United States Department of Agriculture

Livestock Indemnity Program

Audit Report 03601-0004-41

September 2020

OFFICE OF INSPECTOR GENERAL

Livestock Indemnity Program

Audit Report 03601-0004-41

OIG reviewed FSA's implementation of the Livestock Indemnity Program for calendar years 2017–2018.

OBJECTIVE

Our objective was to evaluate whether FSA has adequate controls to ensure: (1) program participants fully meet eligibility requirements; and (2) payments are accurately determined.

REVIEWED

We reviewed FSA's administration of LIP at the State and county levels for calendar years 2017–2018. We performed our work at the FSA national office in Washington, D.C.; four States; and four counties. During our audit, we reviewed laws and guidance, interviewed personnel, and reviewed calendar year 2017–2018 data.

RECOMMENDS

We recommend that FSA review and recover improper LIP payments. FSA should also establish a standardized form and enhanced training that county offices can use to more effectively evaluate producers' claims for LIP benefits. Finally, FSA should provide additional guidance on district director reviews and ensure that FSA includes LIP in management reviews.

WHAT OIG FOUND

The Farm Service Agency's (FSA) mission is to equitably serve all farmers, ranchers, and agricultural partners by delivering effective, efficient agricultural programs for all Americans.

In 2014, the Livestock Indemnity Program (LIP) was authorized to compensate eligible livestock owners and contract growers for their eligible livestock deaths in excess of normal mortality as a direct result of an eligible loss condition. In 2018, LIP was amended to also compensate livestock owners and contract growers in the event that their livestock are injured by an eligible loss condition and subsequently sold for a reduced price. This amendment was retroactive to program year 2017.

We reviewed 127 LIP payments and found discrepancies with 29 payments. Specifically, 16 of the payments lacked key documentation to support the payments, and 13 had clerical errors that affected the payment amount. This occurred because FSA needs to enhance its process and guidance concerning what constitutes sufficient and accurate documentation when assessing LIP claims. As a result, we identified a total of $745,944 in improper payments in our sample.

Additionally, we found that FSA reviews were not being adequately completed, documented, and reported. First, district directors did not sufficiently conduct their reviews because they needed additional guidance on how to carry out these tasks. Second, FSA has not completed a management review on LIP's internal controls since 2014 due to limited resources and personnel. Because FSA did not adequately monitor LIP, we identified overpayments that totaled over $10,000.

FSA generally agreed with our findings and recommendations, and we accepted management decision on eight of the nine recommendations.

United States Department of Agriculture

Office of Inspector General

Washington, D.C. 20250

DATE: September 28, 2020

AUDIT NUMBER: 03601-0004-41

TO: Richard Fordyce
Administrator
Farm Service Agency

ATTN: Gary Weishaar
Branch Chief
External Audits and Investigations Division

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Livestock Indemnity Program

This report presents the results of the subject review. Your written response to the official draft is included in its entirety at the end of the report. We have incorporated excerpts from your response and the Office of Inspector General's (OIG) position into the relevant sections of the report. Based on your written response, we are accepting management decision for Recommendations 2 through 9. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

Based on your written response, management decision has not been reached on Recommendation 1. The information needed to reach management decision on the recommendation is set forth in the OIG Position section following the recommendation. In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned, and the timeframe for implementing the recommendation for which management decision has not been reached. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance, and final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publicly 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

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. With 50 State offices and 2,124 county offices, including offices in U.S. territories, FSA administers farm and loan programs to farmers and ranchers across the country. One of the programs that FSA administers is the Livestock Indemnity Program (LIP).

LIP was authorized by the Agricultural Act of 2014 (the 2014 Farm Bill)[1] to compensate eligible livestock owners and contract growers[2] for their livestock deaths in excess of normal mortality caused by eligible loss conditions.[3] Eligible loss conditions include adverse weather, disease, and attacks by other animals.[4] The Bipartisan Budget Act of 2018 amended LIP by adding a provision that compensated livestock owners in the event that their livestock are injured by an eligible loss condition and are subsequently sold for a reduced price.[5] This Act also made the amendment retroactive to program year 2017.

To be eligible for LIP, a livestock producer must be either an owner or a contract grower whose eligible livestock died or were injured by an eligible loss condition.[6] The eligible loss condition must have directly resulted in the producer's livestock either dying or being injured and sold at a reduced price. In addition, the eligible livestock must have been maintained for commercial use as part of a farming operation on the day they died. Excluded animals not eligible under this program include, but are not limited to: wild free-roaming animals and animals used for recreational purposes, such as pleasure, hunting, pet, or show animals.

Livestock producers who seek to be compensated by LIP must submit a notice of loss within 30 calendar days after the loss of livestock is first apparent. Additionally, producers must apply for the LIP payment at their local FSA county office within 60 calendar days after the end of the calendar year in which the loss occurred.[7] When determining eligibility, all owners' or contract growers' interest in inventory of eligible livestock in that county for the calendar year must be accounted for and summarized.

