



U.S. Department of Agriculture



Office of Inspector General
Office of Inspections and Research

Inspection Report

Survey and Estimation Internal Controls for Nonfat Dry Milk and the *Dairy Products Prices Report*

Carlin v. DairyAmerica, Inc., No. 15-16498 archived on August 10, 2012

Report No. 26901-01-IR
February 2008

OFFICE OF INSPECTOR GENERAL
Washington, DC 20250

February 14, 2008

REPLY TO
ATTN OF: 26901-01-IR

TO: Joseph T. Reilly
Acting Administrator
National Agricultural Statistics Service

FROM: Rod DeSmet /s/
Assistant Inspector General
for Inspections and Research

SUBJECT: Review of Nonfat Dry Milk Prices

This report presents the results of our review of the misreporting of nonfat dry milk price and quantity data by a dairy firm and the subsequent ramifications. The incorrect data were aggregated with data from other firms and published by the National Agricultural Statistics Service (NASS) in its weekly *Dairy Products Prices* report. Once the data were published by NASS, they were utilized by AMS as a component in its formula for establishing federal milk marketing order (FMMO) prices. Given that incorrect nonfat dry milk prices were factored into the FMMO formula, AMS has stated that its published FMMO prices were incorrect. According to AMS, this caused the total value of milk to be understated by \$50 million between April 29, 2006 and April 14, 2007.

Your response to our draft, dated January 30, 2008, is included in its entirety in Exhibit A, with excerpts incorporated into the Findings and Recommendations section of the report. Based on your response, we were able to reach management decision on the report's five recommendations. Please follow your internal agency procedures for reporting final action to the Chief Financial Officer.

Please note that Departmental Regulation 1720-1 requires final action to be completed within 12 months of management decision.

We appreciate the courtesies and cooperation extended to us during the inspection.

cc:
Administrator
Agricultural Marketing Service

Executive Summary

Results in Brief

The Office of Inspector General (OIG) received requests from several Senators on May 9, 2007, and August 1, 2007, asking that OIG review the events leading up to the April 2007 discovery of the error in the reporting of nonfat dry milk prices in the National Agricultural Statistics Service's (NASS) *Dairy Products Prices* report.

To determine what had happened, OIG met with officials from NASS, the Agricultural Marketing Service (AMS), and a large dairy firm; conducted site visits and interviews; and reviewed documents and processes. We found:

- A large dairy firm inappropriately included long-term forward contracted nonfat dry milk volume and price information in their weekly submissions to NASS. We found that this dairy firm has been including data for sales of this type since 2002.
- NASS then aggregated the misreported data from this large dairy firm with the weekly data submitted by other dairy firms for the same reporting period. This caused inaccurate nonfat dry milk aggregated volume and price statistics to be published weekly. The internal controls for the survey and estimation process used by NASS for the *Dairy Products Prices* report were inadequate, as this error went undetected from 2002 until April 2007.
- NASS' published nonfat dry milk price statistics are utilized by AMS as a component of its formula for establishing federal milk marketing order (FMMO) prices. Given that incorrect nonfat dry milk prices were factored into the FMMO formula, the published FMMO prices were also incorrect. AMS issued a report on June 28, 2007 stating: "The total classified value of milk regulated under the FMMO program for the period covered by the NASS revision was understated by \$50 million..." covering the period between April 29, 2006, and April 14, 2007.

OIG then reviewed the actions taken by NASS and AMS to reduce the potential for data reporting errors to occur undetected in the future. We found:

- NASS reviewed the methodology used to gather data and prepare the *Dairy Products Prices* report. NASS

stated that it has improved the charts and analyses utilized by its field offices; it has also instructed adjoining State field offices to utilize each others' data to enhance pricing consistency and to conduct telephone follow-up discussions to resolve inconsistencies. NASS will also visit each plant to complete the Annual Validation Worksheet.

