



**U.S. Department of Agriculture
Office of Inspector General**



Citrus Crop Indemnity Payments from Hurricane Wilma in Florida

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TO: William Murphy
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Deputy Administrator
for Compliance

FROM: Gil H. Harden /S/
Assistant Inspector General
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SUBJECT: Citrus Crop Indemnity Payments from Hurricane Wilma in Florida

This report presents the results of our audit of the Citrus Crop Indemnity Payments from Hurricane Wilma in Florida. Your written response to the draft report, dated August 1, 2011, is attached, with excerpts and the Office of Inspector General's (OIG) position incorporated into the Finding and Recommendation sections of the report, where applicable.

We agree with your management decision for Recommendations 1, 3, 4, and 5. Although we agree with the planned corrective actions, management decision could not be reached for Recommendation 2. Actions needed to reach management decision on this recommendation are described in the OIG Position section of the report.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframes 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 Performance and Accountability Report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

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

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Citrus Crop Indemnity Payments from Hurricane Wilma in Florida

Executive Summary

When Hurricane Wilma struck Florida on October 24, 2005, it damaged citrus crops that many producers had insured with insurance policies reinsured by the Department of Agriculture's Risk Management Agency (RMA). Though these policies were sold and serviced by private insurance companies known as approved insurance providers (AIP), RMA reinsures losses the AIPs suffer. Overall, RMA reinsured the AIPs and Florida citrus producers with \$384.9 million in liability for crop year (CY) 2006.¹ Hurricane Wilma resulted in 2,420 citrus fruit crop insurance claims and \$60.8 million in indemnity payments. The majority of these indemnities, 87 percent (\$53 million), were processed by two AIPs—Rain and Hail (RH) and Rural Community Insurance Services (RCIS).

We initiated this audit to evaluate the adequacy of RMA's management controls over these citrus fruit claims and indemnity payments. As our review progressed, however, we found a multitude of serious problems with how RH and RCIS processed these claims, and we focused our review on these two AIPs' management controls for adjusting citrus fruit losses.

Based on our review of 144 claims RH and RCIS processed to pay \$37 million in indemnities, we found that these two AIPs circumvented established procedures for adjusting citrus losses. They failed to follow either RMA's general loss procedures for adjusting citrus losses or the emergency loss procedures RMA issued to expedite Hurricane Wilma-related payments.² Instead, they used procedures or allowed options that were not approved by RMA. We discussed with the AIPs their reasons for deviating from RMA's approved procedures, but they maintained that they followed procedures.

In order to adjust citrus losses, RMA's emergency loss procedures stated that AIPs were to determine producers' average yields using producers' historical records. If the hurricane had destroyed producers' records or if the producer did not have the minimum 3 years of records because the grove was newly purchased, then the AIPs could process the claim by contacting RMA to receive an RMA-established average yield. For 90 of 144 claims we reviewed, however, the AIPs failed to use available producers' records that would have resulted in lower and more accurate payments, and instead chose to use the RMA-established average yields to calculate indemnities using an unapproved method for the loss adjustment. For one producer, RCIS allowed the producer to choose which yield to use, permitting him to choose between the RMA-established average yield or his own records, depending on which resulted in a higher payment. The problem of AIPs not using available producers' records was compounded because the AIPs did not perform required appraisals at the time of loss for 122 of the 144 claims we reviewed, a necessary and required step for accurately calculating the indemnity. The AIPs explained that they did not perform appraisals at the time of loss because they were waiting for

¹ ██████████ of \$384.9 million total liability was underwritten by RH; ██████████ of \$384.9 million total liability was underwritten by Rural Community Insurance Services.

