U.S. Department of Agriculture
Office of Inspector General

Farm Service Agency
Controls Over Emergency Loans Reductions for Duplicate Benefits

Audit Report 03601-13-SF
December 2009

U.S. Department of Agriculture
Office of Inspector General
Washington, D.C. 20250

DATE: December 15, 2009

REPLY TO
ATTN OF: 03601-13-SF

TO: Jonathan W. Coppess
Administrator
Farm Service Agency

ATTN: T. Mike McCann
Director
Operations Review and Analysis Staff

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

SUBJECT: Controls Over Emergency Loans - Reductions for Duplicate Benefits

Summary

Many disaster aid programs may be available to producers after a disaster has been declared. One such program is the Farm Service Agency's (FSA) emergency loan program, which offers producers temporary credit—up to the lesser of 100 percent of their losses or $500,000—to help producers recover from production and physical losses resulting from a designated disaster. Due to the Office of Inspector General's (OIG) concerns about programs and areas within the Federal Government that are at risk of providing duplicate benefits to disaster victims, we conducted a nationwide audit of FSA's controls over the emergency loan program. Our objectives were to (1) evaluate FSA's controls to prevent emergency loan assistance from duplicating other disaster assistance to producers, and (2) determine to what extent losses covered by emergency loans were subsequently indemnified by other disaster assistance.

Generally, an emergency loan amount must be reduced by the amount of any other disaster related compensation or insurance indemnities received or to be received by the applicant for the disaster loss.[1] If additional disaster benefits are expected, but the amount is unknown, the applicant must assign the benefits to FSA. However, programs enacted after loan approval are not considered duplicative benefits and do not affect emergency loan calculations.[2]

[1] FSA Handbook 3-FLP, Amend. 2, par. 165 C (4) (May 7, 2002).
[2] FSA Handbook 3-FLP (Rev.1) Amend. 1, par. 232 K (Dec. 31, 2007).

During fiscal years (FYs) 2005 and 2006, FSA funded $70 million in emergency loans nationwide. Other Federal assistance available to the producers at the time of application included, but was not limited to, crop insurance payments and FSA's Noninsured Crop Disaster Assistance Program (NAP).[3] In addition, in May 2007, the President signed into law the 2005 - 2007 Crop Disaster Program (CDP) for the same disasters as the emergency loans were made. The signup period for the 2005-2007 CDP began October 15, 2007, and ended February 27, 2009.

We reviewed emergency loan files, crop insurance files, and other FSA disaster assistance records for 58 producers who received emergency loans totaling $7.7 million in three States for FYs 2005 and 2006. Overall, we determined that FSA's controls were adequate to prevent FSA's emergency loan assistance from duplicating other disaster assistance to producers. We did note, however, that one of the material internal controls performed by FSA is not explicitly prescribed in FSA's directives. Specifically, FSA has not prescribed that its officials verify the producers' self-reported insurance claims and settlements and other compensation received or to be received for losses incurred by the disaster. Nonetheless, in the States and counties we visited, we found that FSA verified with relevant crop insurance companies the producers' self-reported Federal Crop Insurance Corporation settlements and verified with other FSA records the producers' self-reported FSA disaster program payments and benefits.

We did identify one case in which the applicant did not report to FSA a $14,780 NAP payment received for the disaster loss, and FSA did not recognize the omission and consider the NAP payment in the emergency loan calculations for the producer. However, the error/omission did not affect the loan amount because the applicant requested an actual loan amount $25,680 less than the FSA-calculated eligible amount.

In another case, although FSA had obtained evidence of all eight indemnity payments made to a producer, FSA overlooked subtracting one of those payments from the producer's total loss. This resulted in the emergency loan being overfunded by $29,029. See Finding 1 and exhibit A.

