



United States Department of Agriculture
Office of Inspector General





Fiscal Year 2012 Farm Service Agency Farm Assistance Program Payments

Audit Report 03401-0002-11

What Were OIG's Objectives

We reviewed a statistical sample of FSA payments as part of our audit of the Department of Agriculture's Consolidated Financial Statements. Our objective was to determine if fiscal year 2012 FSA program payments were properly recorded in the accounting system and adequately supported.

What OIG Reviewed

To review FSA's fiscal year 2012 payments, we statistically selected a sample of 80 FSA payments totaling \$3.7 million, obtained supporting information, and recalculated the payments. We sampled payments related to seven FSA programs, including the SURE program.

What OIG Recommends

We recommend that FSA officials strengthen controls by emphasizing the importance of second-party reviews, and develop and implement a checklist to verify the integrity of SURE workbook inputs.

The Office of Inspector General assessed whether FSA properly recorded and supported payments made during fiscal year 2012 through its various farm assistance programs.

What OIG Found

The Office of Inspector General determined that the Farm Service Agency (FSA) did not properly record and adequately support all fiscal year 2012 FSA program payments. We identified errors related to 12 of the 80 FSA program payments in our statistical sample of farm assistance program payments FSA made in fiscal year 2012. These errors occurred primarily because FSA's internal controls over the Supplemental Revenue Assistance Payments (SURE) program's manual payment calculation process did not prevent the data errors from occurring. Personnel at county offices made errors when inputting the data into the manual workbook used to calculate the payments, and second-party reviewers did not identify these errors. FSA has agreed that these 12 errors resulted in improper payments of \$80,480, and has initiated or completed appropriate corrective actions for all errors. However, based on the results of these 80 sampled payments, we estimated that a total of about \$17 million of FSA's program payments were improper. Our review identified that FSA's rate of improper payments was 2.3 percent, an increase from the 1.4 percent rate we identified in an audit of payments FSA made in fiscal year 2011. FSA generally agreed with our recommendation and management decision was reached.



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



DATE: July 2, 2013

AUDIT
NUMBER: 03401-0002-11

TO: Juan M. Garcia
Administrator
Farm Service Agency

ATTN: Philip Sharp
Director
Operations Review and Analysis Staff

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Fiscal Year 2012 Farm Service Agency Farm Assistance Program Payments

This report presents the results of the subject audit. Your written response to the draft report, dated June 10, 2013, is included in its entirety at the end of the report. Excerpts from your response and the Office of Inspector General's position are incorporated in the relevant sections of the report. Based on your response, we were able to accept management decision on the recommendation in the report, and no further response to us is necessary.

In accordance with Departmental Regulation 1720-1, final action is required to be taken within 1 year of 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 and Objectives

Background

Within the U.S. Department of Agriculture (USDA), the Farm Service Agency's (FSA) mission is to equitably serve all farmers, ranchers, and agricultural partners through the delivery of effective, efficient agricultural programs for all Americans. FSA provides assistance for natural disaster losses resulting from drought, flood, fire, freeze, tornadoes, pest infestation, and other calamities. The agency distributes program-related payments through more than 2,345 State and county offices. In fiscal year 2012, FSA made about \$759 million in payments through its programs. Approximately 75 percent of payments (\$570 million) were made through the Supplemental Revenue Assistance Payments (SURE) program. FSA also made payments through ten other programs, including the Tree Assistance Program.¹

The SURE program provides agricultural disaster assistance to producers who suffer qualifying crop production losses, crop quality losses, or both, due to disaster(s), adverse weather, or other environmental conditions. Congress established this permanent crop disaster program in the *Food, Conservation, and Energy Act of 2008* (2008 Farm Bill) for producers who suffered such losses between the beginning of the 2008 crop year and September 30, 2011. Its inclusion in the 2008 Farm Bill represented a change from the ad hoc crop disaster programs that had served as Congress' primary instrument to disburse crop disaster assistance.

FSA has developed a workbook to guide the complex process of calculating SURE payments.² The manual calculation process includes the use of a series of Excel worksheets and crop data from various sources, including FSA and the Risk Management Agency (RMA). To complete the process, county office personnel must complete a significant amount of data entry. For instance, the SURE workbook used for 2010 program payments contained approximately 35 data fields, and each producer can have multiple crops. Further, completing each crop line requires approximately 23 entries. County personnel need to obtain acreage information from RMA, compare it with FSA information, and reconcile it, if needed. For instance, to ensure that the producer is eligible for the SURE program, personnel may need to check three data systems. These checks are also manual, as the workbook does not have the capability to check or reference other systems. The SURE Information Report may contain numerous pages and record types, along with differences in how FSA and RMA report the acreage information.

