

UNITED STATES DEPARTMENT OF AGRICULTURE

Farm Service Agency
Washington, DC 20250

Notice COR-125

For: State and County Offices

National Target Review of FY 2013 FSFL's

Approved by: Associate Administrator for Operations and Management



1 Overview

A Background

OIG issued an audit report on the FSFL program in June 2012 with several program weaknesses identified. Corrective actions were taken to address the weaknesses and the audit report was closed in August 2012.

The FSFL program was identified by FSA's management as a program to be targeted in FY 2014 for a National Office-directed target review.

To verify whether FSFL program implementation has improved, a national CORP target review has been developed to sample FSFL's disbursed in FY 2013 to determine whether FSFL's are being processed, approved, and serviced according to current policies and procedures.

The overall sample size for this review is smaller than normal because of the limited amount of time remaining in FY 2014. However, if high error rates are found during this review, we will expand the sample and conduct another review in FY 2015.

B Purpose

This notice provides instructions for implementing a national target review of FSFL's disbursed in FY 2013.

Disposal Date	Distribution
January 1, 2015	State Offices; State Offices relay to County Offices, CORP Coordinators, and COR's

2 Scope of the National Target Review

A Universe

Using data obtained from the State Office Reporting System (SORS), it was determined that in FY 2013, 1,581 FSFL's were disbursed in 39 States.

B Sample

The sample size for this review will be 80 FSFL's. A total of 74 counties in 28 States are included in the sample.

Note: The majority of the counties selected were selected at random; however, because we plan for COR's to travel to the applicable County Office to obtain the documentation for these reviews, there were some judgmental selections made.

C Extent of the National Target Review

The review of selected FSFL's will cover:

- application processing
- loan closing and disbursements
- loan servicing.

D Verification Items

See Exhibit 1 for verification items.

E Reportable Findings

See Exhibit 2 for a list of possible reportable findings.

3 COR Assignments

A ORAS Making Assignments

ORAS will provide COR's and CORP coordinators with the list of counties selected for review, including the number of loans selected in each county. County Offices selected for review **shall not** be notified in advance of the entrance conference being scheduled.

ORAS will make preliminary COR assignments. Some COR's will be assigned reviews outside of their normal assigned States. ORAS will work with applicable CORP coordinators to make any changes in the assignments.

3 COR Assignments (Continued)

B Priority

FSFL reviews shall be scheduled in a manner that will allow the report to be issued no later than **October 17, 2014**.

C Travel Requirement and Costs

COR's are authorized to travel to the selected County Office to obtain copies of the documentation required to conduct the review. TDY is authorized if COR is unable to travel to the county and return to their headquarter location within their normal duty hours.

Note: See Notice COR-123 for policy about COR travel associated with National Office-directed assignments.

D Scheduling Reviews

COR's shall work with CORP coordinators to schedule reviews. COR's assigned to conduct reviews outside their normal assigned States will be provided the contact information of the applicable CORP coordinator or SED by ORAS.

4 Conducting the National Target Review

A Basic Policy

The majority of the review work shall be conducted at the COR's headquarter location.

COR shall travel to the review County Office to make the necessary copies of the documentation to conduct the review and then return to their headquarter location to conduct the review.

Note: If possible, COR should schedule travel so documentation from 1 or more selected County Offices can be obtained during the same trip.

B Entrance Conference

An entrance conference shall be held by telephone. COR, in consultation with SED, shall determine who is required to participate in the telephone conference.

During the entrance conference, COR shall request a list of **all** FSFL's disbursed in FY 2013.

Notes: The list of disbursed FSFL's may also be obtained through the State Office before the entrance conference is held.

If the loan has been repaid in full, the loan is still subject to review and should be included on the list.

During the entrance conference, COR shall schedule the date when they plan to visit the County Office to make copies of the loan file.

4 Conducting the National Target Review (Continued)

C Conducting More Than 1 Review at a Time

COR's may conduct multiple reviews at the same time.

D Documenting Reviews Using Electronic CORP (eCORP)

COR shall:

- document each review using eCORP

Note: In eCORP, use National Code Designation, “**10-Review of FY2013 FSFL**” to identify the review.

- if the review is applicable to a:
 - combined county, issue 1 report that covers all counties in combination using the actual headquarter county as the eCORP “Headquarter” county
 - shared management county, issue a separate report for **each** county
- use eCORP, Exhibit 45.0, “**Farm Storage Facility Loans**”, as the **only** exhibit in report
- select “**CCC-185**” as the general record type for FSFL reviewed

Note: The record ID type will be “**Loan**” and the record ID will include:

- FY2013
- loan number
- date the loan closed.

