

**For:** State and County Offices

**FY 2003 and 2004 Marketing Assistance Loan (MAL) and Loan Deficiency Payment (LDP)  
Office of Inspector General (OIG) Audit Findings**

**Approved by:** Deputy Administrator, Farm Programs



**1 FY 2003 and 2004 OIG MAL and LDP Audit Findings**

**A Background**

The OIG Final Audit Report for FY's 2003 and 2004 has been finalized. The report includes several common errors about MAL's and LDP's.

The FY 2003 and 2004 OIG Final Audit Report disclosed that several State and County Offices were not ensuring that all:

- required forms and documents were obtained and approved before disbursing the loan or LDP
- random and mandatory spot checks were performed in a timely manner and supported by sufficient production evidence.

**B Purpose**

This notice reminds State and County Offices of the following:

- MAL and LDP disbursement policy and procedures
- spot check responsibilities.

<b>Disposal Date</b> June 1, 2005	<b>Distribution</b> State Offices; State Offices relay to County Offices and <b>FAX</b> to CMA's and DMA's
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### 2 Eligibility Determinations Before Disbursing MAL's and LDP's

#### A Audit Finding

During the FY 2003 and 2004 OIG audit it was discovered that County Offices were not performing eligibility determinations before MAL or LDP disbursements.

#### B Actions Before Disbursement

Before disbursing MAL's or LDP's, County Offices shall:

- follow procedures at 8-LP, paragraphs 100 and 126 to determine producer and commodity eligibility
- ensure that all required forms and documents are:
  - correctly completed, including required applicant signatures
  - approved.

It is recommended that County Offices follow 8-LP, Exhibits 6 and 13 before disbursing LDP's and MAL's.

### 3 Spot Check Policy

#### A Basic Spot Check Policy

As a result of the OIG audit findings, it is necessary to clarify spot check policies and remind State and County Offices of spot check responsibilities.

MAL's and LDP's are subject to spot check for up to 9 months from the date of disbursement, if production evidence was not provided at the time the loan or LDP was requested. In addition to the normal required checks, refer to 8-LP, Part 5 for situations when required spot checks are necessary.

#### B Automated Spot Check Process

MAL's and LDP's are randomly selected for spot check using the APSS automated spot check process. APSS generates several reports that list the loans and LDP's that are required to be spot checked and any related loans or LDP's associated with the producer ID. The automated spot check process must be run by the 10<sup>th</sup> workday of each month.

12-PS, Part 15 provides automated spot check procedures and instructions for generating the monthly spot check reports.

**3 Spot Check Policy (Continued)**

**C Conducting and Completing Spot Checks**

Spot checks can be conducted by either of the following:

- on-farm visits
- notifying the producer by letter or telephone, with State Office concurrence, of the required acceptable production evidence and the deadline for submitting the production evidence to the County Office to complete the spot check.

**D Reviewing Submitted Spot Check Production Evidence**

Once the on-farm visit is complete or production evidence is submitted, County Offices shall:

- calculate the measured quantity as recorded on CCC-677-1 or quantity provided on submitted acceptable production evidence, as applicable

**Note:** Follow procedures in 8-LP, subparagraph 535 I when measurements are used as production evidence for MAL or LDP.

- review the documentation submitted to ensure that all production evidence requirements are met according to 8-LP, Part 5, Section 3.

**E Tolerance Level**

The tolerance level for MAL's and LDP's is 10 percent.

For spot check shortages within the tolerance level, CED's have the authority to determine whether a violation occurred according to 8-LP, Part 6.

When there are situations where the acceptable production evidence verifies a quantity shortage, County Offices shall follow procedures at 8-LP:

- subparagraph 518 B for MAL's
- subparagraph 519 A for LDP's.

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### 4 State and County Office Spot Check Responsibilities

#### A State Office Responsibilities

State Offices are responsible for reviewing County Office spot checks, according to 8-LP, paragraph 523. 8-LP, subparagraph 523 A instructs State Offices to annually review County Office spot check folders.

State Offices shall:

- document and file annual review findings
- continue to train County Office personnel on MAL and LDP program requirements.

#### B County Office Responsibilities

County Offices are responsible for:

- verifying that production evidence is acceptable and includes the required information according to 8-LP, subparagraph 535 C
- ensuring that MAL and LDP quantities subject to spot check are supported by acceptable production evidence
- filing production evidence in the applicable MAL or LDP folder
- following 8-LP, paragraph 522, if applicable.