Objectives

The objective of our review was to determine if fiscal year 2012 FSA program payments were properly recorded in the accounting system and adequately supported.

¹ The Tree Assistance Program provides financial assistance to qualifying orchardists and nursery tree growers to replant or rehabilitate eligible trees, bushes, and vines damaged by natural disasters occurring between January 1, 2008 and September 30, 2011. The 2008 Farm Bill authorized this program, which is funded through the Agricultural Disaster Relief Trust Fund.

² *1-SURE Handbook* (October 26, 2012).

Section 1: Fiscal Year 2012 Improper Payments

Finding 1: FSA Made Improper Farm Assistance Program Payments

We identified errors related to 12 of the 80 FSA program payments in our statistical sample. These errors occurred primarily because FSA's internal controls over the SURE program's manual payment calculation process did not prevent the data errors from occurring. Personnel at county offices made errors when inputting the data into the manual workbook used to calculate the SURE program payments, and second-party reviewers did not identify these errors. FSA has agreed that these 12 errors resulted in improper payments of \$80,480, and has initiated or completed appropriate corrective actions for all errors. However, based on the results of these 80 sampled payments, we estimated that a total of about \$17 million of FSA's program payments were improper.³

In response to previous audits, FSA has taken steps intended to reduce SURE program payment errors and enhance the manual process that employees use to calculate payments.⁴ For instance, FSA has implemented the SURE Data Query Tool, a web-based software that employees can use to export acreage and unit data into the SURE workbook. Use of this optional tool eliminates part of the manual entry process. Additionally, FSA now provides a table of price and yield data to the personnel who calculate the payments. Also, in response to our audit findings for fiscal year 2011, FSA reminded employees of the importance of second-party reviews and the need to identify deficiencies during such reviews.⁵

Although FSA has taken these steps, our review identified that FSA's rate of improper payments was 2.3 percent, an increase from the previous year's 1.4 percent rate.⁶ Of the 12 errors we found in our statistical sample of 80 payments (including 56 SURE payments), 11 represented SURE program payments, for a total of \$77,980 in improper payments.⁷ The primary cause for errors was county office data input errors in the SURE workbook. Errors included, for example, the use of an incorrect RMA price during the calculation process, or incorrect production-to-count amounts.⁸ In addition to the 11 improper payments, we identified other exceptions to SURE program payments. These exceptions caused differences in SURE calculated payment

³ We are 95 percent confident that the improper payments did not exceed \$38 million. See exhibit B for additional information about our statistical plan, including sampling and universe information.

⁴ Previous audits include report 03024-0001-11, *Fiscal Year 2010 Farm Service Agency Farm Assistance Program Payments* (June 2011); and report 03401-0001-11, *Fiscal Year 2011 Farm Service Agency Farm Assistance Program Payments* (May 2012).

⁵ SURE Notice 25 to State and county offices (April 12, 2012).

⁶ In our audits of fiscal year 2010 and 2011 payments, we recalculated statistically-selected FSA program payments and estimated improper payment rates of 2 percent and 1.4 percent, respectively. For fiscal year 2010 payments, we identified 18 improper payments totaling \$61,714 and projected improper payments totaling \$49 million. For fiscal year 2011 payments, we identified 14 improper payments, totaling \$54,408, and projected improper payments totaling \$28.1 million.

⁷ The other error was a Tree Assistance Program payment. For the improper payment, we found the county office did not use the required actual receipts to calculate the payment. FSA agreed that this error resulted in an improper payment of \$2,500.

⁸ Specifically, we found errors related to the National Average Market Price amounts, the crop share entered on the form, the production-to-count, the RMA indemnity, producer premium, guaranteed basis, adjusted yield, status code and crop acres, and RMA data for the guaranteed basis and producer premium.

amounts. However, these exceptions did not affect the producer's actual payment because the producer's payment calculation already exceeded payment limitations.⁹ For instance, we determined that a county office failed to enter certain codes into the workbook, and incorrectly entered information when using a tool related to yields. We also found a discrepancy in the RMA data unit personnel used in calculations.¹⁰ Additionally, we determined that a county office did not use data from the correct report when multiplying a certain yield.¹¹

Although FSA personnel documented second-party reviews of the payments with their initials and the date that they completed, the reviews did not identify these errors. Specifically, reviewers did not adequately verify that information on the SURE Information Report was accurately input into the SURE workbook. Additionally, reviewers did not reconcile all FSA information against the RMA data that might have eliminated errors in the producer's crop share and crop status code.