Example: FY2013; Loan 0001, Closed 3/4/2013”.

- in the “**Program Overview Narrative**”, for eCORP, Exhibit 45.0, include the total number of FSFL's closed in FY 2013 for the selected county
- use the eCORP findings in Exhibit 2 to report findings.

Note: Reportable findings should be limited to **only** findings listed in Exhibit 2.

E Random Samples

COR's, using the list of FSFL's disbursed in FY 2013, shall use the eCORP random number generator to select the required loans to be reviewed.

4 Conducting the National Target Review (Continued)

F Draft Reports

At least 1 workday **before** the exit conference, COR shall provide CED a draft copy of the eCORP report with all findings and recommendations included.

Note: The draft report is **not** required to have the analysis completed.

By providing the draft report before the exit conference, CED will have an opportunity to review the findings and address any issue in advance of the exit conference.

G Exit Conferences

An exit conference shall be held by telephone. COR, in consultation with SED, shall determine who is required to participate in the telephone conference.

5 Using Comments in eCORP

A Importance of Comments in the National Target Review

When documented appropriately, comments provide a detailed explanation of the particulars of a finding, a record associated with a finding, or both.

Comments are important for the national target review, because they can yield additional insight ORAS may use in:

- analysis of the results of every report issued
- preparation of the final report of review results.

It is not necessary, or desirable, to use comments for everything, even in the national target review. However, COR's are encouraged to include comments when comments will provide clarification or pertinent information.

B General Comments to a Finding

A general comment added to a finding applies to the overall finding. If a certain issue applies to most or all of the records listed for the finding, that issue can be summarized in a general comment to the finding, rather than repeating the same comment for each record.

C Record Comments

A comment added to an individual record applies **only** to that record. When an issue or issues are significantly different among records, it may be best to use a record comment for each record, especially if a satisfactory summary for a finding comment cannot be achieved.

6 Timeframes

A When the National Target Review Will Be Conducted

The national target review may begin any time after receipt of this notice.

Note: While completing this year's Improper Payments Information Act of 2002 (IPIA) reviews take priority over the FSFL reviews, it may be possible and an efficient use of COR's time to obtain the necessary documentation for these FSFL's before all assigned IPIA reviews have been completed.

All FSFL reviews shall be **completed and reports issued** no later than **October 17, 2014**.

B Travel

All travel associated with these reviews must be completed by **September 26, 2014**.

Note: It may be possible to combine travel related with this review with travel associated with IPIA reviews.

C Corrective Action Plan (CAP) Approval

CAP's are required to be approved within 10 workdays of the report date. Request for an extension may be submitted to ORAS by SED or CORP coordinator.

D Closing Reports

Closing reports are **required** to be submitted to SED within 30 workdays of the report date. Requests for extensions may be submitted to ORAS by SED or CORP coordinator.

7 Policy and Procedure Questions

A Questions About the Scope of the National Target Review

Contact ORAS with any questions about policies and procedures for conducting the national target review.

B Questions About Specific FSFL Procedures

COR's shall contact the applicable State Office program specialist, for the applicable State, with any questions about specific program policies and procedures for a specific review.

COR's may contact ORAS if the State Office specialist **cannot** provide an adequate answer or is **not** available. When this occurs, ORAS will consult the applicable National Office program division for guidance.

Note: Handbook 1-FSFL policy in effect at the time the FY 2013 FSFL was disbursed must have been followed.

Verification Items

A Overview

Verification items in this exhibit are thought provoking statements and questions to be considered when conducting the national target review.

B Verification Items – Loan Application Process

The following verification items are related to the loan application process:

- CCC-185 and all supporting documents are on file and properly completed
- a proper financial analysis completed with recommendation to STC or COC
- collateral security is determined
- financing statements filed
- lien waivers obtained.

C Verification Items – Loan Closing and Disbursement

The following verification items are related to the loan closing and disbursement:

- correct interest rate used
- environmental and historic reviews are completed and documented on FSA-850 or FSA-851 if secured by real estate
- proof of all peril structural insurance (CCC as loss payee) crop insurance and current real estate tax statement obtained
- severance agreements (CCC-297) or subordination agreements (CCC-194) are filed, if necessary
- release of liability CCC-191 obtained from all contractors or suppliers
- completed CCC-197 for final cost certification received from borrower pre-disbursement
- second party review completed of final costs
- real estate mortgage (CCC-193) or deed of trust (CCC-193D) are properly completed and filed
- final inspection completed on facility and documented on CCC-295A **before** disbursement
- CCC-186 Promissory Note is signed by all debtors and secured party and accurately reflects loan terms and conditions.