- AMS did not have the authority to audit a reporting firm's books when the misreporting occurred. The authority was included in the Dairy Marketing Act of 2000, but the rulemaking necessary to implement a program of audits was not completed until July 2007. AMS began performing audits on August 6, 2007. Between August 6, 2007, and September 30, 2007, AMS visited seven plants reporting nonfat dry milk volume and price statistics. Based on these visits, AMS notified NASS of reporting discrepancies at six of the plants. NASS contacted these plants and explained the proper reporting criteria.

Once AMS and NASS implement their plans for improved oversight of the reporting processes, these internal control enhancements should substantially reduce the potential for errors of the sort made by a large dairy firm as it prepared its data for submission to NASS. The most significant improvement in the survey process will be the ability for AMS to audit the data that dairy product producing firms are reporting to NASS. We emphasize that these internal controls will only be effective if adequate resources (both staff and funding) are provided to ensure that the controls are fully implemented, effective, and consistently applied.

Recommendations in Brief

We recommend that NASS take the following actions:

1. Request that all reporting firms review their previously submitted data and provide revisions, when appropriate, for the period covering January 4, 2002, through April 22, 2006.
2. Review and modify the questions on the Annual Validation Worksheet to solicit an accurate, clear, and concise response for each question.

3. Verify that all field offices have implemented NASS' plan to complete the Annual Validation Worksheet for all reporting firms during a site visit.
4. Modify the weekly data collection instruments by requiring data providers to confirm that they fully understand the requirements they must meet to accurately report their firm's data.
5. Verify that changes to strengthen the internal controls associated with the *Dairy Products Prices* report have been implemented. The internal controls must assure the appropriateness and accuracy of the information collected so that data reporting irregularities are identified and corrected as they occur.

Agency Response NASS has agreed to implement the recommendations made in this report.

OIG Position We concur with the agency's response and have reached management decision for all five recommendations within this report.

Carlin v. DairyAmerica, Inc., No. 10-16448 archived on August 10, 2012

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Abbreviations Used in This Report

AMS	Agricultural Marketing Service
CDFA	California Department of Food and Agriculture
CEO	Chief Executive Officer
DEIP	Dairy Export Incentive Program
FMMO	Federal Milk Marketing Order
NASS	National Agricultural Statistics Service
OIG	Office of Inspector General
OMB	Office of Management and Budget
USDA	U.S. Department of Agriculture

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Background and Objective

Background

In November 2000, Public Law 106-532 was passed, which required the mandatory reporting of products (price and volume) used to establish minimum milk prices. Each week, NASS contacts plants that commercially produce one million or more pounds of manufactured dairy products to determine current market prices. Nonfat dry milk prices published by NASS are used by AMS to calculate nonfat solids pricing factors, which are components of the FMMO program formulas. These formulas set minimum classified prices that milk handlers must pay producers for milk pooled in the federal order system. The *Dairy Products Prices* report, released by NASS each Friday, includes nonfat dry milk volume and price statistics for the most recent week and the prior four-week period. The most recent week's statistics are published for the first time and statistics for the prior four weeks are revised, as necessary, and republished. Revisions are necessary when NASS receives a producer's submission too late for inclusion when the specific week was initially published or when a reporting firm finds an error in its original submission, resulting in a change to its volume and/or price statistics.

Discovery of Misreported Data

NASS officials were first alerted to the possibility of an error in the reporting of nonfat dry milk prices on February 22, 2007, when AMS officials contacted them about a growing difference between the published price for nonfat dry milk in the *Dairy Products Prices* report and the *Dairy Market News*. NASS officials stated that the observed gap was possibly due to methodology differences in the processes used to calculate the prices that became more pronounced as the price of milk increased. NASS assured AMS that the data being published in the *Dairy Products Prices* report were correct.

An article in the March 2007 issue of *The Milkweed*, a dairy industry publication, entitled "USDA's Milk-Pricing Fails: Producers Lose Half a Billion Dollars" stated: "The major seller of nonfat dry milk—DairyAmerica—has improperly reported values of weekly nonfat dry milk sales for the past six months to USDA. In turn, USDA uses formulas incorporating these dairy commodity prices to establish farm milk prices under the complex federal milk market order program." This article prompted a large dairy firm's Chief Executive Officer (CEO) to contact NASS to clarify the reporting requirements for nonfat dry milk. An April 11, 2007, discussion between NASS and the CEO confirmed that the firm

was improperly including long-term forward contract volume and price data in its weekly submissions. It is significant to note that this error in NASS' weekly estimates was only discovered because of the impact of the article in *The Milkweed* and that the error was not detected by NASS' existing survey and estimation process.

