U.S. Department of Agriculture

Office of Inspector General
Midwest Region

Audit Report

Identification and Reporting of Improper Payments in FSA High-Risk Programs

Report No. 03601-0016-Ch
March 2008

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250

DATE: March 27, 2008

REPLY TO
ATTN. OF: 03601-0016-Ch

TO: Teresa C. Lasseter
Administrator
Farm Service Agency

THROUGH: T. Mike McCann
Director
FSA Operations Review and Analysis Staff

FROM: Robert W. Young /s/
Assistant Inspector General
for Audit

SUBJECT: Identification and Reporting of Improper Payments in FSA High-Risk Programs

This report presents the results of our audit of the Farm Service Agency's (FSA) process to quantify improper payments. FSA's process encompasses its seven high-risk programs reported in the Department of Agriculture's (USDA) fiscal year (FY) 2007 Performance and Accountability Report (PAR). The audit was conducted at the request of USDA's Chief Financial Officer. Your agency's response to the draft report, dated March 12, 2008, is included in its entirety as exhibit A, with excerpts and the Office of Inspector General's (OIG) position incorporated into the relevant section of the report.

The purpose of the audit was to provide reasonable assurance that FSA's estimates were accurate because of questionable reporting in the previous year. Specifically, the objectives of the audit were to evaluate (1) the established criteria and programmatic reviews for determining improper payments, (2) the statistical process used to select and estimate the extent of improper payments, and (3) the corrective actions for improper payments identified in the sample. Based on the results of our audit, we concluded the process used by FSA for the FY 2007 PAR was sufficient and would result in reliable estimates of improper payments. During the audit, we reported several issues to FSA officials who corrected them before final projections were made. These issues are described in the Findings and Recommendations section of this report.

Based on the FSA response, dated March 12, 2008, we have reached management decision on Recommendation 1. Please follow your agency's internal procedures in forwarding documentation for final action to the Office of the Chief Financial Officer.

We have not reached management decision for Recommendation 2. Management decision on this recommendation can be reached once you have provided us with the additional information requested in the report section titled, OIG Position, following the recommendation.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the timeframe for implementing the recommendation. Please note that the regulation requires a management decision to be reached on all findings within a maximum of 6 months from report issuance, and final action to be taken within 1 year of each management decision.

We appreciate the courtesies and cooperation extended to us by your staff.

BACKGROUND

The Improper Payments Information Act of 2002 (IPIA) requires agencies to report in their Performance and Accountability Report an annual estimated amount of improper payments, total outlays, and corrective action plans for all programs identified as high-risk. Farm Service Agency's Financial Management Division (FMD) is responsible for ensuring the agency complies with IPIA requirements, including executing statistical samples of high-risk programs and reporting the results to the Office of the Chief Financial Officer (OCFO) for inclusion in the PAR. In FY 2006, FSA officials reported improper payments of over $2.8 billion, significantly higher than the prior year's reported improper payments of $50 million. In a prior audit of the FY 2005 estimate, we noted problems with the process used for developing the estimate. As a result, the USDA Chief Financial Officer requested we perform an audit of FSA implementation of the IPIA requirements for FY 2007.

During our FY 2005 audit of IPIA implementation, FSA officials revised their process for developing estimates. For the FY 2006 PAR, FMD used FSA's Operations Review and Analysis Staff (ORAS) to perform sampling required to identify improper payments in FSA's high-risk programs and provide estimates for reporting in the PAR. ORAS officials contracted with a statistician to develop sampling plans and provide projected improper payment estimates for the high-risk programs. Also, ORAS officials established specific criteria for each high-risk program (referred to as "test items") that, if met, would cause program payments to be improper. Then, ORAS officials directed County Operation Reviewers (COR) to review sampled payments in the selected field offices against the test items it had developed and identify any improper payments. Since this review by FSA for reporting in the FY 2006 PAR was still ongoing at the conclusion of our audit of FY 2005 reporting, we were unable to evaluate its results. However, we did make recommendations to the extent that we could at the time.