² Florida Citrus Fruit *Loss Adjustment Standards Handbook* (LASH), dated February 26, 2003, and RMA's Manager's Bulletin MGR-05-020, dated November 4, 2005.

harvest to calculate the indemnity, when they would not need appraisals at all. The Florida Citrus Fruit LASH requires an appraisal at the time of loss. Also, LASH discusses the need to distinguish between fruit lost due to the hurricane and fruit that may have been lost later due to other causes.³ Without this appraisal, we could not recalculate the indemnities precisely; we were, however, able to estimate the amount of indemnities the AIPs overpaid for 31 claims. As a result of these two AIPs' decisions to circumvent RMA's authorized loss adjustment procedures, we estimated that RH and RCIS overpaid indemnities by at least \$5.5 million on these 31 claims.⁴

In summary, we concluded that RH and RCIS need to review all Florida citrus indemnities for which the AIPs requested average yields from RMA, and recalculate and correct those indemnities. However, since the AIPs did not perform the required appraisals of the damage that occurred due to Hurricane Wilma, the AIPs may not be able to recalculate the correct indemnities. If the AIPs cannot recalculate the correct indemnities payable to citrus producers using RMA approved procedures, then RMA needs to follow the Standard Reinsurance Agreement and deny reinsurance for indemnities, totaling up to \$44.1 million.⁵ (See exhibit A.)

We found that the RMA-established average yields were set higher than producers' historical yields. Using RMA's established average yields, we estimated that citrus producers' yields were inflated between 5 to 338 percent for the 31 claims we reviewed. RH indemnified one producer, for instance, at 451 boxes of fresh grapefruit per acre using RMA's established average yields even though this producer's records showed an average of 117 boxes per acre, a difference of 334 boxes per acre, or 285 percent. The inflated yields that RMA computed occurred because RMA does not maintain historical production data regarding citrus in Florida, and so when it established yields for its emergency loss procedures, it used Statewide production and acreage data from the National Agricultural Statistics Service as the basis to compute established average yields. Although RMA reduced the average yields computed using the National Agricultural Statistics Service data prior to forwarding them to the AIPs, the yields that RMA sent to the AIPs were still higher than producers' actual yields.

Although RMA issued emergency loss procedures to expedite processing of loss claims and payments to producers, the AIPs expedited very few payments and instead delayed adjusting the losses until months later, generally after normal harvest times. Approximately 98 percent of the indemnities were issued more than 3 months after the hurricane. When RMA published its emergency loss procedures, it did not establish a specific timeframe within which the AIPs were to use the emergency loss procedures for crops damaged by Hurricane Wilma. When we interviewed 13 AIP loss adjusters and asked them why they waited so long after the storms to adjust the claims, the overall consensus was that they believed that they had to wait until fruit was harvested to work the claims. They stated that the only way to obtain final production numbers was to wait until harvest. The Office of Inspector General (OIG) disagrees that loss

³ Florida Citrus Fruit LASH, 2004 and succeeding crop years, part 5B (1)(b), dated February 26, 2003.

⁴ Even though we were able to obtain production records related to 90 claims, we estimated the indemnity payment using producers' historical records for only 31 claims, estimating these claims is resource-intensive because we had to look through historical records for each crop type to compute a producer's average yields. RCIS processed a separate loss claim by crop type for each producer; in contrast, RH processed one claim for each producer that included all losses on the different crop types.

⁵ 2005 RMA Standard Reinsurance Agreement, sec. IV, par. H.7, dated June 10, 2004.

adjusters had to wait until harvest to work the claims based upon the emergency loss procedures or LASH. Also, waiting months until harvest negated the need for RMA's emergency loss procedures. If adjusters appraised fruit losses much later than immediately after the damages occurred, then they could not distinguish between fruit lost due to Hurricane Wilma and fruit lost due to other causes. Moreover, once the AIPs and producers decided to wait till harvest, they should have followed RMA's citrus loss procedures contained in LASH and not the emergency loss procedures.

Given the severity of the issues and concern that RMA might issue similar emergency loss procedures during the 2010 hurricane season, we issued a management alert on June 21, 2010, to RMA detailing the problems we noted with the average yields and the lack of specific timeframes for AIPs to use emergency loss procedures. Addressed to the RMA Administrator, this alert recommended that RMA not provide average yields in future emergency loss procedures and also recommended that the agency set specific timeframes for AIPs to use any emergency procedures. On July 2, 2010, RMA agreed with our recommendations, and we agreed with its corrective action.