**Actions by NASS
and AMS after
Learning of the
Source of the
Reporting Error**

On April 12, 2007, NASS asked the dairy firm to revise its nonfat dry milk submissions for the previous four-week period (the weeks of March 10, 17, 24, 31) by excluding any long-term forward contracted product data. NASS issued a press release on April 20, 2007, announcing that "... one dairy product plant made errors in its weekly reporting of price data for nonfat dry milk ..." and, based on a request by NASS, the firm promptly revised its nonfat dry milk volume and price data. The press release also announced that NASS was requesting all 39 firms in the survey to review their data for the past year within 45 days and submit any necessary revisions. All of the firms complied. On June 28, 2007, NASS released a report covering updated and revised weekly results for the period of April 29, 2006, through April 14, 2007. The report detailed the impact of NASS' revised nonfat dry milk data on AMS' federal order price calculations. AMS determined that the errors in nonfat dry milk prices for the period of April 29, 2006, through April 14, 2007 had affected 14 months of minimum FMMO prices, resulting in a \$50 million loss to producers.¹ All of the funds in the FMMO pools for the 14-month period covered by NASS' revision had previously been disbursed to the milk producers, and corrective disbursements to producers were no longer possible. The FMMO program does not currently include any mechanisms to provide restitution to the milk producers adversely impacted by this reporting error.

¹ OIG did not attempt to validate the \$50 million loss as it was beyond the scope of this review.

Findings and Recommendations

Review Findings

OIG contacted NASS on June 28, 2007, to determine which firm in NASS' sample provided the inaccurate statistics. NASS officials stated that data provided by third parties were confidential and may not be released without the consent of the party supplying the data. Therefore, NASS asked the dairy firm to contact OIG; OIG subsequently met with the firm's legal representative on July 9, 2007. OIG reviewed the firm's documentation related to both the original and revised data for inappropriate activity—i.e., whether there was any indication of intentional reporting of inaccurate statistics. The documentation showed that the firm had consistently included long-term forward contract information in their weekly submissions to NASS for the period of April 29, 2006, through March 31, 2007. OIG also reviewed data for random weeks between January 8, 2005, and April 29, 2006, and found that long-term forward contracted nonfat dry milk was consistently included in their reporting to NASS. Based on this review, the inaccurate statistics do not appear to have been reported intentionally. The long-term forward contract data were consistently included in the firm's weekly submissions with no exclusions.

Although the error in a large dairy firm's reporting appears to have begun in 2002, the conditions permitting the error to occur originated in 2000, when the firm began exporting nonfat dry milk under the Dairy Export Incentive Program (DEIP)². Long-term forward contracted nonfat dry milk marketed through DEIP is required to be included in the volume and price statistics reported to both the California Department of Food and Agriculture (CDFA) and NASS. During 2002, however, international markets became more competitive with domestic markets, and a large dairy firm began exporting nonfat dry milk using long-term forward contracts outside of DEIP. The percentage of the firm's sales outside of DEIP steadily increased, and by September 2004, all of firm's nonfat dry milk exports using long-term forward contracts were outside of DEIP. CDFA and NASS reporting requirements differ in that nonfat dry milk sold outside of DEIP, using long-term forward contracts, is required to be included in data reported to CDFA, but must be excluded from data reported to NASS. A large dairy firm failed to adhere to this latter requirement, resulting in the submission of erroneous data to NASS. NASS' internal controls failed to identify that a large dairy firm had included

² 15 U.S.C. §§ 713a-14.

inappropriate data on long-term forward contracted nonfat dry milk sold outside of DEIP in their data submissions since such sales began in 2002.

A representative from the large dairy firm has stated that long-term forward contract sales began in 2002 and that they inappropriately included data relating to these sales in their weekly submissions to NASS. NASS has requested and received revisions from this dairy firm excluding the inappropriate long-term forward contracted sales data from their estimates dating back to April 29, 2006.