[1] Agricultural Act of 2014, Pub. L. No. 113–79, 128 Stat. 649, § 1501 (2014 Farm Bill).
[2] A livestock owner has legal ownership of the livestock and has the production and market risk associated with the agricultural production of livestock. A contract grower has: (1) a written agreement with the livestock owner that sets the terms, conditions, and obligations regarding the production of the livestock; (2) control of the eligible livestock; and (3) risk of loss in the livestock.
[3] The following are eligible livestock: beefalo, beef cattle, buffalo, dairy cattle, poultry (chickens, ducks, turkeys, and geese), alpacas, deer, elk, emus, equine, sheep, goats, llamas, caribou, reindeer, sheep, and swine.
[4] Eligible attacks are attacks by animals that have been either reintroduced into the wild by the Federal Government or are protected by Federal law, including wolves and avian predators.
[5] USDA FSA, *Livestock Disaster Assistance Programs for 2011 and Subsequent Years*, § 21, "General Information" 1-LDAP (Rev. 1) (May 2018).
[6] USDA FSA, *Livestock Disaster Assistance Programs for 2011 and Subsequent Years*, § 21, "General Information" 1-LDAP (Rev. 1) (May 2018).
[7] USDA FSA, *Livestock Disaster Assistance Programs for 2011 and Subsequent Years*, § 40.D, "Signup Period" 1-LDAP (Rev. 1) (May 2018).

In addition, applicants must submit a completed application, documentary evidence of loss, current physical location of livestock in inventory, physical location of claimed livestock at the time of death, and any other supporting documentation necessary for FSA to determine eligibility.

The documentation needed to support the livestock loss must include the quantity and kind of livestock that died or were injured as a direct result of the eligible loss condition.[8] Types of documentation that might prove eligibility include purchase records, veterinarian records, bank or other loan papers, rendering truck receipts, Federal Emergency Management Agency and National Guard records, written contracts, production records, Internal Revenue Service records, property tax records, private insurance documents, third-party verification, and any other verifiable documents available to confirm the presence and subsequent death or injury of eligible livestock.

To calculate LIP payments for dead livestock, FSA multiplies the national payment rate established for each livestock kind/type/weight range by the number of applicable eligible livestock.[9, 10, 11] Separate payment rates are established for livestock owners and for contract growers. The payment rate for eligible livestock owners is 75 percent of the average fair market value of the dead livestock; for eligible contract growers the payment rate is 75 percent of the average income loss sustained by the grower with respect to the dead livestock.

For injured livestock sold at a reduced price due to an eligible loss condition, LIP payments are calculated using the following formula:

> *national payment rate for livestock – amount received × livestock owner's or contract grower's share*

If the injured livestock are sold for more than the national payment rate for the applicable livestock category, there is no payment.

Objectives

Our objective was to evaluate whether FSA has adequate controls in place to ensure that: (1) program participants fully meet eligibility requirements; and (2) payments are accurately determined.

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[8] USDA FSA, *FSA Fact Sheet for Livestock Indemnity Program* (Dec. 2018).
[9] USDA FSA, *FSA Fact Sheet for Livestock Indemnity Program* (Dec. 2018).
[10] The national payment rates are published annually in the FSA Fact Sheet for the Livestock Indemnity Program.
[11] The number of applicable eligible livestock is the number of dead livestock adjusted for normal mortality. According to FSA Handbook 1-LDAP, § 24, normal mortality is determined by multiplying the applicable normal mortality percentage by the number of livestock of that specific kind/type/weight range in inventory at the time of the eligible loss condition and death loss of the animal. The resulting number of normal mortality deaths is subtracted from the number of eligible livestock in inventory at the time of the eligible loss condition and death.

Finding 1: FSA Needs to Strengthen Its Review of LIP Applications

We found discrepancies with 29 of the 127 LIP payments we reviewed. Specifically, 16 of the payments we reviewed lacked key documentation needed to support the payments, and 13 had clerical errors affecting the payment amount. This occurred because FSA needs to enhance its process and guidance—including a standardized form and enhanced training—to specify what is sufficient and accurate documentation to assess producers' claims for LIP payments. As a result, we identified improper payments totaling $745,944 in our sample of 127 payments.

FSA Handbook 1-LDAP, § 44 requires that LIP participants provide both verifiable proof of injury or loss and reliable inventory records. If a participant is unable to provide verifiable or reliable records as proof of death or injury, then the participant must use a third-party or veterinarian certification in conjunction with verifiable beginning inventory.[12]

We reviewed 127 non-statistically selected LIP payments at four county offices within four States and found discrepancies with 29 of the payments. We found that 12 of the payments lacked adequate documentation to support producers' reported livestock inventory before the loss event. An additional four payments lacked adequate documentation to support producers' number of livestock deaths. The remaining 13 payments with discrepancies had various clerical errors, which affected the payment amount. Our findings are detailed below.