Finally, we determined that, out of our 58 selected producers/loans, 40 producers who received emergency loans totaling $6,237,996 were subsequently indemnified by 2005-2007 CDP payments totaling $1,944,258 for the same losses upon which the emergency loan amounts were calculated. (See exhibit B.) However, since the 2005-2007 CDP was enacted after loan approval, FSA did not consider these CDP payments as duplicative. FSA did not apply the CDP payments to any outstanding emergency loan balances.

Background

FSA's emergency loan program offers temporary credit to help producers recover from production and physical losses resulting from a designated disaster.[4] The agency offers the loans at a low interest rate for producers who are unable to obtain credit from a commercial source. Producers may borrow up to the lesser of 100 percent of their losses or $500,000.

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[3] NAP provides financial assistance to producers of noninsurable crops when low yields, loss of inventory, or prevented planting occur due to natural disasters.
[4] The program is administered in accordance with Title 7, *Code of Federal Regulations*, part 764 (7 C.F.R. 764); FSA Handbook 3-FLP, "Direct Loan Making;" agency notices; and various laws and statutes, including Title 7, *United States Code*, sec. 1961 (7 U.S.C. 1961), et seq.

When producers apply for an emergency loan, FSA requires the producers declare on forms FSA-1945-22, "Certification of Disaster Losses," all assistance they received or expect to receive for the disaster. After FSA receives the self-certification form, the handbook requires State and county offices to subtract from the producer's loss any other disaster related compensation or insurance indemnities received or to be received by the applicant for the loss.[5]

Additional federal disaster assistance may also be allocated for the affected areas. However, these funds may not become available until after producers have received their emergency loans. For the States we selected for our review, related disaster assistance came from crop insurance indemnities and NAP payments. In 2007 and 2008, the producers also received CDP payments.

Objectives

The audit objectives were to (1) evaluate FSA's controls to prevent duplicative disaster assistance to producers, and (2) determine to what extent emergency loans were subsequently indemnified by other disaster assistance.

Scope and Methodology

During FYs 2005 and 2006, the universe of emergency loans was 1,046, totaling over $70 million. (See exhibit C.) From the 10 States that had the greatest total loan amounts (see table 2), we judgmentally selected North Dakota and Minnesota, because they had the greatest numbers and amounts of emergency loans and were in the top ten with respect to related disaster assistance (crop insurance indemnities and NAP payments). We additionally selected Texas because it had the highest amount of related disaster assistance.

For both North Dakota and Minnesota, we chose the 2 counties with the most loans and judgmentally selected for review the 39 largest loans totaling just over $6.2 million. In Texas, we chose 8 counties based on proximity and selected 19 of 24 loans, totaling nearly $1.5 million. Audit fieldwork was conducted from January 2007 through March 2007 at FSA's national office, at the Texas, Minnesota, and North Dakota State FSA offices; and at 12 FSA county offices in those States. (See exhibit D.) We also did follow up work via the internet and telephone with the 12 FSA county offices from September 2008 through January 2009, to collect and analyze data related to any 2005-2007 CDP payments issued the producers for the same losses on which the 58 sample loans were based.

[5] FSA Handbook 3-FLP Amend. 2, par. 165 C (4) (May 7, 2002).

Table 1: Emergency Loans and Related Disaster Assistance – FYs 2005-2006

Top 10 States Based on Emergency Loan Amounts	No. of Emergency Loans[a]	Amounts of Emergency Loans	Crop Insurance Indemnities[b]	NAP Payments[c]	Total Crop Insurance and NAP Payments
North Dakota	172	$15,008,034	$352,657,356	$68,105	$352,725,461
Minnesota	117	$8,263,140	$146,690,075	$767,004	$147,457,079
Louisiana	59	$7,045,550	$25,545,000	$397,016	$25,942,016
Florida	49	$4,692,120	$545,035,557	$10,827,400	$555,862,957
Michigan	73	$4,477,470	$23,790,943	$1,591,020	$25,381,963
Arkansas	76	$4,297,308	$33,148,452	$5,285,319	$38,433,771
New York	56	$3,684,240	$14,810,247	$1,105,583	$15,915,830
Texas	52	$2,768,430	$604,456,419	$6,102,092	$610,558,511
Wisconsin	75	$2,606,978	$49,577,175	$483,018	$50,060,193
California	15	$2,139,550	$111,930,866	$2,380,321	$114,311,187
TOTALS	**744**	**$54,982,820**	**$1,907,642,090**	**$29,006,878**	**$1,936,648,968**

[a] As of August 14, 2006.
[b] As of October 2, 2006.
[c] As of September 2006.