Recommendation 1 NASS should request that all reporting firms review their submitted data, and provide revisions when appropriate for the period covering January 4, 2002 through April 22, 2006. NASS should then publish revised weekly nonfat dry milk quantity and price data. This will ensure that the publicly available data series is based on accurate information. AMS will then be able to utilize accurate information in its milk pricing formulas to calculate corrected FMMO prices for the entire period when misreporting occurred. This calculation will allow AMS to determine the total dollar impact of the misreporting error on producers and may result in an adjustment to AMS' current estimate of \$50 million which is based on the April 29, 2006, through April 14, 2007 period of misreporting.

NASS Response NASS has agreed to implement a two-step approach for contacting the firms that previously reported nonfat dry milk data and to collect the appropriate revisions. NASS will send a letter which defines the AMS reporting specifications for nonfat dry milk. This letter will provide the producers with a detailed list of which nonfat dry milk products are to be included and excluded when submitting their data. The producers will then acknowledge whether or not they correctly reported their nonfat dry milk data for the January 4, 2002 through April 22, 2006 period. If they did not properly report during this period, NASS will send them their previously reported data for revision.

February 12, 2008 - NASS will mail out a letter to all nonfat dry milk firms concerning possible revisions.

February 27, 2008 - Response from nonfat dry milk firms due back to NASS.

March 5, 2008 - NASS will mail data to any firm requesting a review of their reported data.

April 25, 2008 - Revised firm data due back to NASS.

May 16, 2008 - NASS analysis of changes is completed.

May 19, 2008 - Data series is turned over to AMS for computation of prices.

June 19, 2008 - AMS completes analysis and releases results. NASS releases a special report containing any revised data. The release of AMS and NASS results should coincide.

OIG Position We concur with the agency response for this recommendation and have reached management decision.

Annual Validation Worksheet The Annual Validation Worksheet is used by NASS to confirm with each reporting firm what is to be included and excluded when the firm submits its weekly reports. Since 1998, NASS has required firms that provide data for the *Dairy Products Prices* report to complete an Annual Validation Worksheet.

Annual Validation Worksheet Questionnaire Wording

The Nonfat Dry Milk section of the Annual Validation Worksheet includes the yes/no question, “When reporting nonfat dry milk sales data to NASS, did you or can you: exclude forward pricing sales (sales in which the selling price is established, and not adjusted, 30 or more days before the transaction is completed)?” A large dairy firm has consistently responded ‘yes’ to this question when completing the worksheet. The question, as worded, can be correctly answered ‘yes’ with multiple, different outcomes—

- I did exclude
- I can exclude
- I can and I did exclude
- I can or I did exclude

Recommendation 2 NASS needs to modify this question to state, “When reporting nonfat dry milk sales data to NASS, did you exclude forward pricing sales (sales in which the selling price is established, and not adjusted, 30 or more days before the transaction is completed)?” This modification changes the context of the question to better solicit an accurate, clear, and concise response. NASS needs to

review all of the questions contained in the Annual Validation Worksheet and eliminate any ambiguities.

NASS Response

NASS is currently modifying the Annual Validation Worksheet to make it more clear and concise. Plans are to have this accomplished prior to the May 2008 annual validation process. However, the Office of Management and Budget (OMB) must approve questionnaire changes. Their approval process could impact NASS' implementation date. The form will be submitted for OMB approval in February 2008.

OIG Position

We concur with the agency response for this recommendation and have reached management decision.

Annual Validation Worksheet Completion Process

NASS' field office staff performed site visits to complete the worksheet for all of the firms that were new to the survey. However, NASS used two different methods for completing the Annual Validation Worksheet for firms already familiar with the reporting process.

1. The worksheet was completed during a site visit by NASS field office staff.
2. The worksheet was mailed to the firm, and NASS field office staff followed up via telephone.

Prior to the discovery of the misreported data, NASS had visited the misreporting dairy firm once to personally oversee the completion of the worksheet. In other years, the worksheet was sent by mail, filled out by the dairy firm's staff, and then staff from the dairy firm and NASS discussed the worksheet via telephone.