Beginning Inventory Records Inadequate

For 12 of the payments we reviewed, the producers either provided no support or the support was inadequate for the number of livestock they reported on their LIP applications as beginning inventory.[13] This occurred because of a lack of a form identifying sufficient documentation for producer LIP claims. For 35 of the 127 LIP payments we reviewed, county offices did not use any form or worksheet to document their review of LIP applications. For the remaining 92 LIP payments we reviewed, county offices used a form and/or worksheet. However, neither the form nor worksheet was designed to document (1) all of the supporting documentation that the LIP applicant provided to the county office and (2) the county office's reconciliation of the LIP applicant's supporting documentation to their reported beginning inventory or number of livestock deaths or injuries.[14] As a result, we identified $423,836 in overpayments.

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[12] USDA FSA, *Livestock Disaster Assistance Programs for 2011 and Subsequent Years,* § 44, "Supporting Documentation," 1-LDAP (Rev. 1) (May 2018).

[13] In the LIP application process, verifiable beginning inventory is important to document the number of animals the producer had at the time of the adverse weather event. Normally, producers maintain a beginning inventory for each calendar year and keep sales and purchases receipts during the year to support their ending inventory. During the year, animals are also lost due to normal mortality and births, for which producers are also responsible for maintaining records. All of this information is used to determine a producer's verifiable beginning inventory at the time of the adverse weather event that caused the injury or death to their livestock.

[14] For these payments, the county offices used the Form Commodity Credit Corporation (CCC)-770, *Livestock Indemnity Program Checklist*, and/or the *Calculated Beginning Inventory Worksheet* to document their review of LIP applications. The *Calculated Beginning Inventory Worksheet* was replaced in 2018 with a new application and payment software and is therefore no longer used.

Adequate support, according to the FSA Handbook, "must provide sufficient data that identifies the quantity and the livestock kind/type and weight range."[15] An accurate beginning inventory for each calendar year—in combination with sales and purchase receipts and documented records of mortality and births—is essential to verify a producer's inventory at the time of the qualifying loss or injury event.

For 10 of these 12 payments, there was no support for the number of livestock that producers reported on their LIP applications as beginning inventory. For example, the producer on one LIP application we reviewed reported a beginning inventory that included both adult cows and cows weighing less than 400 pounds; however, nothing in the case file supported that the producer ever had this type of livestock in inventory. A standardized form outlining the required documentation for a LIP application would have prevented this improper payment, as the application contained no documentation supporting the producer's beginning inventory.

For the remaining two payments, the producers provided some documentation to support the number of livestock reported on their LIP applications as beginning inventory; however, the documentation was insufficient. These two producers submitted either feed receipts or veterinary records showing that vaccinations were purchased, but neither type of documentation specifically showed the number of animals that were fed or that were treated with the vaccinations. In one of the counties we visited, the County Office Committee (COC) accepted the feed and vaccination receipts, even though the receipts did not adequately support producers' beginning inventory in accordance with the FSA Handbook. A standardized form recording the county office's work calculating whether the producer sufficiently documented their beginning inventory would have identified this documentation as insufficient.

Proof of Loss Unsupported

For four of the payments we reviewed, the producers lacked adequate support for the number of livestock deaths they reported on their LIP applications. This occurred because FSA does not provide a standardized form outlining the types of documentation needed for the LIP application to verify proof of loss. As a result, we identified $129,438 in overpayments.

When a request for payment is submitted, the FSA Handbook states that applicants must provide verifiable documentation of both livestock deaths or injuries due to the qualifying loss condition and due to normal mortality.[16] Furthermore, the FSA Handbook states that if "unable to provide verifiable or reliable records as proof of death or injury, […] the participant must use a third party certification as proof of death or injury in conjunction with

[15] USDA FSA, *Livestock Disaster Assistance Programs for 2011 and Subsequent Years,* § 44, "Supporting Documentation," 1-LDAP (Rev. 1) (May 2018). The following are examples of documentation identified in the FSA Handbook that can be used to provide verifiable evidence of livestock beginning inventory: "veterinary records, canceled check documentation, balance sheets, inventory records used for tax purposes, loan records, bank statements, farm credit balance sheets, property tax records, brand inspection records, sales and purchase receipts, private insurance documents or chattel inspections."

[16] USDA FSA, *Livestock Disaster Assistance Programs for 2011 and Subsequent Years,* § 44, "Supporting Documentation," 1-LDAP (Rev. 1) (May 2018).

verifiable beginning inventory." The producer can also submit a veterinarian certificate: "Certifications must be based on the veterinarian's own personal observation of the animals and knowledge of the deaths of the animals".[17]

None of the producers receiving these four payments provided either a third-party or veterinarian certification showing the actual number of livestock that died or were injured as a result of the adverse weather event, as required by the FSA Handbook. As these improper payments were due to incomplete documentation, they could have been prevented through the use of a standardized form identifying the need to document both beginning inventories and third-party certification in order to prove death or injury.