Finally, we found that RMA's citrus insurance policies in Florida do not take into account the revenue that producers can receive from damaged fresh fruit they can sell for juice. The revenue producers can receive from fruit sold for juice can be significant, and insurance policies in Texas do take into account this revenue when adjusting losses. Due to this policy omission, Florida citrus producers are receiving significant amounts of revenue for fresh fruit that RMA's procedures indicate should be considered of zero value during the loss adjustment process. For example, we found that one of the producers in our sample was paid a \$4.2 million indemnity for his CY 2006 fresh market grapefruit crop for damages caused by Hurricane Wilma. Since the producer also received \$1.8 million in revenue for the same hurricane-damaged fruit that was delivered and sold for juice, the producer actually received \$6.0 million for grapefruit that had only been insured for \$5.1 million.

We concluded that RMA needs to address the issues we identified with how the Florida citrus insurance policies were administered, including how RH and RCIS adjusted the losses producers suffered due to Hurricane Wilma.

Recommendation Summary

Identify all Hurricane Wilma citrus indemnity claims for which RH and RCIS used the RMA-established average yields and paid indemnities using these average yields.

Instruct RH and RCIS to recalculate the indemnity amounts on all loss claims that were computed using the RMA-established average yields. The recalculation should use available producer historical records and loss appraisals as required by procedures, and collect any overpayments from RH and RCIS. If the indemnities cannot be properly or correctly recalculated because the AIPs did not perform or complete the required fruit-on-the-tree appraisals, deny the reinsurance on these loss claims (totaling \$44.1 million— [REDACTED] for RH and [REDACTED] for RCIS).

Revise the Florida citrus fruit crop policy so that it accounts for revenue that producers receive for damaged fresh fruit that is sold for an alternative use, and reduces the indemnity accordingly.

Agency Response

In its August 1, 2011, written response to the draft report (and its July 2, 2010, response to the Management Alert), RMA generally agreed with the five recommendations for recovery of overpayments and strengthening of the AIP's program management and Florida Citrus Fruit Crop Insurance Program. RMA's response to the draft report is included in the audit report.

OIG Position

Based on the information contained in RMA's responses, dated July 2, 2010, and August 1, 2011, we accept management decision for four of the five recommendations. Although we agree with the planned corrective action for Recommendation 2, RMA needs to provide OIG with copies of its final determinations or its justification for not pursuing questioned indemnity payments.

Documentation for action needed to reach management decision for Recommendation 2 is described in the OIG Position section of the report.

Background & Objectives

Background

The Federal Agriculture Improvement and Reform Act of 1996 authorized the Risk Management Agency (RMA) to administer the Federal Crop Insurance Programs, as approved by the Federal Crop Insurance Corporation (FCIC), through a cooperative financial assistance agreement, known as the Standard Reinsurance Agreement, with private insurance companies, otherwise known as approved insurance providers (AIP).⁶ Under this contractual obligation, AIPs are responsible for selling and servicing crop insurance policies. So long as AIPs responsibly administer these policies, RMA reinsures the policies and reimburses a portion of any indemnities paid to producers.

When losses occur, the Standard Reinsurance Agreement requires that AIPs send adjusters into the field to determine the extent of damage and the appropriate losses under the insured's policy.⁷ RMA has established general procedures for this process, known as the *Loss Adjustment Manual Standards Handbook* (LAM). In addition, since RMA reinsures producers' losses on a crop-by-crop basis, the agency also publishes loss adjustment standards for each crop; these standards are known as the *Loss Adjustment Standards Handbook* (LASH). According to the Standard Reinsurance Agreement, AIPs must follow both the LAM and the appropriate crop-specific LASH when adjusting losses and computing indemnity payments. If AIPs fail to follow the provisions of the LAM and the LASH, as well as any other relevant RMA regulations, then the Standard Reinsurance Agreement provides for penalties, up to and including denial of RMA's reinsurance guarantee.

The Florida Citrus Fruit Crop Insurance Program

The Federal Government established the Florida citrus fruit crop insurance program to insure producers against damage due to catastrophic weather events. The 1999 Florida citrus fruit crop provisions, which were in effect for crop year (CY) 2006, provided producers with insurance guarantees, coverage levels, and prices for determining the insurance liability.

