

For: State and County Offices

OIG Audit Findings for FY 2010 FSFL's

Approved by: Deputy Administrator, Farm Programs



1 Overview

A Background

OIG conducted an audit of the FSFL Program with FSA's National Office personnel, 19 State Offices, and 38 County Offices. OIG performed the audit fieldwork between October 2010 and November 2011. OIG's objectives were to assess the program policies and procedures, as well as its internal controls.

There were 30 FSFL's reviewed for compliance with FSFL approval and processing policy. It was reported by OIG that 25 of the 30 FSFL's had multiple program related errors (83 percent for the sample total). There were 10 FSFL's reviewed for compliance with FSFL servicing policy, and it was reported that all of FSFL's had multiple errors (100 percent for the sample total).

The program weaknesses identified are critical to protecting the Government's interest and the established controls in procedures must be enforced. The OIG audit findings demonstrate that FSA has reduced assurance that FSFL's were adequately secured and were administered in compliance with program procedures.

In an effort to minimize future FSFL approval, processing, and servicing errors, OIG recommended that DAFP issue a notice to State and County Offices reinforcing FSFL procedure that relates to the findings.

Disposal Date	Distribution
December 1, 2012	State Offices; State Offices relay to County Offices

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1 Overview (Continued)

B Purpose

This notice:

- is being issued according to FSA's corrective action plan as recommended by OIG
- informs State and County Offices of OIG audit findings for FY 2010 approved and disbursed FSFL's
- directs follow-up action within each State to ensure that all FSA offices review the list of errors that were discovered and take any needed corrective action.

C Action

The National Office personnel will:

- issue required FSFL AgLearn Training to State and County Office employees with FSFL-assigned responsibilities on or before July 2, 2012
- review, with SED's and applicable State Office program chiefs and specialists, the Executive Summary of OIG's audit report during the video teleconference (VTC) session
- be available to assist State Offices with developing corrective action plans, if necessary
- hold a VTC session with all SED's and applicable State Office program chiefs and specialists to review this notice and highlight specific findings to ensure consistency of corrective actions
- issue memos from DAFP to SED's of the 19 States audited and hold a VTC session to review the finding and the corrective action needed to resolve the discovered errors.

SED's shall ensure that:

- applicable State Office program chiefs and specialists review this notice and all program related finding reports, such as but not limited to OIG or CORP, in detail to develop corrective action plans as needed, and to ensure that County Offices follow applicable program procedures issued through national notices and program handbooks
- additional internal control procedures are developed to avoid findings indicated by any program related reviews for the specified program

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1 Overview (Continued)

C Action (Continued)

- applicable State Office program chiefs provide additional training where needed and corrective action plans are implemented to reduce improper payments
- DD's, within their respective districts, shall review this notice with CED's and program technicians and ensure understanding of the contents.

D Contact

State Offices shall direct questions about this notice to Toni Williams by either of the following:

- e-mail at **toni.williams@wdc.usda.gov**
- telephone at 202-720-2270.

2 FY 2010 FSFL OIG Audit Findings

A OIG Common Audit Findings

The following provides FSFL OIG audit findings for FSFL's disbursed during FY 2010.

Descriptions of Findings	Procedure Reference and Policy
Approvals	
Delegation of authority is not on file for those employees signing forms and documents relating to FSFL.	1-FSFL, subparagraph 2 F. All FSFL forms, except CCC-185, and documents prepared according to 1-FSFL may be redelegated in writing according to 16-AO, paragraphs 212 through 214.
COC did not obtain a recommendation for approval from a FSA employee with FLP loan approval authority.	1-FSFL, subparagraph 53 G. The financial analysis of an FSFL applicant shall be performed by either an FLP or County Office employee with FLP loan approval authority. A detailed written recommendation for approval or disapproval, based on the applicant's credit history and financial information, shall be provided to COC. This written recommendation must be signed and dated by the individual providing the financial analysis. CCC-195, step 14 C.

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2 FY 2010 FSFL OIG Audit Findings (Continued)

A OIG Common Audit Findings (Continued)

Descriptions of Findings	Procedure Reference and Policy
Approvals (Continued)	
FSA-850, Environmental Assessment is not on file before approval of CCC-185, FSFL Application Request.	1-FSFL, subparagraph 82 A. FSA-850 must be completed and no adverse environmental impacts must be determined before CCC-185 can be approved. CCC-195, FSFL Processing Checklist, steps 6 E and 12 A.
Processing	
Loan obligations exceeded 85 percent of the estimated net cost of eligible items.	1-FSFL, subparagraph 25 B provides that the principal amount of any FSFL shall be 85 percent or less of the net cost of the applicant's needed storage or handling equipment, not to exceed \$500,000 for each FSFL. 1-FSFL, subparagraph 338 B provides that the approved FSFL amount shall not be increased to allow a "padding" for unexpected expenses associated with the construction of the storage structure. CCC-195, step 8 A.
FSFL is not closed on or before the FSFL approval period expiration date.	1-FSFL, paragraphs 26 and 135 provide that FSFL must not be disbursed with an expired approval date. CCC-195, step 15 H.
UCC-1 is not filed as soon as possible after the equipment is delivered.	1-FSFL, subparagraph 56 B provides that the County Office shall file UCC forms according to State law before, or as soon as possible after, the equipment is delivered to the proposed location. CCC-195, step 10 D.
Verification not performed of adequate insurance coverage for all peril, crop, and flood before loan closing.	1-FSFL, paragraph 69 provides that proof of insurance is required and maintained in the FSFL folder, and CCC must be listed as a loss payee. CCC-195, steps 6 I, 9 E, and 12 G.
Final lien search is not performed within 5 workdays of loan closing.	1-FSFL, subparagraphs 127 A, item 10, and 127 B, item 13 provide that within 5 workdays before an FSFL closing, County Offices shall perform a final lien search on the collateral. CCC-195, steps 19 M and 20 D.