Administrative Errors

For 13 of the payments we reviewed, the county office made various administrative errors when processing producers' LIP applications. As a result, we identified $80,976 in overpayments and $111,694 in underpayments.

The types of errors that could have been prevented through the use of a standardized form are detailed below:

- For two of the payments we reviewed, the county office incorrectly calculated the number of dead or injured animals claimed on the producer's application.

- For three of the payments reviewed, the county office used the wrong payment rate for the type of animals that the producers lost. For example, the producer was paid at the rate applicable to animals weighing 400 to 799 pounds when the animals lost weighed less than 400 pounds.

- For four of the payments reviewed, the county office made math errors in calculating the producer's LIP payment. For example, in one case, the county office staff used the incorrect number of cows and calves from the calendar the producer provided.[18] As a result, the producer's numbers of both cows and calves were understated.

A type of error that could have been prevented with additional training is outlined below:

- For four of the payments reviewed, the county office did not correctly include the salvage sale information in the LIP application used for processing payments.[19, 20]

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[17] USDA FSA, *Livestock Disaster Assistance Programs for 2011 and Subsequent Years,* §45.5, "CCC-854A, Livestock Indemnity Program Veterinarian Certification," 1-LDAP (Rev. 1) (May 2018).

[18] On the calendar provided to the county office, the producer documented the number of cows and calves lost during the adverse weather event.

[19] Only 4 of the 127 payments we reviewed had salvage sales. For all four payments, the county office did not correctly include the salvage sale information into the LIP application used for processing payments.

[20] A salvage sale is when a producer sells their livestock that were injured by an eligible loss condition for a reduced price.

These producers had salvage sales that were made within 30 days of the date of the adverse weather event, a requirement of the FSA Handbook.[21]

We attributed many of the discrepancies noted above to FSA's lack of a standardized form that county offices could use to more specifically and effectively reconcile producers' supporting documentation to their reported inventory amounts and number of livestock deaths or injuries. Such a form would serve two functions. First, a standardized form would help ensure that all documentation required for LIP is obtained from the producer. Second, the form would document the county office's analysis in determining whether the documentation the producer provided adequately supported the reported livestock inventory and number of livestock deaths or injuries.

In addition to a standardized form, training that includes more examples of the types of documentation that could be used to verify a producer's beginning inventory could prevent improper payments. At one of the county offices we visited, officials stated that, while their annual training covered the basic changes in the regulations, it did not provide enough examples of the types of documentation that could be used to support producers' LIP applications. Enhanced training would help ensure that the required documentation is obtained to adequately support producers' claims for LIP benefits.

Finally, in one of the county offices, we noted a best business practice that may benefit other counties if adopted agency-wide. To ensure that all required documentation was obtained to support a producer's application for a LIP payment, the county office created a specialized folder, divided into six sections, to house all of the key components of the application. This folder included a section for supporting documentation for inventory and a section for proof of livestock death or injury.[22] By ensuring all required documentation was obtained from the producer prior to review, both the county office and COC could more effectively review producers' applications and determine eligibility for LIP payments.

In order to both standardize and strengthen its process for reviewing producers' applications for LIP benefits, FSA should establish a standardized form for reconciling producers' supporting documentation with reported inventory and number of livestock deaths or injuries, enhance the training FSA currently provides, and identify and share best practices. Based on our review, we recommend that FSA review the 29 LIP applications and take appropriate corrective action on the improper payments that resulted in overpayments of $634,250 and underpayments of $111,694. By taking these corrective actions, FSA could correct this potential weakness in the LIP application review process and prevent future improper payments.

[21] USDA FSA, *Livestock Disaster Assistance Programs for 2011 and Subsequent Years,* § 42, "Eligible Livestock, Owners, and Contract Growers Eligibility Criteria," 1-LDAP (Rev. 1) (May 2018).
[22] The folder also included sections for documentation supporting the adverse weather event, an inventory worksheet, correspondence and COC minutes, and payment confirmation.

Recommendation 1

Review and recover improper overpayments of $634,250 due to errors in calculating LIP payments.

Agency Response

In its September 22, 2020, response, FSA stated:

> FSA partially concurs with Recommendation 1. National Office will work with State Offices to review the improper overpayments of $634,250 and will take corrective action when needed. Finality rule is a form of relief that may be applicable on a case-by-case basis. FSA targets the reviews and appropriate corrective action to be completed by January 1, 2021.

OIG Position

While we agree with FSA's approach, we cannot reach management decision on this recommendation. To achieve management decision on this recommendation, FSA needs to provide OIG a copy of the bill for collection for amounts owed to the Government and documentary support that the amounts have been entered as a receivable on the agency's accounting records.