The Florida citrus fruit growing season is staggered depending on the citrus variety. In CY 2006, the growing season ran from May 1, 2005, until June 30, 2006.⁸ RMA reinsured Florida citrus policies with \$384.9 million in liability through the Florida citrus fruit crop insurance program for CY 2006. Two AIPs, Rain and Hail (RH) and Rural Community Insurance Services (RCIS), insured 77 percent (\$295.6 million of \$384.9 million) of this liability.

Unlike ordinary row crops—which consist of acres of identical plants—citrus fruit crops consist of hundreds of acres of one of seven possible types of citrus with three insurable age class

⁶ 2005 RMA Standard Reinsurance Agreement with AIPs, effective for CY 2006, dated June 10, 2004.

⁷ 2005 RMA Standard Reinsurance Agreement, sec. IV, par. F.1.a, dated June 10, 2004, and 2005 LAM, part 1, sec. 8, par. (A)-(B), dated July 12, 2005.

⁸ The end of the Florida citrus fruit 2006 crop year is based on the citrus type grown. The 2006 crop year ended January 31, 2006, for tangerines and navel oranges; April 30, 2006, for lemons, limes, tangelos, and early and mid-season oranges; and June 30, 2006, for late oranges, grapefruit, temple, and Murcott honey oranges.

designations, or combination thereof.⁹ Due to the complexity of the citrus fruit crop insurance program, citrus producers must keep more detailed farming records than producers insured under row-crop programs. Each individual citrus grove has an insured value based on the citrus fruit type grown, number of acres, and the age class of the trees. When producers apply for insurance, they are required to provide an acreage report detailing the composition of their citrus groves. They must maintain ongoing tree inventory records that detail the number and type of citrus trees, and the planting dates of the trees, by grove.

2005 Florida Hurricane Wilma

On October 24, 2005, Hurricane Wilma made landfall in Florida.¹⁰ The President declared 29 counties Federal disaster areas and directed the Department of Agriculture to assist growers affected by the hurricanes. In Florida, RMA reported that Hurricane Wilma resulted in 2,420 citrus fruit crop loss claims totaling \$60.8 million in indemnity payments.

RMA responded to this emergency by issuing a manager's bulletin that streamlined the process of how AIPs process claims.¹¹ The application of the emergency loss procedures was intended to be limited to those situations where the catastrophic nature of the losses was such that not authorizing these emergency loss procedures would result in unnecessary delays in processing claims. For citrus claims, the agency provided that AIPs (1) could use reported acres certified on the acreage report as determined acres for claim purposes instead of verifying the accuracy of the acreage report, (2) reduce the number of representative samples of trees to perform fruit-on-the-tree appraisals, (3) accept producer certification of the average of at least the 3 most previous crop years, up to 10 years of verifiable production records to estimate the fruit yield if performing a ground count of downed fruit was impractical, and (4) could obtain an RMA-established average fruit yield when a producer's certification of verifiable records was not available. We believe that these changes to the citrus fruit crop program were nominal and did not significantly alter the established loss adjustment process.

Objectives

When we began this audit, our overall objective was to evaluate the adequacy of RMA's management controls to ensure the propriety and accuracy of CY 2006 citrus fruit indemnity payments resulting from losses from Hurricane Wilma. However, as we reviewed how the AIPs adjusted for crop losses caused by Hurricane Wilma, we found serious problems that prompted us to focus our audit on the AIPs' management controls for adjusting citrus fruit crop losses and to delete our objective of reviewing the AIPs' underwriting of citrus fruit policies. This report focuses on the deficiencies in the AIPs' administration of the Florida citrus fruit crop insurance program and the impact of these deficiencies on RMA's reinsurance of Florida citrus policies.

⁹ The Florida citrus fruit crop insurance program provides insurance for seven citrus crop types: Type I early and mid-season oranges; Type II late orange juice; Type III grapefruit for juice; Type IV navel oranges, tangelos, and tangerines; Type V Murcott honey oranges and temple oranges; Type VI lemons and limes; and Type VII grapefruit and late oranges marketed as fresh. In addition, the policy provides insurance for three tree age classes: 5-years old; 6 to 8-years old; and 9 or more years old. Citrus trees are not insurable until they are 5-years old.