Annual Validation Worksheet Corrective Actions

NASS stated that it has modified the process for completing the Annual Validation Worksheet. Under NASS' revised procedures, the Annual Validation Worksheet for all reporting firms will be completed by field office staff during a site visit.

Recommendation 3

NASS needs to verify that it has implemented its plan to conduct site visits to all reporting firms. During this visit, NASS staff needs to work with the firms to complete the Annual Validation

Worksheet to ensure that each firm understands its reporting requirements for the *Dairy Products Prices* report.

NASS Response All NASS Field Offices will be required to keep a record of firms visited during the annual validation process. If a plant is not visited, the Field Office will need to document the reason and provide a plan to visit the plant in the near future. This information will be supplied to NASS Headquarters for review.

OIG Position We concur with the agency response for this recommendation and have reached management decision.

NASS Data Collection Instrument Each *Dairy Products Prices* reporting firm submits its information weekly using either a paper questionnaire or NASS' electronic reporting system. The instructions section for both of these reporting methods contains a list of items that are to be included and excluded. The wording pertaining to nonfat dry milk forward sales on each data collection instrument is "Forward pricing sales: sales in which the selling price was set (and not adjusted) 30 or more days before the transaction was completed. This exclusion does not include sales through the Dairy Export Incentive Program (DEIP)." Although the wording on the data collection instrument is clear, it is easy for frequent users to skip over, especially when filling out the electronic version.

Recommendation 4 NASS needs to modify both forms of the data collection instrument to include an acknowledgment by the data provider that he/she has read and understood the instructions. This wording and accompanying acknowledgement check box needs to be added to the data section of the instrument. This will supply a confirmation by the data provider that he/she fully understands the requirements for accurately reporting the data.

NASS Response NASS will modify the questionnaire as requested and submit it for OMB approval in February 2008. This will be done to both the paper and electronic versions of the questionnaire. OMB must approve questionnaire changes and their approval process will dictate when this item is implemented.

OIG Position We concur with the agency response for this recommendation and have reached management decision.

**Failure of NASS’
Survey Process
Internal Controls**

NASS’ internal controls failed to identify that a large dairy firm was improperly including long-term forward contracted nonfat dry milk sold outside of DEIP in its data submissions since such sales began in 2002. Even after NASS was alerted to the possibility of an error, NASS officials erroneously informed AMS that the observed pricing gap in the *Dairy Products Prices* report and the *Dairy Market News* report was due to methodology differences in the processes used to calculate the prices, and that the gap became more pronounced as the price of milk increased. NASS stated that since the development of the difference in the price of long-term forward contracted product in the two reports came about in a very slow manner, it was difficult to recognize.

After the identification of a large dairy firm’s reporting error, NASS reviewed the methodology used to gather data and prepare the *Dairy Products Prices* report. NASS officials told OIG that they had performed a review of the edit and summary system to identify possible improvements in the reporting process and improved the charts and analyses utilized by their field offices. NASS has also instructed neighboring State field offices to utilize each others’ data to enhance pricing consistency. NASS states that additional follow-up will be performed by telephone if issues of inconsistency or other concerns arise. NASS officials also informed OIG that they are considering modifying the reporting questionnaire so that it more closely resembles a balance sheet. This should enable both dairy producers and NASS staff to more easily identify inconsistencies in the producers’ responses. NASS officials stated that the *Dairy Products Prices* survey’s concepts and procedures were discussed during the week of December 3, 2007, at a fall training session for NASS field office staff in Minneapolis, Minnesota.

OIG agrees that if NASS implements their plans for improved oversight of the reporting processes, these new internal controls should significantly reduce the potential for errors of the sort made by the large dairy firm in its data submissions.

Recommendation 5 NASS needs to verify that it has implemented sufficient changes to strengthen the internal controls associated with the *Dairy Products Prices* report. The internal controls must ensure the appropriateness and accuracy of the information collected so that data reporting irregularities are promptly identified and corrected. This may be accomplished by verifying that reporting firms are aware of the requirements for properly completing the weekly

reports to NASS, by strengthening the internal review process, and by promptly addressing any discrepancies disclosed by the audits conducted by AMS.