The rise in the improper payment rate since fiscal year 2011 indicates that FSA should take additional action to further strengthen controls to reverse this trend in error rates.

As of September 30, 2011, the Department's authority to operate the SURE program expired. The deadline for 2011 SURE program payment signup is June 2013, and FSA expects SURE program payment activity to decline thereafter. However, FSA will be making SURE payments to farmers in fiscal year 2013, and needs to ensure the accuracy of the payments.

Recommendation 1

We recommend that FSA officials strengthen controls by emphasizing the importance of second-party reviews and developing and implementing a checklist to verify the integrity of SURE workbook inputs.

Agency Response

The authority for SURE ended with those crop losses that were due to a natural disaster that occurred through September 30, 2011. As a result, very little SURE activity remains and sign up for 2011 SURE ends on June 7, 2013. FSA *Handbook 1-SURE*, paragraph 21, provides instructions for using a FSA-770 SURE checklist as an optional management tool State offices can use to help address deficiencies identified by an audit or review; however, it is not a requirement. Due to the fact that SURE is in its final stages, FSA has determined not to require a checklist at this time.

FSA during the May 23, 2013, Deputy Administrator for Farm Programs video teleconference call with State offices, alerted States of the importance of second-party reviews and highlighted

⁹ FSA limits SURE and other farm assistance program payments, collectively. A producer cannot receive, directly or indirectly, more than \$100,000 per person or legal entity for fiscal years 2009 and 2010.

¹⁰ When calculating the RMA indemnity, county personnel failed to enter the RMA unit number, according to the *Handbook 1-SURE*, Paragraph 614F.

¹¹ County personnel used the acres shown in the "A" acreage record report, instead of using the acres shown in the "Y" subsequent year yield record when multiplying by the yield in the "Y" record.

the four areas of concern identified in the audit: share, acres, National Average Market Price, and data discrepancies between RMA and FSA. In addition, FSA reiterated the importance of second-party reviews in both FSA Notice SURE-33 (issued May 22, 2013), addressing the end of signup, and *Handbook 1-SURE*, amendment 27, subparagraph 665H (issued May 24, 2013).

OIG Position

We accept management decision on this recommendation.

Scope and Methodology

We obtained the universe of payments from FSA and statistically selected 80 payments made from October 1, 2011, through September 30, 2012.¹² FSA provided four data extracts that included program payments for all of fiscal year 2012, totaling \$759 million. FSA made the payments through 11 programs.¹³

Details on each data extract are as follows:

- The first extract included payments of about \$483 million, made from October 1, 2011, through March 31, 2012, from which we statistically selected 50 payments.
- The second extract included payments of about \$196 million, made from April 1, 2012, through June 30, 2012, from which we statistically selected 21 payments.
- The third extract included payments of about \$61 million, made from July 1, 2012, through August 31, 2012, from which we statistically selected 7 payments.
- The fourth extract included payments of about \$19 million, made in September 2012, from which we statistically selected 2 payments.

We relied on the data extracts provided by FSA, and we validated the completeness of that data. We obtained supporting documentation from FSA offices nationwide, such as applications, workbooks, invoices, receipts, and production records for each sample and recalculated each payment. We discussed the samples with FSA officials as we worked to obtain concurrence on exceptions noted.

We conducted this 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.

¹² Complete sample design information can be found in exhibit B: Statistical Plan.

¹³ The 11 programs included in the universe were Crop Disaster Program; Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish; Emergency Conservation Program; Emergency Forest Restoration Program; Dairy Indemnity Payment Program; Livestock Compensation Program; Livestock Forage Disaster Program; Livestock Indemnity Program; Reimbursement Transportation Cost Payment Program for Geographically Disadvantaged Farmers and Ranchers; SURE; and Tree Assistance Program.

Abbreviations

FSA	Farm Service Agency
OIG	Office of Inspector General
OMB	Office of Management and Budget
RMA	Risk Management Agency
SURE	Supplemental Revenue Assistance Payments Program

Exhibit A: Summary of Monetary Results

Finding	Recommendation	Description	Amount	Category
1	We recommend that FSA officials strengthen controls by emphasizing the importance of second-party reviews and developing and implementing a checklist to verify the integrity of SURE workbook inputs.	FSA Made Improper Farm Assistance Program Payments in Fiscal Year 2012	\$17.4 million	Questioned Costs/Loans, No Recovery

The table above summarizes the monetary results by finding and includes a description, dollar amount, and the category of errors found. The table illustrates Finding 1 has \$17.4 million of monetary results based on statistical projections of improper payments.