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.

To accomplish our objectives, we performed the following procedures.

- We interviewed officials at FSA's national, State and county offices to gather general information about emergency loan policies and procedures.

- We obtained the emergency loan and NAP databases from FSA and crop insurance data from the Risk Management Agency. We used Audit Command Language software, a data extraction and analysis tool, to compare the databases and identify all borrowers in our selected States who received both emergency loans and related disaster assistance for the same loss. We used this data as the basis for our sample selection of loans.

- We evaluated the internal control procedures and regulations to prevent duplicate disaster assistance by interviewing FSA officials and reviewing pertinent guidelines and handbooks. To test the accuracy of the electronic data provided by FSA, we reconciled the information to the corresponding loan documents.

- We contacted crop insurance providers to match the applicable claim/policy files for the selected emergency loans with the information in FSA's files.

- We compared crop insurance data from FSA's producer files to the crop insurance data collected from the applicable insurance provider to ensure that the two sets of information were consistent.

- We obtained the NAP database for our scope years for all producers in our sample States to identify any producers who received money from both NAP and emergency loans.

- To determine if the loan amounts were correct, we compared the information obtained from the NAP and crop insurance databases to the sampled emergency loans to ensure the payments had been applied to the loans as required.

- To determine to what extent the selected emergency loans were subsequently indemnified by other disaster assistance, we reviewed FSA 2005-2007 CDP payments for the producers who had received the selected emergency disaster loans.

Finding 1: FSA Overfunded an Emergency Loan

In 1 of the 58 loans we reviewed, FSA did not subtract a crop insurance payment from the total loss amount when it calculated a producer's net loss. Although FSA had obtained evidence of all eight indemnity payments made to the producer, it overlooked subtracting one of those payments from the producer's total loss. As a result, the emergency loan was overfunded by $29,029. (See exhibit A.)

FSA's handbook states that, when calculating production losses, the agency should "subtract any other disaster related compensation or insurance indemnities received or to be received by the applicant for the production loss. Disaster related compensation includes, but is not limited to: crop insurance payments; Catastrophic Coverage; NAP; other FSA disaster program payments, such as Emergency Feed Assistance Program, emergency conservation programs, and any other special disaster program payments."[6]

We reviewed 58 loans in Minnesota, North Dakota, and Texas, and determined that FSA generally had sufficient controls to prevent emergency loans from duplicating other disaster assistance. When producers apply for an emergency loan, FSA requires the producers to declare on form FSA-1945-22, "Certification of Disaster Losses," all assistance they received or expect to receive for the disaster.

In the States and counties we reviewed, after FSA received the self-certification from the producers, it verified the information with the relevant crop insurance companies. The Proof of Loss forms from the insurance companies were included in the producers' files as well as the NAP and crop disaster program payments. However, the handbook does not require the counties to verify the self-certifications and, therefore, not all counties may be doing so. The Government Accountability Office's Standards for Internal Control in the Federal Government provides that internal controls need to be clearly documented in management directives, administrative policies, or operating manuals.

[6] FSA Handbook 3-FLP, Amend.2, par. 165 C (4) (May 7, 2002).