¹⁰ RMA's 2006 Florida citrus fruit crop year began May 1, 2005, and damage from Hurricane Wilma occurred during this crop year.

¹¹ RMA issued Manager's Bulletin MGR-05-020, dated November 4, 2005.

Section 1: Loss Adjustment Procedures

Finding 1: AIPs Circumvented RMA's Established Loss Adjustment Procedures To Adjust Citrus Losses

In the wake of Hurricane Wilma and given concerns about the severity of producers' losses and the need to expedite payments, RMA issued emergency loss procedures for the AIPs to follow as they adjusted losses for federally insured Florida citrus production. We found that RH and RCIS—the two AIPs that accounted for 77 percent of total liabilities and 87 percent of the indemnities paid—followed neither RMA's approved loss procedures contained in its LASH nor its emergency loss procedures when adjusting losses for 90 of 144 claims we reviewed.¹² Both AIPs did not obtain and use available historical records from producers indicating how much citrus fruit the producers had grown, as required under the emergency loss procedures. Instead, the AIPs disregarded available producers' records and used the RMA-established average yields, which resulted in producers receiving indemnities higher than their actual losses. The AIPs used procedures or allowed options for loss adjustment that were not approved by RMA. We spoke to the AIPs involved and requested that they explain why they deviated from RMA's procedures in this way, but they maintained that they followed procedures. For one producer, we found that RCIS had computed indemnities using both producer records and the RMA-established average yield, and then allowed the producer to choose the yield that resulted in receiving the higher indemnity—essentially allowing this producer to pick his own indemnity.

The problem of AIPs not using available producers' records was compounded because the AIPs did not perform required appraisals at the time of loss for 122 of 144 claims, a necessary and required step for accurately calculating the indemnity. The AIPs explained that they did not perform appraisals at the time of loss because they were waiting for harvest to calculate the indemnity, when they would not need an appraisal. LASH requires an appraisal at the time of loss.¹³ Also, LASH discusses the need to distinguish between fruit lost due to the hurricane and fruit that may have been lost later due to other causes.¹⁴ Without this appraisal, we could not recalculate the indemnities; we were, however, able to estimate the amount of indemnities the AIPs overpaid for 31 claims. As a result of these two AIPs' decisions to circumvent RMA's authorized loss adjustment procedures, we estimate that RH and RCIS overpaid indemnities on 31 claims by at least \$5.5 million.¹⁵

When AIPs sign the Standard Reinsurance Agreement, they agree that they will use RMA-authorized contracts, standards, procedures, methods, and instructions when adjusting losses on

¹² See Scope and Methodology for a full explanation of how we selected these 144 claims for review. For 49 of the other 54 claims, we found that all producers had some records, but that producers could not always meet the requirement that they provide a minimum of 3 years records. The AIPs, in such case, were warranted in their decision to use the RMA-established citrus average yield to expedite adjusting the losses. For the other five claims, we could not contact the producers because they were either deceased or had gone out of business and were not reachable.

¹³ Florida Citrus Fruit LASH, 2004 and succeeding crop years, part 4A (1)-(2) and part 4E, dated February 26, 2003.

¹⁴ Florida Citrus Fruit LASH, 2004 and succeeding crop years, part 5B (1)(b), dated February 26, 2003.

¹⁵ Even though we were able to obtain production records related to 90 claims, we estimated the indemnity payments using producers' historical records for only 31 claims because estimating the potential overpayments for these claims was resource-intensive.

eligible crop insurance contracts.¹⁶ Federal crop insurance regulations state that RMA alone has the authority to set loss adjustment policy, and AIPs cannot deviate from that policy without RMA's written authorization.¹⁷ If AIPs wish to make any change in the loss adjustment process, they must follow a specific and clearly established procedure for requesting the change.¹⁸ In the event that an AIP fails to follow RMA's procedures in such a way that it is no longer possible to correct the indemnity, then the Standard Reinsurance Agreement includes procedures for penalizing the AIP: "[w]henver a failure to substantially comply with the provision of this Agreement or procedures by the Company ... materially affects the existence or the amount of the indemnity ... and FCIC is ... [u]nable to determine the correct amount of indemnity ... FCIC will deny reinsurance."¹⁹