Verification Items (Continued)**D Verification Items – Loan Servicing**

The following verification items are related to the loan servicing:

- notifications are timely issued to borrowers for servicing actions, reminders and demands
- loan installment repayments are entered correctly in the automated system
- collateral checks completed (CCC-295B)
- annual verification of taxes, multi-peril crop, flood and or all peril structural insurance policies performed
- CCC-195, Farm Storage Facility Loan Checklists are used for loan processing and servicing.

Reportable Findings

A Overview

This exhibit provides reportable findings for the national target review. The findings are divided into the following categories:

- application processing
- loan closings and disbursements
- loan servicing.

Important: COR's should only use the findings listed in this exhibit. However, if COR identifies an error that cannot be reported using 1 of these findings, COR shall contact ORAS for additional guidance.

B Application Processing

The following eCORP finding is to be used to report findings associated with application processing.

Finding	eCORP Code
Form CCC-185, item 2 Applicant's personal information entered on CCC-185 is incomplete or incorrect. Note: Comments are required. For each record associated with the finding, comments need to provide details on what information is missing or incorrect.	299
Form CCC-185, item 3 Requested loan amount and/or loan terms not entered on CCC-185. Note: Comments are required. For each record associated with the finding, comments need to provide details on what information is missing.	632
Form CCC-185, item 4 Purpose of the loan is not adequately explained on CCC-185. Note: Comments are required. For each record associated with the finding, comments need to provide details on why purpose is not adequately addressed.	633
Form CCC-185, item 6-12 Equipment purchase/lien and installation information is not completed or is incorrect on CCC-185. Note: Comments are required. For each record associated with the finding, comments need to provide a detailed explanation of which items are not properly documented.	327

Reportable Findings (Continued)

B Application Processing (Continued)

Finding	eCORP Code
Form CCC-185, item 13 DCIA compliance is not certified.	634
Form CCC-185, item 13 CCC-185 is not signed by the applicant/co-applicant or authorized representative. Note: This finding would be used if signature authority documentation requirements in 1-FSFL, paragraph 31 are not met. Comments are required. For each record associated with this finding, comments need to provide a detailed explanation of the specific situation including the specific handbook reference which supports the finding.	339
Form CCC-185, item 14 The terms of preliminary loan approval are not entered or are incorrect on the CCC-185. Note: Comments are required. For each record associated with this finding, comments need to provide a detailed explanation of the specific situation.	354
Form CCC-185, item 15 CCC-185 is not approved by an authorized CCC representative. Note: This finding is applicable if the CCC-185 is missing an approval signature or is signed by CCC representative not meeting the requirements of 1-FSFL, subparagraph 2 F and paragraph 11. Comments are required. For each record associated with this finding, comments need to provide a detailed explanation of the specific situation including the specific handbook reference which supports the finding.	360
Form CCC-190 Information on CCC-190 is not completed or is incorrect. Note: Comments are required. For each record associated with this finding, comments need to provide a detailed explanation of what information is missing or incorrect.	405
1-FSFL, paragraph 15 Storage capacity is not determined in accordance with 1-FSFL guidelines. Note: Comments are required. For each record associated with the finding, comments need to provide a detailed explanation of the specific situation.	603

Reportable Findings (Continued)

B Application Processing (Continued)

Finding	eCORP Code
<p>1-FSFL, subparagraph 24 C Additional security needs for FSFL loan is not determined when applicable.</p> <p>Note: Comments are required. For each record associated with this finding, comments need to provide a detailed explanation of the specific security needs.</p>	625
<p>1-FSFL, subparagraph 30 A Applicable application fee is not collected per borrower at the time of request.</p> <p>Note: Comments are required. For each record associated with this finding, comments need to provide a detailed explanation of the specific situation.</p>	44
<p>1-FSFL, subparagraph 51 C Supporting document is not on file before CCC-185 is approved.</p> <p>Note: Comments are required. For each record associated with this finding, comments need to provide a detailed explanation of what documents are missing. A document that is on file, but not acceptable, shall be considered “not on file”.</p>	51
<p>1-FSFL, paragraph 53 Financial planning and analysis is not completed in accordance with 1-FSFL requirements.</p> <p>Note: Comments are required. For each record associated with this finding, comments need to provide a detailed explanation of the specific requirements, including the handbook reference which supports the finding.</p>	635

Reportable Findings (Continued)

C Loan Closing and Disbursements

The following eCORP finding is to be used to report findings associated with loan closing and disbursements.