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2 FY 2010 FSFL OIG Audit Findings (Continued)

A OIG Common Audit Findings (Continued)

Descriptions of Findings	Procedure Reference and Policy
Processing (Continued)	
<p>CCC-191, Release of Liability</p> <ul style="list-style-type: none"> • disbursement of loan funds is made before the borrower provides satisfactory evidence of the total cost of the facility • final cost document is not date stamped when received in the County Office • no invoice or unsigned invoices, when a signature was required • inadequate or incorrect amount on the release of liability and/or the invoice to support the loan disbursement 	<p>1-FSFL, paragraph 133 provides final review of cost documents policy.</p> <p>It is important that 1-FSFL, paragraph 133 is reviewed and followed completely to ensure that CCC-191 is accurately completed and invoices and other acceptable support documentation is received to protect CCC and the FSFL applicant from the following:</p> <ul style="list-style-type: none"> • mechanics or other liens • claims arising against the contractor or subcontractor. <p>CCC-195, steps 15 E, 15 K, and 17 A.</p>
<p>Final inspection of facility is not documented on CCC-295A before loan disbursement.</p>	<p>1-FSFL, paragraph 134 provides that County Offices shall document the results of the partial and final inspections in the FSFL folder on CCC-295A.</p> <p>CCC-195, steps 16 B and 17 B.</p>
Servicing	
<p>UCC-1 continuation was not timely filed.</p>	<p>1-FSFL, subparagraph 56 B provides that County Offices shall file UCC continuation forms within a 6-month period before the expiration of the original UCC forms.</p>
<p>Proper notifications were not timely issued to borrowers of servicing actions; for example, reminder and demand letters.</p>	<p>1-FSFL, paragraph 158 provides basic servicing policies. County Offices are required to mail reminder and notification letters and demand letters timely.</p> <p>The date the reminder and notification letters, and demand letters are mailed begins the due process period to start legal action if the annual installment repayment is not received in the County Office.</p>

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2 FY 2010 FSFL OIG Audit Findings (Continued)

A OIG Common Audit Findings (Continued)

Descriptions of Findings	Procedure Reference and Policy
Servicing (Continued)	
Incorrectly approved multiple later annual installment repayment requests.	<p>1-FSFL, subparagraph 158 E provides that debtors who cannot pay on the due date may request up to an additional 120 calendar days to pay an installment if they submit both of the following:</p> <ul style="list-style-type: none"> • a request in writing for COC consideration within 60 calendar days before or after the installment due date • a current cash flow statement demonstrating that the installment can be paid within 120 calendar days after the due date. <p>Payment after installment due date may be requested 1 time only for each installment during the FSFL term.</p>
Evidence was not found that the other agency claim flag was set in the borrower's profile for delinquent annual installments.	1-FSFL, subparagraph 158 I provides that County Offices shall set the other "Agency Claim Flag" in the FSA-Financial Services (FS) on all borrowers listed on the delinquent FSFL.
CCC-295B is not on file.	1-FSFL, subparagraph 163 A provides that County Offices shall document the results of the required annual inspection on CCC-295B.
<p>Annual verifications were not performed for:</p> <ul style="list-style-type: none"> • real estate taxes • multi-peril crop, flood, and/or all-peril structural insurance policies. 	<p>1-FSFL, subparagraph 162 A provides that the borrower must provide proof of payment of taxes, applicable to collateral securing FSFL, to the County Office annually.</p> <p>1-FSFL, subparagraph 163 A provides that annually County Offices must verify that required insurance policies are current and CCC is listed as a loss payee.</p> <p>CCC-295B, FSFL Annual Inspection Record, 1-FSFL, Exhibit 25.</p>

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2 FY 2010 FSFL OIG Audit Findings (Continued)

A OIG Common Audit Findings (Continued)

Descriptions of Findings	Procedure Reference and Policy
Servicing (Continued)	
Required collateral checks were not performed.	<p>1-FSFL, subparagraph 163 A provides that the FSFL borrower must maintain the FSFL collateral in a condition suitable for the storage of 1 or more FSFL commodities. County Offices are required to perform collateral checks according to the schedule provided in the subparagraph.</p> <p>County Offices must use CCC-295B to document that the required collateral check was performed.</p>
Incorrectly entered loan installment repayments in both the System 36 and NRRS.	<p>1-FSFL, paragraph 380 provides repayment processing policy. 1-FSFL, subparagraph 380 A instructs County Offices to enter all FSFL repayments in the FSFL software and deposit in NRRS according to current FI remittance procedure. Additionally, 1-FSFL, Exhibit 36 provides FSFL Repayment Example for Recording in NRRS.</p> <p>It is imperative that County Offices enter all repayments correctly in both the System 36 and NRRS.</p>