In preparation for estimating improper payments in the FY 2007 PAR, ORAS officials made additional revisions to their process by redefining test items developed for each high-risk program. ORAS also held a national training session for all CORs to ensure they understood the test items and review process. In addition, to help ensure the accuracy of improper payment estimates, FSA's Administrator issued a memorandum on December 14, 2006,[1] that directed (county) committees in field offices to take actions to mitigate improper payment errors resulting from missing signatures and incomplete or missing documentation. The field offices were given 30 business days to obtain applicable signatures or supporting documentation, but only if the participant was in compliance with program provisions, the correct participant received the correct payment, and the payment was not in dispute.

For the 7 high-risk programs in the FY 2007 review, the contracted statistician randomly selected a total of 9,632 payments in 537 field offices, totaling over $206.7 million. After CORs completed reviews at each field office, they sent their reports to the applicable State offices for review and also transmitted them to ORAS Headquarters. ORAS officials reviewed each report to determine if CORs properly applied the test items to identify improper payments and if dollar

[1] Improper Payments Information Act (IPIA) of 2002 Guidance, December 14, 2006

amounts reported as improper were accurate. After all reports were completed and reviewed, ORAS officials sent summary results of sampled payments to the contracted statistician, who used this information to project estimates to be reported in the PAR.

OBJECTIVE

The objectives of this audit were to evaluate (1) the established criteria and programmatic reviews for determining improper payments, (2) the statistical process used to select and estimate the extent of improper payments, and (3) the corrective actions for improper payments identified in the sample.

SCOPE AND METHODOLOGY

We performed our audit at the FSA National Office in Washington, D.C., and Alexandria, Virginia. Also, we visited 15 field offices located in 10 States and Puerto Rico. (See exhibit B for the list of field offices visited.) We made a judgmental selection of field offices, generally based on the number and type of payments being sampled in the field offices and their geographic locations. We reviewed 421 payments, totaling $8.6 million, in the 15 field offices. Our audit fieldwork was conducted from March through October 2007.

We interviewed FSA Headquarters officials to gain an understanding of the process used for estimating and reporting improper payments for its seven high-risk programs. Those programs are: (1) Marketing Assistance Loans (MAL), (2) Loan Deficiency Payments (LDP), (3) Direct and Counter-Cyclical Payments (DCP), (4) Crop Disaster Programs (CDP), (5) Conservation Reserve Program (CRP), (6) Noninsured Assistance Program (NAP), and (7) Milk Income Loss Contract (MILC). The programs had estimated outlays totaling $22.6 billion in FY 2007.

To accomplish our objectives, we also:

- attended the FSA COR training session in February, 2007;
- reviewed pertinent program regulations, policies, and handbooks and the guidance provided to CORs for identifying improper payments;
- interviewed the statistician FSA contracted with;
- reviewed the statistical sampling plans developed by FSA's statistician;
- interviewed field office staffs in the offices visited;
- evaluated COR payment determinations for all sampled payments in the offices visited;
- reviewed files for CORs that completed the sample payment reviews; and,
- made farm visits for selected payments to verify eligibility.

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

FINDING AND RECOMMENDATIONS

1. FSA's Improper Payment Review Process Has Improved

Our audit of FSA's process for developing and reporting estimates of improper payments in its high-risk programs disclosed that the process provided reliable estimates.

To evaluate FSA's process for estimating improper payments, we selected field offices reviewed by CORs. We reviewed all sampled payments to determine if the CORs' conclusions were accurate and supportable and if the criteria for defining improper payments were applied consistently. We noted a considerable decrease in improper payment estimates for six of the seven programs in 2007. In 2006, improper payment estimates ranged between 3.53 percent and 22.94 percent of program outlays, but in 2007, the estimates ranged between 0.37 percent and 13.14 percent of outlays. (See exhibit C.)

Following FY 2006, FSA officials made improvements in their process for estimating improper payments. ORAS, along with program managers and FMD, developed specific criteria (a list of test items) for 2007 that its reviewers used to determine whether sampled payments were proper.

We concluded the process FSA employed to estimate improper payments in its high-risk programs has significantly improved the reliability of its estimates.