Recommendation 2

Review and issue improper underpaid amounts of $111,694 plus any prompt payment interest due to errors in calculating LIP payments.

Agency Response

In its September 22, 2020, response, FSA stated:

> FSA concurs with Recommendation 2. National Office will work with State Offices to review and issue underpayments, plus prompt payment interest, when applicable. FSA targets the reviews and additional payments to be completed by January 1, 2021.

OIG Position

We accept management decision on this recommendation.

Recommendation 3

Establish a standardized form that county offices can use to more specifically and effectively document their reconciliation of producers' supporting documentation to their reported inventory amounts and number of livestock deaths or injuries.

Agency Response

In its September 22, 2020, response, FSA stated:

> FSA concurs with Recommendation 3. FSA will develop a form that can be used by County Offices to document their reconciliation of supporting documentation to reported livestock inventory and livestock deaths or injuries, as applicable. FSA targets a completion date of June 1, 2021.

OIG Position

We accept management decision on this recommendation.

Recommendation 4

Enhance the training FSA currently provides its county offices to include more specific examples of the documentation needed to support producers' claims for LIP benefits.

Agency Response

In its September 22, 2020, response, FSA stated:

> FSA concurs with recommendation 4. The National Office will provide more specific examples regarding documentation to support producers' claims for LIP benefits. Examples will be added to the 1-LIP Handbook and training will be provided. FSA targets completion of training by June 1, 2021.

OIG Position

We accept management decision on this recommendation.

Recommendation 5

Identify best practices within the agency and share them with other county offices agency-wide to more effectively and efficiently review producers' LIP applications.

Agency Response

In its September 22, 2020, response, FSA stated:

> FSA concurs with Recommendation 5. The National Office will consult with the Livestock Taskforce Team, made up of State and County Office employees from different parts of the U.S., to identify best practices for effectively and efficiently review producers' LIP applications. FSA targets June 1, 2021, as a completion date to identify best practices and share with County Offices nationwide.

OIG Position

We accept management decision on this recommendation.

Finding 2: Adequate Monitoring Needed for District Director and Management Reviews

We found that, in all four counties we reviewed, FSA reviews were not being adequately completed, documented, and reported. First, district directors did not adequately complete, document, and report their reviews because they need additional guidance on how to carry out these tasks. Second, FSA has not reviewed LIP's internal controls since 2014 due to limited resources and personnel. Because FSA did not adequately monitor LIP, we identified overpayments in our sample that totaled over $10,000—and there is a continued risk of improper payments in LIP.

The FSA Handbook requires district directors to review the first five LIP payment applications in each county within each State.[23] The FSA Handbook also requires that, within 10 workdays of completing this review, district directors must provide a written report to the State executive director describing the review findings, to include: a list of errors discovered, proposed corrective action, and the overall status of implementing LIP in the county office. Departmental regulations state that all managers directing or controlling resources within the Department are responsible for establishing, maintaining, evaluating, improving, and reporting on controls for their assigned areas.[24] The Agriculture Improvement Act of 2018 (2018 Farm Bill) established the requirement for FSA to "establish policies, procedures, and plans to improve program accountability and integrity through targeted and coordinated activities, including utilizing data mining to identify and reduce errors, waste, fraud, and abuse in programs administered by the Farm Service Agency."[25]

District director and management reviews are important because they serve as controls to ensure that payments are made appropriately. They differ from each other in that district director reviews are very specific and focused on individual transactions, while management reviews are broad reviews that provide assurance that the controls are working as they should. Without both of these types of reviews, FSA may not identify improper payments that have been issued.

District Director Reviews

In two of the four counties we audited, the results of the reviews were not communicated to the State executive director, as required. At one of the two counties that did not report their review results, we found no evidence that the required number of reviews were even conducted.

While there were criteria stating that district director reviews should be conducted and reported to the State office, we found that there was no specific guidance as to how to document and report the results of the reviews to the State office. FSA officials at two of the States we reviewed agreed that further guidance was needed on how the results of the

[23] USDA FSA, *Livestock Disaster Assistance Programs for 2011 and Subsequent Years,* § 75 D, "Acting on Application for Payment CCC-852," 1-LDAP (Rev. 1) (May 2018).
[24] USDA Departmental Regulation 1110-002, *Management's Responsibility for Internal Control* (June 17, 2013).
[25] Agriculture Improvement Act of 2018, Pub. L. No. 115-334, 132 Stat. 4490 (2018 Farm Bill).

district director reviews should be documented and reported to the State office. One of the FSA State officials also recognized the need to reemphasize to its district directors the requirement that the results of the reviews be sent to the State office. To ensure that FSA is able to take timely corrective action when warranted, FSA should issue additional guidance on how district directors document and report their reviews pertaining to LIP.