Finding	eCORP Code
1-FSFL, subparagraph 12 A AD-1026 is not on file to show compliance with USDA provisions for highly erodible land and wetlands.	7
1-FSFL, subparagraph 24 A CCC-186 is not executed as required by applicable State law. Note: Comments are required. For each record associated with this finding, comments need to provide specific details of why the CCC-186 was not executed by State law.	16
1-FSFL, subparagraph 24 A CCC-186 is not on file.	17
1-FSFL, subparagraph 24 C Real estate lien is not on file for a loan exceeding \$50,000.	20
1-FSFL, subparagraph 25 B Principal amount of Facility Loan exceeds 85 percent of the net cost of needed storage or handling equipment.	28
1-FSFL, subparagraph 29 A Interest rate used is not the rate in effect at the time of STC or COC approval.	43
1-FSFL, subparagraph 69 A Proof of multi-peril crop insurance is not on file.	106
1-FSFL, subparagraph 69 F Proof of all-peril structural insurance is not on file or is inadequate for the loan. Note: Comments are required. For each record associated with this finding, comments need to provide a detailed explanation of the specific situation.	110
1-FSFL, subparagraph 82 A FSA-850 is not on file before approval of CCC-185.	114
2-EQ, subparagraph 13 A Due diligence is not performed for new loans involving real estate as security by completing FSA-851. Note: Comments are required. For each record associated with this finding, comments need to provide a detailed explanation of the specific situation.	115
1-FSFL, subparagraph 127 B, step 11 Proof of current real estate taxes is not obtained.	141
Form CCC-186 CCC-186 is not approved by CCC secured party.	144

Reportable Findings (Continued)

C Loan Closing and Disbursements (Continued)

Finding	eCORP Code
1-FSFL, subparagraph 130 A CCC-297 is not on file or is not properly completed. Note: Comments are required. For each record associated with this finding, comments need to provide a detailed explanation of the specific situation.	168
1-FSFL, subparagraph 24 B CCC-297 is not recorded in county real estate records.	170
1-FSFL, subparagraph 131 C Real estate mortgage is not completed and/or recorded in accordance with State law.	173
1-FSFL, subparagraph 131 E Subordination agreement, CCC-194 is not recorded in county real estate records.	175
1-FSFL, subparagraph 133 C Final evidence of the total cost of the structure is not obtained.	176
1-FSFL, subparagraph 133 A Final evidence is not dated by the seller.	178
1-FSFL, subparagraph 133 C Calculation of final net cost is incorrect.	198
1-FSFL, subparagraph 133 E CCC-191 is not obtained from the contractor.	200
1-FSFL, subparagraph 134 A Final inspection of facility is not completed and/or documented on CCC-295A before loan disbursement.	207
Form CCC-186 CCC-186 is not signed by debtor/co-debtor.	385
1-FSFL, paragraph 134.5 CCC-197 is not on file.	614
1-FSFL, subparagraph 28 G Secondary review of the FSFL disbursement calculator is not completed.	615
1-FSFL, subparagraph 134.5 C CCC-197 is not approved by STC, COC or designee.	617

Reportable Findings (Continued)

C Loan Servicing

The following eCORP finding is to be used to report findings associated with loan servicing.

Finding	eCORP Code
1-FSFL, subparagraph 52 B A properly completed CCC-195, CCC-195A, and/or CCC-195B is not on file. Note: Comments are required. For each record associated with the finding, comments need to provide a detailed explanation of why the applicable forms are not properly completed.	71
1-FSFL, subparagraph 69 A Proof of multi-peril crop insurance is not on file.	106
1-FSFL, subparagraph 69 F Proof of all-peril structural insurance is not on file.	110
1-FSFL, paragraph 158 Notification letters, reminders and/or demands are not issued timely to borrowers for servicing actions. Note: Comments are required. For each record associated with this finding, comments need to provide details specific to the type of notification/reminder or demand letter affected.	228
1-FSFL, subparagraph 163 A Annual inspection of collateral is not completed and/or properly documented.	236
3-FI, subparagraph 18 C Annual installment payment is not applied or is incorrectly applied to the account and/or not deposited at the earliest occasion. Note: Comments are required. For each record associated with this finding, comments need to provide specific details of installment payments that were incorrectly applied.	281
1-FSFL, subparagraph 162 A Proof of payment of taxes, applicable to collateral securing FSFL, is not provided to the County Office annually.	559
1-FSFL, subparagraph 167 A A properly completed CCC-195 Servicing is not on file. Note: Comments are required. For each record associated with the finding, comments need to provide a detailed explanation of why the CCC-195 Servicing is not properly completed.	626