Exhibit B: Statistical Plan

Objective

This sample was designed to determine if fiscal year 2012 FSA program payments were properly recorded in the accounting system and adequately supported. We performed this work to provide coverage for our Department of Agriculture's Consolidated Financial Statement audit by determining whether the financial statements were materially affected by the net impact of improper payments made by FSA, through its various farm assistance programs.¹⁴ A second objective was to estimate the corresponding "gross total of both over and under payments (i.e., not the net of over and under payments)" consistent with the Office of Management and Budget (OMB) Circular A-123, *Appendix C*, Part I.A.9. Exhibit B focuses primarily on the second objective.

Audit Universe

Our universe consisted of \$759 million of FSA payments made during fiscal year 2012. To complete this work prior to OMB's deadline for annual financial statement audits, we reviewed these records as they became available over the following four periods:

- 6 months ended March 31, 2012.
- 3 months ended June 30, 2012.
- 2 months ended August 31, 2012.
- 1 month ended September 30, 2012.

Sample Design

Consistent with *Financial Audit Manual* §480.21,¹⁵ since the prior year's improper payment rate was not high, the Office of Inspector General (OIG) employed monetary-unit sampling, a form of probability proportional to size sampling.¹⁶ Each record's selection probability was proportional to the corresponding amount paid, relative to that extract's total payments.

Based on the previous year's 1.36 percent gross improper payment rate, OIG selected 80 payments. To achieve consistent coverage over the dollars paid throughout the fiscal year, the number of payments selected from each of the four extracts was roughly proportional to the total dollars paid in each extract, approximately one payment per \$9.5 million, the average length of the sampling intervals. This yielded four samples of 50, 21, 7 and 2 by selecting one payment

¹⁴ Audit Report 50401-0003-11, *Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2012 and 2011* (November 2012).

¹⁵ Government Accountability Office and the President's Council on Integrity & Efficiency, *Financial Audit Manual*, July 2008.

¹⁶ More specifically, from a random start in each extract, OIG systematically selected the monetary unit that succeeded the previously selected unit by an amount equal to that extract's sampling interval. OIG reviewed all payments summarized in the records associated with the monetary units selected.

from each interval, with each extract's interval varying only slightly from the \$9.5 million average as follows:

- \$9.66 million (= \$483 million ÷ 50 payments) for 6 months ended March 31, 2012.
- \$9.33 million (= \$196 million ÷ 21 payments) for 3 months ended June 30, 2012.
- \$8.71 million (= \$61 million ÷ 7 payments) for 2 months ended August 31, 2012.
- \$9.50 million (= \$19 million ÷ 2 payments) for September 2012.

Results

Based on the sample results, we project about \$17.4 million or 2.29 percent of FSA's approximately \$759 million farm program assistance payments during fiscal year 2012 were improper. We also project a 95-percent chance these improper payments did not exceed \$38 million, or 5 percent of the total paid.

Measure	Point Estimate (Projection)	Upper Bound of 95-Percent Confidence Interval (One-tail)*	Raw Data (Improper Payments Observed in Sample)			
			6 months ended March 31, 2012	3 months ended June 30, 2012	2 months ended August 31, 2012	September 2012
Fraction of universe (or sample)	2.29 percent	5.00 percent	(1.17 percent)	(4.93 percent)	(0.77 percent)	(0 percent)
Value of improper payments	\$17.4 million	\$38 million	\$23,354	\$54,127	\$2,999	\$0

*By definition, total gross improper payments cannot be less than the \$80,480 observed in the sample items.

The table above summarizes the results of our statistical sampling of fiscal year 2012 FSA program payments for the four sampled periods by value of improper payments (dollar amount) and fraction of the universe (percentage). The table also illustrates the point estimate and upper bound of our statistical projection, using a 95-percent confidence level.

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



United States
Department of
Agriculture

Farm and
Foreign
Agricultural
Services

Farm
Service
Agency

Operations Review
and Analysis Staff

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

DATE: June 10, 2013

TO: Assistant Inspector General for Audit
Office of Inspector General

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

SUBJECT: Responding to Official Draft Report, Fiscal Year 2012 Farm
Service Agency (FSA) Farm Assistance Program Payments
– Audit 03401-0002-11

The Deputy Administrator for Farm Programs (DAFP) has provided the information below which responds to the subject's audit recommendation.

Recommendation 1

We recommend that FSA officials strengthen controls by emphasizing the importance of second-party reviews and developing and implementing a checklist to verify the integrity of Supplemental Review Assistance Payment Program (SURE) workbook inputs.