NASS Response NASS has completed the strengthening of internal controls. Field Offices have been provided with additional charts to view NASS data along with AMS data. Also, Field Offices have been given the ability to view data collected by other Field Offices so they can look at the relationship between the data in a geographic area.

OIG Position We concur with the agency response for this recommendation and have reached management decision.

The Audit Process AMS did not have the authority to audit a reporting firm's books when this dairy firm's reporting errors occurred. Such authority for the agency was included in the Dairy Marketing Act of 2000, but the rulemaking necessary to implement a program of audits was not completed until 2007.

NASS began the process to implement the audit program in February 2003, but NASS officials stated that most of NASS' resources were being utilized for the Census of Agriculture. NASS restarted the process in January 2004 and collaborated with the Office of General Counsel, the Office of Budget and Program Analysis, the Chief Economist, the Office of Civil Rights, and the Office of Management and Budget until May 2006. In June 2006, AMS took over the rule-making process and, in collaboration with NASS, published an interim final rule on July 3, 2007. The interim final rule established the Dairy Product Mandatory Reporting Program with an effective date of August 2, 2007.³

AMS and NASS Audit Process

AMS officials informed OIG that they have implemented a plan to verify the accuracy of the price information submitted by various dairy product manufacturing plants in accordance with the mandatory program. During the initial year of verification, AMS officials stated that they intend to visit all of the producing firms' plants at least once. In subsequent years, AMS will visit larger plants that account for 80 percent of the annual reported product volume. Plants producing the remaining 20 percent of each product will be visited at least once every two years. During each visit, AMS will verify that eligible sales transactions agree with the

³ 72 Federal Register 36341, July 3, 2007

information reported to NASS and will check for eligible sales transactions that were not reported.

On August 6, 2007, AMS auditors began making data verification visits to plants, starting with the larger facilities. The large dairy firm which inappropriately included long-term forward contracted nonfat dry milk in their weekly submissions to NASS was the first plant visited. Between August 6 and September 30, 2007, AMS visited seven plants reporting nonfat dry milk volume and price data. Based on these visits, AMS notified NASS of reporting discrepancies at six of the plants. NASS has contacted these plants and explained the proper reporting criteria. Had the audit program been implemented earlier, the misreporting by the large dairy firm would have been discovered during AMS' annual audit of the firm, reducing the negative monetary impact on producers.

Conclusions

OIG agrees that if AMS and NASS implement their plans for improved oversight of the reporting processes, these new internal controls should significantly reduce the potential for errors of the sort made by the large dairy firm in its data submissions to NASS. However, the most significant improvement in the survey process will be AMS' ability to audit the data the dairy product producing firms are reporting to NASS. We emphasize that these internal controls will only be effective if adequate resources (both staff and funding) are provided to ensure that the controls are fully implemented, effective, and consistently applied.

Carlin v. DanAmerica, Inc. No. 16-16448-archived on August 10, 2012

Exhibit A – NASS Response

Exhibit A – Page 1 of 3



United States Department of Agriculture
National Agricultural Statistics Service
Office of the Associate Administrator



January 30, 2008

TO: Rod DeSmet
Assistant Inspector General
1400 Independence Ave SW. Room 41-W
Washington, D.C. 20250

ATTN: 26901-01-IR

FROM: Joe Reilly
Acting Administrator
National Agricultural Statistics Service

SUBJECT: Response to IG Report on the Inspection of the Survey and Estimation Internal Controls for Nonfat Dry Milk and the Dairy Product Prices Report

We have reviewed the official draft report from the Inspector General's office concerning the above mentioned topic. We find that the report is accurate in its presentation of the facts of this situation. With regard to the five specific recommendations for NASS, we concur with Recommendations 2 through 5, and will begin implementation of these immediately.

We want to express concerns with Recommendation 1, which asks NASS to "Request that all reporting firms review their previously submitted data and provide revisions, when appropriate, for the period covering January 4, 2002, through April 22, 2006." We believe that this recommendation puts undo burden on reporting firms, will result in poor response from those firms, and will provide little additional insight into this issue.