Overall, the CORs used the appropriate criteria to accurately determine whether sampled payments were improper and appropriately documented support for their decisions. However, we identified conditions, as described below, which could have impacted the estimates. These were corrected by FSA officials before final projections were calculated.

Policy for Determining Lien Search Errors Questioned

FSA regulations require officials to conduct lien searches in relation to producers that apply for MAL in time to gain the required security on loan collateral.[2] FSA's MAL program handbook includes a specific timeframe in which the action should be taken. ORAS officials included the handbook requirement as a test item used by CORs in the sampled payments.[3] If lien searches were not completed within the proper time period, CORs were to identify those as improper payments. During the course of our audit, we identified lien searches in one field office that were conducted prior to the timeframe required by the handbook. Because the lien searches were performed outside the period specified in the handbook, the COR considered the loans as improper, even though the necessary financing instruments to secure the government's interest were obtained.

We discussed this policy on several occasions with ORAS officials because of the substantial impact it would have on projected improper payments. If such early lien searches were considered improper payments, FSA projected improper MAL payments would have reached

[2] *Code of Federal Regulations*, Title 7, Part 1421, Paragraph 1421.104, dated January 1, 2006
[3] Handbook 8-LP, Revision 1, Paragraph 403b, dated June 9, 2003

$822 million. However, officials brought the issue to the attention of FSA's Administrator before final projections were made. The Administrator decided that field office staff should follow program regulations which required that lien searches be performed (but not within the time period given in the handbook). This decision resulted in a reduction of $364.2 million in the estimate for improper payments in the MAL program. We concurred with the Administrator's decision.

During the exit conference on January 24, 2008, FSA officials stated they believed the handbook requirement for conducting lien searches was a good requirement and it will be retained. However, because the regulations take precedence over the agency's handbook, the officials redefined the improper payment test item for lien searches to reflect an improper payment only when the required lien search was not performed prior to loan disbursement. FSA officials stated that if lien searches are not conducted within the time period specified in the handbook for the sampled loans, they will still be determined compliance errors but the loans will not be considered improper. We concur with this determination.

Statistician's Projection of Estimates Understated

We found that the contracted statistician did not use the FSA revised codes to identify lien search errors. This resulted in the improper payment estimate for MAL to be understated by about $176 million. This occurred when FSA initial codes given to the statistician to reflect improper payments for lien searches were revised after officials reviewed the results of sampled payments and implemented revised policy. The initial estimate of improper MAL payments was projected at about $281 million but was revised to $457.6 million when the error was corrected by the statistician. FSA failed to notice the error in the projected improper payment estimate reported to FMD. We identified and reported the error to FSA officials prior to their final report of improper payments to the OCFO.

During the exit conference, FSA officials explained that controls were in place for reviewing and verifying data for the projected estimates. They stated that FSA staff verified control totals in the data received from the statistician. However, because FSA had requested three different improper MAL payment projections and because of time constraints, staff had not completed all data verifications. FSA officials believed the error would have been identified had staff reviewed all of the control totals. FSA should develop a procedure to ensure controls over the estimation process are performed effectively and timely.

Improper Payments Not Identified

Our audit identified reportable, but immaterial, areas where the determination of improper payments could be improved. We identified 18 improper payments not reported in 5 of the 15 field offices visited. We concluded these were isolated incidents and were not indicative of COR review capabilities. The errors resulted in immaterial both over- and underpayments.

Of these 18 improper payments, 15 were in the CDP and NAP programs in 2 field offices and related to late-payment interest due to the producers that had not been paid. Generally, we noted

that field office staff calculated program payments properly, but had not provided producers with payments within a 30-day period, as required by regulation. Producers are to receive interest for the days payments are late. As a result, underpayments of approximately $2,100 were made. CORs did not identify and report these as improper payments. The two CORs involved stated that they were aware of the requirement to review payments for the applicability of late-payment interest, but they failed to do so in these cases.

There were three other minor errors in separate field offices that CORs had not identified during their reviews of payment determinations. The first involved an error in the calculation for net production for CDP. The second involved a CRP incentive payment the producer was not entitled to receive. The third involved an input error made at the county office for an LDP payment. We attributed each to oversight by the applicable COR.