In one loan we reviewed in Minnesota, a county office official did not subtract a crop insurance payment from producer A's total loss before making an emergency loan. The producer had crop losses in 2005 totaling $284,963 that were caused by excessive rain. The county office determined that because producer A received crop insurance proceeds in 2005 totaling $143,284, he qualified for a maximum emergency loan of $141,680. Accordingly, the producer received a $141,000 loan on June 28, 2006. During our review of the loan files, we determined that although FSA had obtained evidence of all eight indemnity payments made to the producer, it overlooked subtracting one of the payments for $29,708 from the producer's total loss. When this missed payment is applied to the loss amount, the eligible emergency loan amount would have been $111,971 rather than $141,000. This resulted in the emergency loan being overfunded by $29,029. Table 1 shows the calculation.

Table 2: Calculation of Loan Amount

Calculation	Per FSA	Per OIG	Difference
Total Loss Amount	$284,963	$284,963	$0
Less: Insurance Proceeds	($143,284)	($172,992)	$29,708
Equals: Net Loss	$141,679	$111,971	$29,708
Eligible Loan Amount	$141,680[a]	$111,971	$29,709
Actual Loan Amount	$141,000[b]	$111,971	$29,029

[a] FSA rounds loan amounts to the nearest 10 dollars.
[b] Producer chose to take less than he was eligible for.

When we discussed the missed crop insurance payment with both the supervisor and loan manager at FSA's county office, they explained that they overlooked the payment when calculating the net loss even though documentation of the payment was in the file. County office staff met with the producer who, according to FSA, paid back the overfunded amount in February 2008.

Recommendation 1

Provide documentation that producer A repaid $29,029.

FSA Response

Documentation that Producer A repaid the $29,092, on February 6, 2008, was provided to OIG during the exit conference that was held on September 15, 2009.

OIG Position

We accept FSA's management decision for this recommendation.

Recommendation 2

Revise FSA Handbook 3-FLP to require the FSA farm loan official, before issuing an emergency loan, to verify, through the FSA county executive director and the

Comprehensive Information Management System (CIMS)[7] where available, the producer's "other disaster related compensation or insurance indemnities received or to be received" for the loss.

FSA Response

The Farm Service Agency agrees with the recommendation. The revision to 3-FLP is in the clearance process and is expected to be finalized within 30 days.

OIG Position

We accept FSA's management decision on this recommendation.

Conclusion

Your October 30, 2009, response to the draft report has been included at the end of this report. We have accepted FSA's management decision for all of the report's recommendations.

We appreciate the assistance and cooperation of your staff during our review.

[7] Section 10706 of the Farm Security and Rural Investment Act of 2002 directed the Secretary of Agriculture to develop a comprehensive information management system to be used in implementing the programs administered by Risk Management Agency (RMA) and FSA. Under section 10706, all current RMA and FSA information is to be combined, reconciled, redefined, and reformatted in such a manner that the agencies can use the information management system. Crop insurance policy summary information, including indemnity information, was added to CIMS since May 2009. FSA State and county office employee access to CIMS is targeted for November or December 2009.

Exhibit A: Summary of Monetary Results

Finding No.	Recommendation No.	Description	Amount	Category
1	1	A crop insurance payment was not subtracted from the total loss amount when FSA calculated the net loss for one emergency loan.	$29,029	Questioned Loans – Recovery Recommended
TOTAL MONETARY RESULTS			$29,029	