On November 4, 2005, RMA authorized emergency loss procedures intended to streamline certain loss determinations on specific crops and accelerate the adjustment of losses in processing Hurricane Wilma claims.²⁰ Under these emergency loss procedures, AIPs had to determine producers' average yield using a minimum of 3 continuous years, up to a maximum of 10 years, including the previous crop year's production records, and then use this average historical yield to compute the payment. This average yield was supposed to be determined using the producers' historical production records. AIPs should have obtained the producers' records unless the records had been destroyed by Hurricane Wilma. If the producers' records had been destroyed by the hurricane or if the producer was unable to provide the minimum of 3 years' records, AIPs were to contact an RMA regional service office for an RMA-established average yield based on the variety and age of the trees.

Of the \$53 million in CY 2006 Florida citrus indemnities RH and RCIS paid, we selected 144 claims totaling \$37 million in indemnities where RMA-established average yields were used, or 70 percent of the indemnities paid. For 90 of 144 claims we reviewed, the AIPs did not obtain and use producer records that would have resulted in more accurate payments, and instead chose to use the RMA-established average yields to adjust losses, despite the fact that producers had documentation. The producers willingly provided that documentation to the Office of Inspector General (OIG). Because the AIPs did not follow RMA's emergency loss procedures to obtain available historical records, we estimate that these two AIPs issued \$5.5 million in overpayments for 31 claims.²¹

¹⁶ 2005 RMA Standard Reinsurance Agreement, sec. IV, par. F.1.b, dated June 10, 2004.

¹⁷ Title 7, *Code of Federal Regulations*, 400.168(d), dated January 1, 2005.

¹⁸ 2005 LAM, part 1, sec. 8, par. B (2), dated July 12, 2005.

¹⁹ 2005 RMA Standard Reinsurance Agreement, sec. par. H.7, dated June 10, 2004.

²⁰ RMA Manager Bulletin MGR-05-020, dated November 4, 2005.

²¹ Of the 90 claims for which we obtained producers' available records, we reviewed 31 claims to determine if there were any erroneous payments. We found that 30 claims were overpaid, for an estimated total of \$5.5 million; one claim was underpaid a total of \$1,475. The \$5.5 million estimated overpayment is based on the difference between the RMA-established average yield and producers' historical average yield. Since the AIPs failed to perform loss appraisals when they initially worked the claims, our efforts are only estimates based on the limited data in the claim files and producer records that we obtained independently. As discussed, both RH and RCIS did not perform "fruit-on-the-tree" appraisals that are necessary to correctly determine an indemnity for the 31 claims we reviewed.

RH Did Not Obtain Available Producer Records to Adjust Losses

RH was responsible for 64 of the 90 claims where we determined that the AIP should have used producer records, but did not. For these 64 claims, RH did not obtain available producer production records to determine the actual average yield needed to adjust citrus losses for damages caused by Hurricane Wilma. Instead, RH used the RMA-established average yield. When we asked RH officials why they deviated from RMA's approved procedures in this way, they maintained that they followed procedures. For these 64 claims, we obtained producers' available production records and calculated the average yields for 13 of the 64 claims. We then compared the producers' historical average yields to RMA-established average yields used to compute indemnity payments. Because RH did not obtain producers' records to determine the actual citrus average yields, we estimated that RH overpaid 13 claims by \$2.7 million (see exhibit B).

For example, for one producer's claim, the RH loss adjuster obtained and applied the RMA-established average yield of 451 boxes per acre for grapefruit instead of obtaining the producer's records of past production to compute the actual citrus average yield, even though those records were available. In our interview with this producer, we obtained the producer's past production records for four crop years—2002, 2003, 2004, and 2005. Using this data, we determined that the producer's actual average yield was 203 boxes per acre. By using the RMA-established average yield, the producer's citrus loss was overstated by 248 boxes per acre, resulting in an estimated overpayment of \$908,980 for this claim.