In each instance, we provided FSA officials with the details of our analysis and corrections were made before payment projections were made.

CONCLUSION

Based on our audit, the FSA processes used to identify and estimate improper payments resulted in reliable improper payment estimates. However, we did identify needed revisions related to lien searches and identified a statistical error that should have been identified by FSA during its verification of statistical results.

Recommendation 1

Revise the agency's guidance for conducting reviews of improper payments to reflect the revised definition of an improper payment as it pertains to lien searches.

Agency Response

FSA officials agreed with the recommendation. In their response, dated March 12, 2008, FSA officials stated that MAL test items were modified for the 2008 improper payment review of 2007 payments to indicate an improper payment only in those cases where the required lien search was not performed before loan disbursement. In addition, the test items clearly identify those cases where a lien search was performed before the loan request was made. The officials provided a copy of the modified test items for our review.

OIG Position

We accept the management decision. For final action, FSA needs to follow its internal procedures and provide OCFO with documentation showing the modified test item for lien searches for Marketing Assistance Loans, conducted for the 2008 improper payment review of 2007 payments.

Recommendation 2

Develop a procedure to ensure controls over the estimation process are performed effectively and timely.

Agency Response

FSA officials agreed with the recommendation. The officials stated that a two-person review of the statistician's data will be conducted to ensure the proper codes were used. Both reviewers will initial the statistician's log file to indicate the review was completed and data verified as being correct before compilation of error rates.

OIG Position

We concur with the corrective action described for reviewing data received from the statistician as being complete and accurate. To reach management decision, FSA needs to provide a written procedure for reviewing the statistician's data and a timeframe for implementing the procedure.

Exhibit A – Agency Response

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
20250-0501

MAR 12 2008

TO: Director, Administration and Finance Division
Office of Inspector General

FROM: Philip Sharp, Chief
Audits, Investigations, and State and County Review Branch

SUBJECT: Response to Official Draft, Audit 03601-0016-CH, Farm Service Agency's Identification and Reporting of Improper Payments in FSA High-Risk Programs

Recommendation 1

The Agency concurs with this recommendation. The Marketing Assistance Loan (MAL) test items were modified for the 2008 Improper Payment Information Act of 2002 reviews to indicate an improper payment only in those cases where the required lien search was not preformed before the loan disbursement. In addition, we modified the MAL test items to clearly identify those cases where the lien search was performed before a loan request. Attached is the list of Test Items used for the 2008 reviews (2007 payments). Test Item 23 addresses the lien search issue.

Recommendation 2

The Agency concurs with this recommendation. A two person review of the statistician's data will be conducted to ensure the proper codes were used by the statistician. The log file provided by the statistician shall be initialed by each reviewer as documentation the review was completed and data verified as being correct before compilation.

Attachment

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MAL Test Items for 2007 Payments

Record _____ **Payment $** _____ **Calculated $**_____ *1/*

Note: Shaded Answer Codes will result in the payment being identified as improperly made.

1/ If one or more asterisked answer codes are used, the COR shall calculate and enter the correct payment amount after considering all applicable error conditions.