OIG identified similar issues with FSA district director reviews in a recent audit of the Emergency Assistance for Livestock, Honeybees, and Farm-Raised Fish Program (ELAP).[26] In our report, OIG found that several district directors responsible for the counties reviewed either did not perform the required district director reviews for ELAP or did not report the results of these reviews to the State executive director. To address the issue, OIG recommended that FSA State offices monitor completion of the district director reviews and that FSA provide specific guidance on how to report the results of the district director reviews to the State executive director.

We also found two payments with discrepancies that had been reviewed by the district directors.[27] One of the LIP payments lacked verifiable beginning inventory records and the other lacked adequate support for livestock losses. Because district directors did not identify these discrepancies during their review, FSA issued overpayments totaling $10,258.[28] Both of these discrepancies could have been identified during the district director reviews with the enhanced training we recommended in Finding 1 of this report.[29] Furthermore, the standardized form we recommended in Finding 1 should improve the effectiveness of the district directors' reviews of LIP payments. The standardized form can be used by county offices to more specifically and effectively document their work reconciling producers' supporting documentation to their reported inventory amounts and number of livestock deaths or injuries.

Management Reviews

FSA used to perform management reviews of LIP, which were conducted as an internal control process. However, we found that none of the four States we reviewed were conducting management reviews. According to an FSA official, LIP management reviews have not been carried out since 2014.

FSA has not conducted management reviews since 2014 primarily because it did not consider the reviews a priority, considering its limited number of staff. Additionally, in fiscal year (FY) 2019, most of FSA's reviewers were transferred to the Farm Production and Conservation Business Center (FPAC-BC)—a new entity responsible for reviewing

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[26] Audit Report 03702-0001-23, *2017 Emergency Assistance for Honeybee Claims* (Sept. 2020).
[27] District directors reviewed these payments because they were among the first five payments made in the county.
[28] The $10,258 is included in the overpayment amount reported in Finding 1.
[29] In Finding 1, we recommended that FSA enhance the training it currently provides its county offices to include more specific examples of the documentation needed to support producers' claims for LIP benefits. The district directors receive the same training as the county offices.

FSA programs.[30] This reorganization further limited FSA's ability to conduct its own management reviews, as the agency had limited resources to allot to reviews.

As a result of the 2018 Farm Bill, which establishes the need for more oversight, FSA is working to implement a new review process to support and enhance integrity and accountability in FSA programs. This new review process will include a handbook that will outline a management review process; however, the handbook is still in development.[31] According to FSA, the first review to be performed under this process will be of FSA's Market Facilitation Program.[32] The FSA official we spoke with did not have a timeline for when LIP would ultimately be reviewed. While we understand FSA's position that the Market Facilitation Program is a high-risk program and LIP is not, we recommend that FSA schedule LIP to be included at some point in the review process. As risk can change at any point, even low-risk programs, such as LIP, should be scheduled to be reviewed.

When these review processes do not work as intended, there is an increased risk that FSA will not identify improper payments and will issue payments to ineligible producers—or will issue payments for improper amounts. To mitigate the risk of improper payments and improve LIP's overall administration, we make the following recommendations.

Recommendation 6

Provide additional guidance on how the district director reviews of LIP should be documented.

Agency Response

In its September 22, 2020, response, FSA stated:

> FSA concurs with Recommendation 6. FSA has developed a new internal review process, Internal Review and Documentation Tracking System (IRDTS). Using IRDTS, when District Directors (DDs) do first reviews in the future they will be using an automated and nationally standardized questionnaire, which will collect the data back to the State and national level. This data will not only confirm the results provided when the DD completed their responses, but the data will tell which DDs have completed their reviews and which ones have not. The system also records when the review is issued to the DD and when the DD completes the review.

FSA provided an estimated completion date of June 30, 2021, for this action.[33]

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[30] In May 2017, USDA established a new mission area called Farm Production and Conservation (FPAC). FSA was one of three USDA agencies realigned under the FPAC mission area. To accomplish FPAC's overall mission, USDA established a business center within FPAC (FPAC-BC) to carry out the consolidated administrative functions for the three agencies.

[31] FSA informed OIG on April 27, 2020, that the agency was still in the process of drafting the new handbook.

[32] USDA FSA Notice AO-1740, *National Pilot Accountability and Integrity Training* (December 3, 2019).

[33] FSA provided OIG the estimated completion date for Recommendation 6 in an email on September 23, 2020.

OIG Position

We accept management decision on this recommendation.

Recommendation 7

Follow the requirements that FSA established for ELAP for State offices to monitor completion of district director reviews. Also, evaluate the results of the reviews to determine the overall status of LIP, as was recommended for ELAP.[34]

Agency Response

In its September 22, 2020, response, FSA stated:

> FSA concurs with Recommendation 7 and targets a completion date by March 2021.

OIG Position

We accept management decision on this recommendation.

