used a scheme or device with the intent to receive benefits for which the participant would not otherwise be entitled to with respect to the 2010 and 2011 LFP applications, recover improper payments, and take the appropriate action accordingly. If it is determined that the producer did not misrepresent or use a scheme or device with the intent to receive benefits, recover any identified improper payments based on ineligible livestock. Estimated completion date is March 31, 2015.

Recommendation 5

Revise guidance to better define the required elements for eligible leased land.

FSA Response:

FSA handbook procedure in 1-LDAP (Rev. 1) has been written to provide:

- better defined required elements for eligible leased land.

- in tabular format, STC’s and COC’s guidance for determining whether written agreements between livestock owners of eligible livestock that set the specific terms, conditions, and obligations of the parties involved about the production of the livestock, constitutes risk to the party providing care for (that is, survival of the livestock) the livestock as contract grower, including risk in the livestock and grazing land/pastureland for which loss is being claimed

- if written acreage lease or rental agreement was not entered into, a copy of CCC-855 must be completed and signed by the lessor, certifying to the number of acres leased; date lease commenced; date lease expired; terms of the lease agreement such as term of lease such as dollar per acre rental arrangement, cash or fixed dollar amount, share rent, rate of gain, cost per head, per day or month, animal unit month basis, etc.

Recommendation 6:

Clarify guidance to ensure that multi-county producers whose same covered livestock graze multiple counties are administered consistently and equitably throughout all states.

FSA Response:

FSA handbook procedure in 1-LDAP (Rev. 1) has been written to provide and clarify guidance to ensure that multi-county producers whose same covered livestock graze multiple counties are administered consistently and equitably throughout all states.

Recommendation 7

Document the monthly feed costs for all eligible livestock in order to ensure they are reasonable and equitable.

FSA Response:

FSA will conduct a review of the conversion factors used in determining the feed grain equivalent of the average number of pound of corn per day necessary to feed the applicable livestock to ensure they are reasonable and equitable in determining and documenting monthly feed cost. Estimated completion date is March 31, 2015.

Recommendation 8

Revise the FSA Handbook 1-LDAP to clarify the procedures the District Director (DD) should perform when conducting this review to ensure that DDs review payment calculations and eligibility.

FSA Response:

FSA will revise program provisions to clarify the procedures the District Director (DD) should perform when conducting reviews to ensure DD's review payment calculations and eligibility for future program years. Estimated completion date is March 31, 2015.

Recommendation 9

Create a new checklist form or modify FSA's current checklist form to be specifically designed for the DD review of LFP applications to ensure payment eligibility and payment documentation are correctly reviewed and documented.

FSA Response:

FSA will create a checklist for DD review of LFP applications to ensure payment eligibility and payment documentation are correctly reviewed and documented when reviews are conducted for future program years. Estimated completion date is March 31, 2015.

Recommendation 10

Develop and implement a tracking system for the required DD reviews in each State in order to ensure DD reviews are done timely and a report is filed with the State Executive Director (SED) within the required timeframe.

FSA Response:

One of FSA's goals will be to develop and implement a tracking system for monitoring required DD reviews to ensure they are done timely and that reports are filed with SED's within the required timeframe. Estimated completion date is December 31, 2015.

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