Exhibit B: Schedule of Losses, Loans, and Disaster Payments

Sample Case	Total Production Loss Amount	Related Disaster Assistance[a]	Eligible Loan Amount[b]	Actual Loan Amount	2005-2007 CDP Payments[c]
1	$60,502	$26,003	$34,500	$34,500	$0
2	$68,421	$13,385	$55,040	$55,000	$0
3	$41,684	$11,680	$30,000	$30,000	$8,111
4	$75,474	$27,219	$48,250	$48,250	$0
5	$141,111	$47,678	$93,430	$93,430	$0
6	$60,783	$56,057	$4,730	$4,730	$0
7	$13,502	$1,534	$11,970	$11,970	$0
8	$76,580	$0	$76,580	$76,580	$0
9	$14,325	$0	$14,325	$12,780	$0
10	$96,187	$0	$96,190	$96,190	$0
11	$115,033	$0	$115,030	$115,030	$0
12	$2,060,890	$209,812	$500,000	$300,000	$0
13	$1,999,905	$187,446	$500,000	$268,584	$0
14	$166,372	$60,860	$105,510	$105,000	$0
15	$136,747	$22,711	$114,040	$34,460	$0
16	$21,577	$7,698	$13,880	$13,880	$0
17	$104,748	$8,106	$96,640	$14,520	$0
18	$87,189	$51,510	$35,680	$35,680	$0
19	$192,542	$16,861	$175,680	$150,000	$0
20	$309,690	$147,645	$162,050	$162,050	$59,044
21	$285,413	$96,084	$189,330	$189,330	$43,196
22	$1,314,226	$568,614	$500,000	$500,000	$182,190
23	$309,963	$89,317	$220,650	$220,650	$34,093
24	$264,770	$91,126	$173,640	$171,500	$20,292
25	$446,446	$239,953	$206,490	$206,490	$80,000
26	$350,803	$187,967	$162,840	$162,840	$75,122
27	$487,642	$241,753	$245,890	$170,000	$80,000
28	$397,001	$235,540	$161,460	$161,460	$36,211
29	$334,614	$106,320	$228,290	$228,290	$41,010
30	$350,972	$146,904	$204,070	$204,070	$51,538
31	$229,588	$52,378	$177,210	$165,790	$18,914
32	$268,388	$100,207	$168,180	$168,180	$29,068
33	$426,739	$272,066	$154,670	$154,670	$50,708
34	$440,357	$169,101	$271,260	$271,260	$51,957
35	$255,428	$120,914	$134,510	$134,510	$38,007
36	$148,900	$22,896	$126,000	$126,000	$11,214
37	$306,440	$168,394	$138,050	$138,046	$47,496
38	$288,209	$116,574	$171,640	$171,630	$48,683
39	$239,891	$114,708	$125,180	$125,180	$44,084

Exhibit B: Schedule of Losses, Loans, and Disaster Payments

Sample Case	Total Production Loss Amount	Related Disaster Assistance[a]	Eligible Loan Amount[b]	Actual Loan Amount	2005-2007 CDP Payments[c]
40	$284,963	$172,992	$111,970	$141,000	$59,977
41	$444,298	$193,407	$250,890	$250,000	$64,588
42	$283,965	$158,711	$125,250	$125,250	$60,960
43	$266,836	$122,456	$144,380	$144,380	$47,407
44	$329,776	$147,782	$181,990	$165,000	$42,836
45	$238,588	$143,998	$94,590	$94,590	$51,670
46	$354,326	$166,005	$188,320	$187,000	$67,555
47	$235,174	$88,872	$146,300	$120,000	$35,377
48	$521,253	$344,205	$177,050	$177,000	$80,000
49	$117,290	$64,719	$52,570	$52,570	$23,184
50	$96,416	$41,357	$55,060	$53,940	$18,340
51	$213,855	$139,918	$73,940	$73,940	$47,909
52	$171,216	$113,406	$57,810	$57,810	$43,360
53	$195,052	$125,122	$69,930	$69,930	$36,920
54	$188,232	$66,610	$121,620	$60,000	$16,344
55	$280,115	$106,849	$173,270	$173,270	$42,986
56	$324,183	$196,694	$127,490	$127,490	$67,356
57	$436,461	$228,073	$208,390	$208,390	$65,726
58	$136,740	$42,251	$94,490	$94,490	$20,825
Total	$18,107,791	$6,700,448	$8,486,195	$7,708,580	$1,944,258

[a] Insurance indemnities, 2004 CDP, and NAP payments (reported by the producer)
[b](Total production loss amount minus other related Federal assistance) rounded to the nearest $10.
[c] Related to the emergency loans (same loss) but enacted after loan approval.