Recommendation 8

Establish a timeline for completing the management reviews FSA is planning.

Agency Response

In its September 22, 2020, response, FSA stated:

> FSA concurs with Recommendation 8. FSA targets LIP to be included in IRTDS within the next program year, by December 31, 2021.

FSA provided a revised estimated completion date of September 1, 2021, for this action.[35]

OIG Position

We accept management decision on this recommendation.

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[34] In Audit Report 03702-0001-23, *2017 Emergency Assistance for Honeybee Claims* (Sept. 2020), OIG recommended that FSA establish and implement requirements for State offices to monitor completion of district director reviews, and evaluate the results of the reviews to determine the overall status of ELAP.
[35] FSA provided OIG the revised estimated completion date for Recommendation 8 in an email on September 24, 2020.

Recommendation 9

Ensure that the management reviews that FSA is planning include LIP

Agency Response

In its September 22, 2020, response, FSA stated:

> FSA concurs with Recommendation 9. FSA targets LIP to be included in IRTDS within the next program year, by December 31, 2021.

FSA provided a revised estimated completion date of September 1, 2021, for this action.[36]

OIG Position

We accept management decision on this recommendation.

[36] FSA provided OIG the revised estimated completion date for Recommendation 9 in an email on September 24, 2020.

Scope and Methodology

We conducted a nationwide audit of FSA's LIP. The scope of our audit work covered FYs 2017–2019. To accomplish our objectives, we performed fieldwork at the agency's national office, located in Washington, D.C., four State offices, and four county offices. We performed our fieldwork from June 2019 through March 2020.

During calendar years (CY) 2017–2018, FSA administered LIP payments totaling over $66 million nationwide.[37] To assess FSA's controls surrounding these payments, we non-statistically selected four States to review. The four States selected were Kansas, Montana, South Dakota, and Texas. Kansas and Texas were selected because they had the largest total payment amounts in CY 2017, and Montana and South Dakota were selected because they had the largest total payment amounts in CY 2018. Combined, the four States made payments totaling over $31 million in CYs 2017–2018, or nearly half of the total payments made nationwide.

Likewise, we non-statistically selected the county in each of the four States with the largest total payment amounts. The four counties selected were Clark in Kansas, Blaine in Montana, Beadle in South Dakota, and Jefferson in Texas. At the selected county offices, we reviewed a total of 127 non-statistically selected LIP payments from CYs 2017–2018 valued at over $5 million. Our sample included a mix of small, medium, and large payments.[38]

In developing the findings for this report, we performed the following steps and procedures:

- Reviewed the pertinent laws, regulations, policies, and procedures related to LIP;
- Interviewed key personnel to gain an understanding of their roles and responsibilities relating to LIP;
- Interviewed key personnel to gain an understanding of FSA's processes for reviewing and approving producers' applications for LIP benefits;
- Ascertained the adequacy and effectiveness of FSA's reviews, oversight, and monitoring of LIP; and
- Selected and reviewed a non-statistical sample of LIP payments to determine whether applicants fully met eligibility requirements and payments were accurately determined.

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[37] FSA administers LIP on a calendar year basis.

[38] At each county office, we selected the 10 largest payments and the 3 smallest payments. We also selected seven medium-sized payments. To determine the county's medium-sized payments, we calculated the county's average payment amount. Using the average payment amount as our starting point, we selected the seven largest payments. We also selected 47 additional payments, regardless of their size, based on a number of other factors. These other factors included instances where we noted that there was more than one payment made in the same year with the same application number, and instances where there was a significant difference between the application date and payment date.

During the course of the audit, we obtained and reviewed information from both InfoPath and the National Payment Services.[39] We used the information from these two systems to select our sample of LIP payments to review. We also verified the accuracy of the information FSA entered into these systems for the selected payments we reviewed. Aside from selecting our sample of payments to review and verifying the information entered into InfoPath and the National Payment Services regarding those payments, we did not solely rely on or verify information in any other agency information system. Thus, we make no representation regarding the adequacy of any agency computer system, or the information generated from them because evaluating the effectiveness of information systems or information technology controls was not one of the audit's objectives.

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.

[39] InfoPath is the system that FSA uses to process producers' applications for LIP benefits. FSA county office staff enter the information from producers' LIP applications into InfoPath. The National Payment Services is the system that FSA uses to process LIP payments after the application is approved.

Abbreviations

CCC..Commodity Credit Corporation
COC ....County Office Committee
ELAP......................................Emergency Assistance for Livestock, Honeybees, and Farm-Raised Fish Program
FPAC......................................Farm Production and Conservation
FPAC-BC...............................Farm Production and Conservation Business Center
FSA ....Farm Service Agency
FY ....fiscal year
CY ....calendar year
LIP..Livestock Indemnity Program
OIG ....Office of Inspector General
USDA.....................................Department of Agriculture

Exhibit A: Summary of Monetary Results

Exhibit A summarizes the monetary results for our audit report by finding and recommendation number.