- Public Law 106-532 requires firms to maintain records for a 2-year period. Thus, firms could only be required to submit records for at most 3 months from early 2006. Any further submission would be completely voluntary on the part of these firms.
- Although NASS had good response from firms when we asked them to review and resubmit data from April 29, 2006, through April 14, 2007, we also received many complaints about how burdensome this request was to implement. The new recommendation from the IG would require us to ask for four times the amount of information from these same firms, and require that they review earlier records that might be less accessible.

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- High refusal rates on this request, which we anticipate, will make suspect the quality of any subsequent price revisions based on this review.
- Our review of resubmitted reports for the earlier 51-week period showed that incorrect reporting was not a widespread problem. The problem was narrowly isolated as described in the IG report.
- As the IG report points out, a growing difference between the price information from the *Dairy Product Prices* report and the *Diary Market News* was the early indicator of a reporting problem. The larger deviation of the two prices series began to appear around September 2006. Thus, earlier misreporting had little impact on the price estimates. This is, in fact, what we observed and reported in price revisions published in the *Dairy Products Prices Special Report*. We believe that revising numbers for 4 additional years will be of little informational value.

Regardless of the above reasons, NASS will cooperate with the Office of the Inspector General by taking a two-step approach in contacting the firms that previously reported nonfat dry milk data. NASS will send a letter to all reporters of nonfat dry milk asking them if they followed all the correct inclusions and exclusions for the reporting of the data. The letter will include a listing of the AMS specifications for the reporting of nonfat dry milk for their reference. The reporter will be provided with two options. The first option will be to accept that all reporting was done correctly for the specified time period in question. If the reporter thinks this is correct, they will acknowledge this by checking the box, signing their name, and returning the form to NASS. The second option would be selected if the reporter thinks that the inclusions and exclusions were not followed correctly and that they would like to have NASS send them their data for the time period to verify the dollars and quantity that were reported. If the reporter selects the second option, they will acknowledge this by checking the box, signing their name, and returning the form to NASS. NASS will send the data for the time period specified by OIG for their verification. Upon completion of the verification process, the reporter would return the data to NASS with any corrections. This approach will reduce the respondent burden on the reporters by not requiring all those reporting to verify each specific piece of data.

A tentative plan to implement all five recommendations is attached.

Attachment

cc. Steven Helmrich
Director, Financial Management
Agricultural Research Service

Tentative Schedule for Completion of Action Items

Action Item 1:

February 12, 2008	NASS will mail out a letter to all NFDM firms concerning possible revisions.
February 27, 2008	Response from NFDM firms due back to NASS.
March 5, 2008	NASS will mail data to any firm requesting a review of their reported data.
April 25, 2008	Revised firm data due back to NASS.
May 16, 2008	NASS analysis of changes complete.
May 19, 2008	Data series is turned over to AMS for computation of prices.
June 19, 2008	AMS completes analysis and releases results. NASS releases a special report containing any revised data. The release of AMS and NASS results should coincide.

Action Item 2

NASS is currently working on modifying the Annual Validation Worksheet to make it more clear and concise. Plans are to have this accomplished for use in the annual validation process in May 2008. However, OMB must approve questionnaire changes. Their approval process could impact NASS' implementation date. The form will be submitted for OMB approval in February 2008.

Action Item 3

All NASS Field Offices will be required to keep a record of firms visited during the annual validation process. If a plant is not visited, the Field Office will need to document the reason and provide a plan to visit the plant in the near future. This information will be supplied to NASS Headquarters for review.

Action Item 4

NASS will modify the questionnaire as requested and submit for OMB approval in February 2008. This will be done to the paper and electronic versions of the questionnaire. OMB must approve questionnaire changes and their approval process will dictate when this item is put into action.

Action Item 5

NASS has completed the strengthening of internal controls. Field Offices (FOs) have been provided with additional charts to view their data with AMS data. Also, FOs have been given the ability to view data collected by other FOs so they can look at the relationship between the data in a geographic area.