

For: State and County Offices, CMA's, DMA's, and LSA's

**Marketing Assistance Loans (MAL's) and Loan Deficiency
Payment (LDP) 2004 CCC Financial Statement Audit Findings**

Approved by: Deputy Administrator, Farm Programs



1 FY 2004 MAL and LDP CCC Financial Audit Findings

A Background

An audit firm, KPMG LLP:

- performed the FY 2004 CCC financial statement audit for USDA and the Office of the Inspector General
- visited 12 County Offices and reviewed 76 MAL's, 85 LDP's, 55 production spot checks, and 25 acreage spot checks.

B Purpose

This notice:

- reports MAL and LDP findings from the 2004 KPMG LLP CCC financial statement audit
- provides State and County Offices with a list of MAL- and LDP-related recommendations to remedy the 2004 KPMG LLP CCC financial statement audit findings.

Disposal Date	Distribution
December 1, 2005	State Offices; State Offices relay to County Offices and FAX to CMA's, DMA's, and LSA's

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2 KPMG LLP Findings

A MAL Findings

The following forms were not properly filed in the producer's file:

- CCC-526
- CCC-694-1
- CCC-694-2
- CCC-674 for MAL's greater than \$150,000.

Other MAL findings include the following:

- lien search was not completed according to CCC's policies and procedures
- a signed producer certification of loan collateral or any type of production evidence, such as CCC measurement on CCC-677-1 or warehouse receipt, was not in file
- there was a delay of more than 1 day between the receipt of the loan repayments and their deposit in CCC's bank account.

B LDP Findings

The following forms were not properly filed in the producer's file:

- CCC-502
- CCC-526
- AD-1026.

Other LDP findings include the following:

- incorrect posted county price was used to calculate LDP
- a signed Disbursement Transaction Statement was not in file.

C Combination MAL and LDP Findings

There was no documentation in the COC minutes of the approved maximum yields for the applicable commodity; therefore, KPMG LLP could not determine whether the maximum established yields entered in the AS400 system represented approved yields.

Documentation of the collateral reasonableness analysis was not present in the producer's file and/or was not performed.

2 KPMG LLP Findings (Continued)

D Production Spot Check Findings

The following are production spot check findings.

- Monthly production spot checks were not performed monthly as required by program requirements described in the applicable program handbook.
- All spot checks listed on the production spot check register were not checked for program compliance. Also, a mandatory employee spot check was not performed.
- Documentation was not in the file to support that the spot check was performed.
- Settlement sheets from the producer as evidence that the producer sold the stated amount of collateral to a third party was not in the file.
- Spot check resulted in a determination that an overpayment was made to the producer. A receivable was not established for the overpayment as required when a discrepancy exists between the quantity certified and the quantity measured that is greater than 10 percent.

E Acreage Report Finding

Acreage spot checks were not performed in a timely manner as required by program requirements described in 2-CP and 8-LP.

F Causes

KPMG LLP reported that CED's at the applicable County Offices noted the MAL and LDP findings attributed the instances of procedural noncompliance to the following:

- system input errors
- management's absence for review
- oversight in monitoring program requirements
- misplacement of documents
- poor documentation practices
- workloads
- time constraints.

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3 KPMG LLP Recommendations

A MAL and LDP Recommendations

KPMG LLP recommends that County Offices implement the following procedures.

- Ensure that all required forms and documents be obtained and approved by the County Officer before disbursement of MAL or LDP. These documents should be kept in the producer's file for as long as it is dictated by 25-AS.
- An individual other than the preparer should review the producer's MAL or LDP file and related documentation for completeness and accuracy before disbursing MAL or LDP.
- Staff with system input responsibility should review the source documentation to ensure that all data has been accurately entered and that the output appears reasonable.
- MAL's and LDP's issued in State and County Offices must be signed and counter-signed. The documents to be signed and counter-signed for electronic fund transfers are the Disbursement Transaction Statement and the ACH Transmission Verification Report. The same person must not sign and countersign the same payment. The original Disbursement Transaction Statement should be kept in the producer's file.
- Ensure that the MAL and LDP spot checks performed are in a timely manner and are supported by sufficient production evidence that is maintained in the producer's MAL or LDP file. Also, the County Office must document the spot check results in the COC minutes. Discrepancies found and are not within tolerance should be reviewed, approved, and resolved by COC.
- CED should perform periodic reviews of the work performed by the program technicians to ensure compliance with CCC's policies and procedures and proper financial management guidelines.

B State and County Office Action

State and County Offices must:

- review the contents of this notice
- continue to follow all policy and procedures in 8-LP and other applicable handbooks
- ensure that all KPMG LLP recommendations are understood and completely followed.