Test Item	Test Item Description and Answer Codes	
1	***Note or copy of original note is on file.***	
	1	Yes.
	2	No.
2	***Payee or payee's representative (authorized or not) signed note before disbursement.***	
	1	Yes. The signature was not missing at the time of disbursement.
	2	No. Note is not signed by payee or payee's representative.
	3	No. COC has determined** the correct producer received the loan and missing payee's signature has been obtained.
	9	Unknown. Note is not on file.
3	***Note signed on behalf of payee with signature authority on file at the time of disbursement.***	
	1	Yes. Signature authority received before disbursement.
	2	No.
	3	No. Obligation for compliance has NOT ended. Signature authority has been obtained.
	4	No. Obligation for compliance has NOT ended. COC has determined** the correct producer received the loan and signature authority was not obtained; however, the payee's signature has been obtained.
	5	No. Obligation for compliance has ended. COC determined** the correct producer received the loan.
	8	Not applicable. Representative signature is not applicable.
	9	Unknown. Note is not on file.
4	***All required signatures (other than payee) were obtained on the note before disbursement.***	
	1	Yes. There were no missing signatures and all representative signatures were supported by documentation provided before disbursement.
	2	No.
	3	No. There were no missing signatures. There was one or more unauthorized representative signatures at the time of disbursement; however, documentation is now on file to support all representative signatures.
	4	No. Obligation for compliance has NOT ended. COC has determined** the correct producer received the loan and all missing signatures have been obtained.
	5	No. Obligation for compliance has ended. COC determined** the correct producer received the loan and all missing signatures have been obtained.
	9	Unknown. Note is not on file.
5	***Loan is still outstanding.***	
	1	Yes. Market gain is applicable.
	2	Yes. Market gain is not applicable.
	3	No. Market gain is applicable.
	4	No. Market gain is not applicable.
6	***Acceptable acreage report for all cropland on the farm is on file at time the review began.***	
	1	Yes. Acceptable acreage report was filed on or before the applicable final reporting date.
	2	Yes. Acceptable acreage report was filed under the late-filed provisions.
	3	No.
	4	No. Acceptable acreage report was filed under late-filed provisions after the review began.

* If an asterisked answer code is used, COR shall enter the improper payment amount attributed to the error.

** COC may determine the correct producer received the payment if the payment is not in dispute and the producer is in compliance with all program provisions. Missing signatures must be obtained and there must be evidence that the application was initiated and documentation was submitted timely to support the note. Determination must be documented in COC minutes. If producer's obligation for compliance has NOT ended and required signature authority cannot not be provided, the payee's signature is considered missing and must be obtained. If producer's obligation for compliance has ended, missing signature authority documentation is not required to be obtained.

MAL Test Items for 2007 Payments

Record _____ Payment $ _____ Calculated $_____ *1/*

Note: Shaded Answer Codes will result in the payment being identified as improperly made.

1/ If one or more asterisked answer codes are used, the COR shall calculate and enter the correct payment amount after considering all applicable error conditions.

Test Item	Test Item Description and Answer Codes	
7	***CCC-666 was on file with sufficient information to support the farm-stored loan at disbursement.***	
	1	Yes.
	2	No. CCC-666 is not on file.
	3	No. CCC-666 on file lacks sufficient information to support loan.
	8	Not applicable. Loan is not a farm-stored loan.
8	***AD-1026 is on file for payee before disbursement with sufficient information to allow a proper determination to be made.***	
	1	Yes. AD-1026 was received before disbursement.
	2	Yes. AD-1026 indicates the payee as ineligible for the loan.
	3	No. AD-1026 is not on file.
	4	No. AD-1026 on file lacks sufficient information to consider the certification on file.
	5	No. AD-1026 was received after disbursement.
9	***AD-1026 is on file for each person affiliated with payee before disbursement with sufficient information to allow a proper determination to be made.***	
	1	Yes. AD-1026 was received before disbursement.
	2	Yes. AD-1026 on file for one or more of the affiliated persons makes payee ineligible for the loan.
	3	No. AD-1026 for one or more affiliated persons is not on file.
	4	No. AD-1026 on file for one or more affiliated persons lacks sufficient information to consider the certification on file.
	5	A combination of codes 2, 3, and/or 4 is applicable.
	6	No. AD-1026 was received after disbursement.
	8	Not Applicable. No affiliated persons applicable.
10	***Producer had beneficial interest in commodity.***	
	1	Yes.
	2	No.
11	***Producer had risk in producing the commodity.***	
	1	Yes.
	2	No.
12	***Producer certified they had no delinquent Federal non-tax debt.***	
	1	Yes.
	2	No. No certification was made.
	3	Yes or No. Producer had a delinquent Federal non-tax debt (either certified by producer or discovered after LDP was made) but there is no evidence to indicate the debt has been resolved and the loan availability date has passed.
	4	Yes or No. Producer had a delinquent Federal non-tax debt (either certified by producer or discovered after LDP was made) and the loan availability date has not passed or the debt was resolved before the loan availability date.
13	***Loan exceeded $150,000 and applicable lobbying forms were obtained.***	
	1	Yes.
	2	No.
	8	Not applicable. Loan did not exceed $150,000.