Exhibit C: Emergency Loans by State for FYs 2005-2006

State	Loans	Loan Amount
North Dakota	172	$15,008,034
Minnesota	117	$8,263,140
Arkansas	76	$4,297,308
Wisconsin	75	$2,606,978
Michigan	73	$4,477,470
Louisiana	59	$7,045,550
New York	56	$3,684,240
Iowa	53	$1,981,505
Texas	52	$2,768,430
Florida	49	$4,692,120
Illinois	29	$1,428,750
Pennsylvania	28	$1,297,110
Georgia	26	$1,821,060
Hawaii	19	$112,590
California	15	$2,139,550
Oregon	13	$1,136,010
Mississippi	13	$778,660
Oklahoma	12	$539,160
North Carolina	11	$606,090
South Carolina	9	$871,780
Washington	8	$951,980
Nebraska	8	$297,510
South Dakota	8	$291,109
Missouri	7	$339,240
Ohio	7	$282,250
Kentucky	7	$148,920
Kansas	6	$231,439
Tennessee	6	$173,115
New Jersey	5	$692,310
Maine	4	$188,800
Utah	4	$98,510
West Virginia	4	$89,700
Virginia	3	$191,340
Colorado	3	$148,520
Massachusetts	2	$202,400
Alabama	2	$108,000
Nevada	1	$408,700
New Mexico	1	$200,000
Montana	1	$77,280
Connecticut	1	$49,000
New Hampshire	1	$40,000
TOTALS	**1,046**	**$70,765,658**

Exhibit D: Sites Visited and Emergency Loans Reviewed

State	FSA County Office	Total Number	Total Amount	Sample Number	Sample Amount
Texas	Swisher	5	$169,690	3	$119,500
	Terry[a]	4	$158,380	4	$158,380
	Wilbarger	4	$300,580	4	$300,580
	Hidalgo	5	$905,000	3	$673,584
	Starr[b]	2	$185,680	2	$185,680
	Jim Wells	2	$57,090	1	$34,460
	Nueces[c]	1	$14,520	1	$14,520
	Live Oak[d]	1	$13,880	1	$13,880
	Subtotal	**24**	**$1,804,820**	**19**	**$1,500,584**
Minnesota	Kittson	33	$2,734,610	10	$1,529,400
	West Marshall	28	$1,989,290	10	$971,830
	Subtotal	**61**	**$4,723,900**	**20**	**$2,501,230**
North Dakota	Pembina	41	$5,013,020	10	$2,172,610
	Steele	28	$2,682,274	9	$1,534,156
	Subtotal	**69**	**$7,695,294**	**19**	**$3,706,766**
Total		**154**	**$14,224,104**	**58**	**$7,708,580**

[a] Six loans were made. Four of the six loans were subsequently combined into two loans, resulting in a total of four loans for review.
[b] Starr County farm loan programs are administered by staff in the Hidalgo County FSA office.
[c] Nueces County farm loan programs are administered by staff in the Jim Wells County FSA office.
[d] Two loans were made and subsequently combined into one loan.

United States Department of Agriculture

Farm and Foreign Agricultural Services

Farm Service Agency

Operations Review and Analysis Staff

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DATE: October 30, 2009

TO: Director, Farm and Foreign Agricultural Programs
Office of Inspector General

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

SUBJECT: Response to Audit 03601-13- SF, Controls Over Emergency Loans – Reductions for Duplicate Benefits

This is in response to your September 29 memorandum requesting additional information to reach management decision for Recommendations 4 and 5 of the subject audit.

Recommendation 1

Documentation that Producer A repaid the $29,092, on February 6, 2008, was provided to OIG during the exit conference that was held on September 15, 2009.

Recommendation 2

The Agency agrees with the recommendation and will make the appropriate revision to 3-FLP.