Agency Response:

The authority for SURE ended with those crop losses that were due to a natural disaster that occurred through September 30, 2011. As a result, very little SURE activity remains and sign up for 2011 SURE ends on June 7, 2013. FSA Handbook 1-SURE, paragraph 21, provides instructions for using a FSA-770 SURE checklist as an optional management tool State Offices can use to help address deficiencies identified by an audit or review; however, it is not a requirement. Due to the fact that SURE is in its final stages, FSA has determined not to require a checklist at this time. To do so this late in the 2011 signup period would create significant county office workload for which FSA does not have the resources.

In response to FSA emphasizing the importance of second party reviews, FSA during the May 23, 2013, DAFP video teleconference call with State Offices, alerted States of the importance of second party reviews and highlighted the four areas of concern identified in the audit; share, acres, National Average Market Price, and data discrepancies between the Risk Management Agency and FSA. Notes of the call will be provided under separate cover. In addition, FSA reiterated the importance of second party reviews in both FSA Notice SURE-33 addressing the end of signup and Handbook 1-SURE, amendment 27, subparagraph 665H. Both the notice and amendment will also be provided under separate cover in support of FSA's action.

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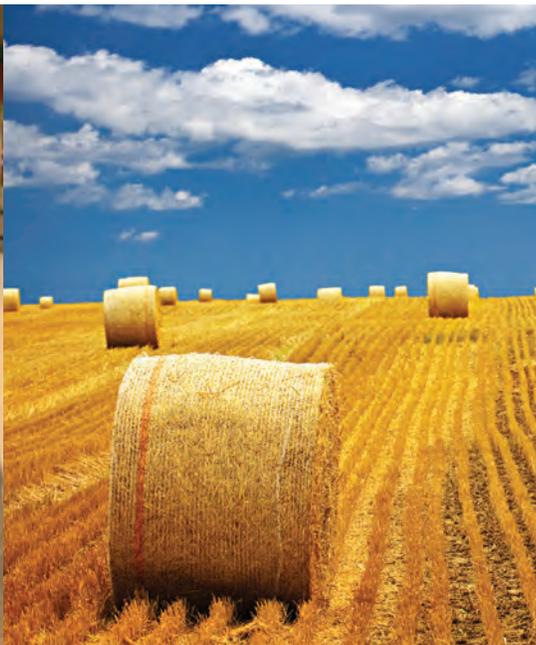
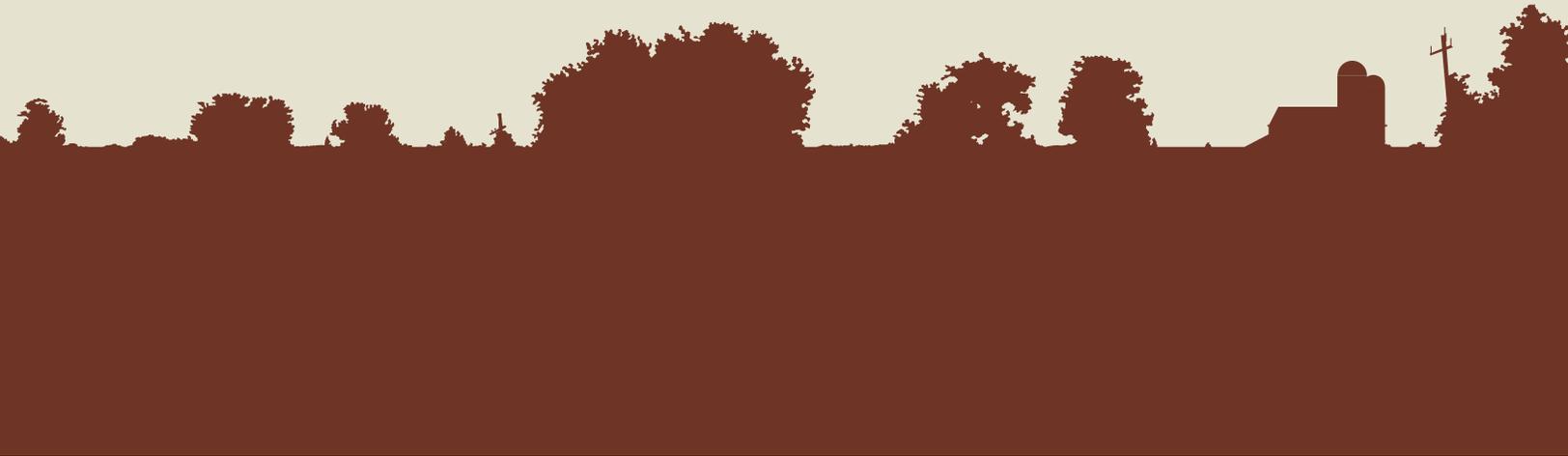
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