* If an asterisked answer code is used, COR shall enter the improper payment amount attributed to the error.

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MAL Test Items for 2007 Payments

Record _____ Payment $ _____ Calculated $_____ *1/*

Note: Shaded Answer Codes will result in the payment being identified as improperly made.

1/ If one or more asterisked answer codes are used, the COR shall calculate and enter the correct payment amount after considering all applicable error conditions.

Test Item	Test Item Description and Answer Codes		
14	***CCC Cotton A-5 is on file with sufficient information to support the cotton loan.***		
	1	Yes.	
	2	No. No CCC-Cotton A-5 is on file.	
	3	No. CCC Cotton A-5 on file lacks sufficient information to support the loan.	
	8	Not applicable. Loan is not a non-recourse cotton loan.	
15	***Commodity was in existence and in a storable condition.***		
	1	Yes.	
*	2	No.	$ _____
16	***Commodity was merchantable for food, feed, or other uses determined by CCC.***		
	1	Yes.	
*	2	No.	$ _____
17	***The commodity does not contain mercurial compounds, toxin-producing molds, or other substances poisonous to humans.***		
	1	Yes.	
*	2	No.	$ _____
18	***Commodity meets the definition of the commodity.***		
	1	Yes.	
*	2	No.	$ _____
19	***The commodity was produced in the applicable crop year.***		
	1	Yes.	
*	2	No.	$ _____
20	***The correct commodity was placed under loan.***		
	1	Yes.	
*	2	No.	$ _____
21	***Commodity was not substituted, purchased, bartered, or received as a gift***		
	1	Yes.	
*	2	No.	$ _____
22	***Commodity was not produced on land owned by the Federal Government, if the land is occupied without lease, permit, or other rights of possession.***		
	1	Yes.	
*	2	No.	$ _____
23	***Required lien search was conducted before loan disbursement.***		
	1	Yes. Lien search was conducted after loan request and before disbursement.	
	2	Yes. The lien search was conducted before the loan was requested.	
	3	No.	
	8	Not applicable. Lien search was not required.	
24	***Required lien waiver was obtained before loan disbursement.***		
	1	Yes.	
	2	Yes. Lien waiver was obtained before the loan was requested.	
	3	No.	
	8	Not applicable. Lien search not required or no liens were applicable.	
	9	Unknown. Required lien search was not conducted.	

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MAL Test Items for 2007 Payments

Record _____ **Payment $** _____ **Calculated $**_____ *1/*

Note: Shaded Answer Codes will result in the payment being identified as improperly made.

1/ If one or more asterisked answer codes are used, the COR shall calculate and enter the correct payment amount after considering all applicable error conditions.

Test Item	Test Item Description and Answer Codes		
25	***Required UCC-1 is filed.***		
	1	Yes.	
	2	No.	
	8	Not applicable. UCC-1 is not required to be filed.	
26	***Loan quantity is supported by producer certification, measurement service, or warehouse receipt.***		
	1	Yes.	
*	2	No.	$ _____
27	***Loan quantity was determined reasonable by COC before the payment was made.***		
	1	Yes. Loan quantity required COC review before approval.	
*	2	No. Loan quantity required COC review and the review has not been competed.	$ _____
*	3	No. COC determined the loan quantity as not being reasonable before or after the payment was made.	$ _____
	4	No. Loan quantity required COC review; however, the COC determined the quantity reasonable after the payment was made.	
	8	Not applicable. Loan quantity did not require COC review.	
28	***The correct loan rate was used.***		
	1	Yes.	
*	2	No.	$ _____
29	***Second party review of eligibility requirements is completed.***		
	1	Yes.	
	2	No. The loan application is not initialed by the reviewer.	
30	***The note was approved by authorized CCC representative before disbursement.***		
	1	Yes. Note was approved before disbursement.	
	2	No.	
	3	No. Note was NOT approved by authorized CCC representative before disbursement and a subsequent review indicates loan should not be approved.	
	4	No. Note was approved after disbursement.	
	9	Unknown. Note is not on file.	
31	***CCC-770 Eligibility has been properly completed before disbursement.***		
	1	Yes.	
	2	No. One or more questions were not answered.	
	3	No. Not signed by preparer.	
	4	No. Both codes 2 and 3 are applicable.	
	8	Not applicable. Disbursement was made before CCC-770 requirement.	
32	***Applicable MAL CCC-770 has been properly completed before disbursement.***		
	1	Yes.	
	2	No. One or more questions were not answered.	
	3	No. Not signed by preparer.	
	4	No. Both codes 2 and 3 are applicable.	
	8	Not applicable. Disbursement was made before CCC-770 requirement.	