Finding	Recommendation	Description	Amount	Category
1	1	FSA overpayments of LIP benefits to producers	$634,250	Questioned Costs, Recovery Recommended
1	2	FSA underpayments of LIP benefits to producers	$111,694	Underpayments and Over collections
Total Monetary Results			**$745,944**	

AGENCY'S
RESPONSE TO AUDIT REPORT

USDA
United States Department of Agriculture

Farm Production and Conservation

Farm Service Agency

Farm Programs

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Phone
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DATE: September 22, 2020

TO: Gil H. Harden
Assistant Inspector General for Audit, OIG

FROM: Richard Fordyce **/s/ Richard Fordyce**
Administrator

SUBJECT: OIG Audit 03601-0004-41 -2017 & 2018 Livestock Indemnity Program Claims

OIG's official draft report of the 2017 & 2018 Livestock Indemnity Program (LIP) audit provides two findings and corresponding OIG recommendations. Listed below are OIG's findings, recommendations and FSA's responses.

OIG FINDING 1: FSA Needs to Strengthen Its Review of LIP Applications

OIG Recommendation 1:

Review and recover improper overpayments of $634,250 due to errors in calculating LIP payments.

FSA Response to Recommendation 1:

FSA partially concurs with Recommendation 1. National Office will work with State Offices to review the improper overpayments of $634,250 and will take corrective action when needed. Finality rule is a form of relief that may be applicable on a case-by-case basis. FSA targets the reviews and appropriate corrective action to be completed by January 1, 2021.

OIG Recommendation 2:

Review and issue improper underpaid amounts of $111,694 plus any prompt payment interest due to errors in calculating LIP payments.

FSA Response to Recommendation 2:

FSA concurs with Recommendation 2. National Office will work with State Offices to review and issue underpayments, plus prompt payment interest, when applicable. FSA targets the reviews and additional payments to be completed by January 1, 2021.

OIG Recommendation 3:

Establish a standardized form that county offices can use to more specifically and effectively document their reconciliation of producers' supporting documentation to their reported inventory amounts and number of livestock deaths or injuries.

FSA Response to Recommendation 3:

FSA concurs with Recommendation 3. FSA will develop a form that can be used by County Offices to document their reconciliation of supporting documentation to reported livestock inventory and livestock deaths or injuries, as applicable. FSA targets a completion date of June 1, 2021.

OIG Recommendation 4:

Enhance the training FSA currently provides its county offices to include more specific examples of the documentation needed to support producers' claims for LIP benefits.

FSA Response to Recommendation 4:

FSA concurs with this recommendation 4. The National Office will provide more specific examples regarding documentation to support producers' claims for LIP benefits. Examples will be added to the 1-LIP Handbook and training will be provided. FSA targets completion of training by June 1, 2021.

OIG Recommendation 5:

Identify best practices within the agency and share them with other county offices agency-wide to more effectively and efficiently review producers' LIP applications.

FSA Response to Recommendation 5:

FSA concurs with Recommendation 5. The National Office will consult with the Livestock Taskforce Team, made up of State and County Office employees from different parts of the U.S., to identify best practices for effectively and efficiently review producers' LIP applications. FSA targets June 1, 2021, as a completion date to identify best practices and share with County Offices nationwide.

OIG Finding 2: Adequate Monitoring Needed for District Director and Management Reviews

Recommendation 6:

Provide additional guidance on how the district director reviews of LIP should be documented.

FSA's Response to Recommendation 6:

FSA concurs with Recommendation 6. FSA has developed a new internal review process, Internal Review and Documentation Tracking System (IRDTS). Using IRDTS, when District Directors (DDs) do first reviews in the future they will be using an automated and nationally standardized questionnaire, which will collect the data back to the State and national level. This data will not only confirm the results provided when the DD completed their responses, but the data will tell which DDs have completed their reviews and which ones have not. The system also records when the review is issued to the DD and when the DD completes the review. The target date for when LIP will utilize IRDTS has not yet been determined.

Recommendation 7:

Follow the requirements that FSA established for ELAP for State offices to monitor completion of district director reviews. Also, evaluate the results of the reviews to determine the overall status of LIP, as was recommended for ELAP.

FSA's Response to Recommendation 7:

FSA concurs with Recommendation 7 and targets a completion date by March 2021.

Recommendation 8:

Establish a timeline for completing the management reviews FSA is planning.

FSA's Response to Recommendation 8:

FSA concurs with Recommendation 8. FSA targets LIP to be included in IRTDS within the next program year, by December 31, 2021.

Recommendation 9:

Ensure that the management reviews that FSA is planning include LIP.

FSA's Response to Recommendation 9:

FSA concurs with Recommendation 9. FSA targets LIP to be included in IRTDS within the next program year, by December 31, 2021.

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