* If an asterisked answer code is used, COR shall enter the improper payment amount attributed to the error.

** COC may determine the correct producer received the payment if the payment is not in dispute and the producer is in compliance with all program provisions. Missing signatures must be obtained and there must be evidence that the application was initiated and documentation was submitted timely to support the note. Determination must be documented in COC minutes. If producer's obligation for compliance has NOT ended and required signature authority cannot not be provided, the payee's signature is considered missing and must be obtained. If producer's obligation for compliance has ended, missing signature authority documentation is not required to be obtained.

MAL Test Items for 2007 Payments

Record _____ **Payment $** _____ **Calculated $**_____ *1/*

Note: Shaded Answer Codes will result in the payment being identified as improperly made.

1/ If one or more asterisked answer codes are used, the COR shall calculate and enter the correct payment amount after considering all applicable error conditions.

Test Item	Test Item Description and Answer Codes		
33	***Late payment interest is applicable.***		
	1	Yes. Late payment interest was paid correctly.	
*	2	Yes. Late payment interest was not paid.	$ _____
*	3	Yes. Late payment interest amount paid was incorrect.	$ _____
	8	Not Applicable.	

* If an asterisked answer code is used, COR shall enter the improper payment amount attributed to the error.

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Exhibit B– Sites Visited During Field Work

State	Field Office	Programs[4] and Number of Payments Reviewed							
		CDP	CRP	DCP	LDP	MAL	NAP	MILC	Totals
Colorado	Adams		10	10	4	2			26
Delaware	Kent		10	10	10	10		10	50
Florida	Levy	10		10		10			30
Illinois	Iroquois		10	10	10	10			40
Indiana	Cass		10	10	10	10			40
Missouri	Platte		10	10	10	10			40
New Mexico	Torrance	10					15		25
Ohio	Pickaway		10	10	10	10		10	50
	Washington						12		12
Tennessee	Tipton		10	10	10	10			40
Virginia	New Kent	10							10
Puerto Rico	Arecibo						3		3
	Mayaguez	10						10	20
	Ponce	10							10
	Utuado	10					15		25
Totals		60	70	80	64	72	45	30	**421**

[4] Program acronyms: CDP (Crop Disaster Programs); CRP (Conservation Reserve Program); DCP (Direct and Counter-Cyclical Payment Program); LDP (Loan Deficiency Payment Program); MAL (Marketing Assistance Loan Program); MILC (Milk Income Loss Contract Program); and NAP (Noninsured Assistance Program)

Exhibit C – Improper Payments Reported FY 2006 and FY 2007 (dollars in millions)

Program	2006 Estimated Outlays	2006 Improper Payments	2006 Total Percentage IP Rate	2007 Estimated Outlays	2007 Improper Payments	2007 Total Percentage IP Rate
CDP	$2,365	$291	12.30%	$368	$25.3	6.76%
CRP	$1,815	$64	3.53%	$1,851	$8.7	0.45%
DCP	$8,546	$424	4.96%	$9,550	$37.0	0.37%
LDP	$4,790	$443	9.25%	$4,071	$18.3	0.45%
MAL	$7,950	$1,611	20.26%	$6,306	$457.6	7.52%
MILC	$9	$0	N/A	$351	$7.7	2.17%
NAP	$109	$25	22.94%	$64	$8.4	13.14%
Totals	**$25,584**	**$2,858**		**$22,561**	**$ 563.0**	