In our review of RH's handling of these claims, we subpoenaed its communications relating to processing citrus claims from Hurricane Wilma. RH's email correspondence showed that there was a great deal of internal discussion about how to adjust these losses, but at least some of the officials in the company preferred using the RMA-established average yield as opposed to obtaining producers' certification and using their historical averages. In the end, RH officials did not follow procedures established in the Standard Reinsurance Agreement to seek formal authorization from RMA, and instead made the decision to handle loss adjustments in their own way, following neither RMA's general loss procedures nor the agency's emergency loss procedures. We requested that RH officials explain why it processed these claims in this way, and they simply stated that they had followed procedures.

We contacted 29 producers who had records available to learn how RH approached them when its loss adjusters began adjusting their losses. All of these producers stated that they had adequate historical records of their production, but that the RH adjuster would not accept records from 8 of them because they were not "third party" records, and instead adjusted the loss using the RMA-established average yield; 15 producers stated that they were given the option of using either their records or the RMA-established average yield; 2 producers stated that they were told that they were required to use the RMA-established average yield; and 4 producers stated that their losses from 2004 Hurricanes Charlie, Francis, and Jeanne adversely affected their yields, so it was better to use the RMA average yield.

Our interviews with RH's loss adjusters confirmed the producers' version of events. Of the 10 RH loss adjusters from whom we took sworn statements (loss adjusters were asked to sign the statements but refused), 4 stated that RH officials verbally instructed them to offer producers the

choice of using their historical production or using the RMA-established average yield. The other six adjusters stated that they had used, or were verbally instructed by RH to use, the RMA yield for their loss adjustments and that they did not offer producers a choice.

Additionally, without RMA's authorization, RH required that producers sign a statement certifying whether they had verifiable "third party" records of production. This certification deviated from RMA's emergency loss procedures because it required producers to certify whether their records were "third party" records while the emergency loss procedures only required producers' historical production records be verifiable. In other words, RH's certification statement set an artificially high standard for producers. When producers stated that they could not provide "third party" records, RH used this statement as justification for using the RMA-established average yield, even when acceptable producer records were available.²²

We discussed this certification statement with RH management, and they stated the reason they required producers to sign the statement was to identify those producers who did not have records, but RH's requirement that producers provide "third party" records was significantly more stringent than RMA's emergency loss procedure requirement that producers only certify that they have "verifiable records." RH officials told us that they had prepared the certification according to RMA's emergency loss procedures, and that RMA had approved it. However, RMA officials stated that they had not seen the document. RH officials could not provide us documentation that RMA had seen and approved the certification statement.

We noted that RMA's *Crop Insurance Handbook* states that "[a]ll certification statements MUST BE IDENTICAL [RMA's emphasis] to the ones approved by RMA," and RH's certification form did not meet this standard.²³ We concluded that RH should not have asked producers to sign this statement, and should not have used the absence of third party records as a justification for disregarding producers' records and using the RMA-established average yields. RH should have processed these 64 claims using producers' available records. Because the AIP did not do so, its action resulted in \$2.7 million in estimated overpayments for 13 RH claims.

RCIS Did Not Use Available Producer Records to Adjust Losses

Similarly, for 26 claims processed by RCIS, we found that RCIS did not use available producers' records to adjust citrus losses for damages caused by Hurricane Wilma. Although RCIS loss adjusters requested that producers provide records of their historical production, they did not always obtain or use those records when they were available. Instead, RCIS opted to use the RMA-established average yields. Of the 26 claims for which we obtained producers' production records, we reviewed 18 of these claims to determine if any erroneous payments occurred. We found that RCIS incorrectly adjusted losses for 18 claims resulting in an estimated \$2.8 million

²² In the Florida citrus industry, such "third party" records would have most likely come from trip tickets, which are prepared by picking crew leaders as they pick citrus, and packing reports for fresh fruit or weight tickets for juice fruit, which are prepared by the processing facility. Some producers own their own processing facilities, and so they could not provide such records since they had a vested interest in the facility's operation.

²³ 2006 FCIC 18010 *Crop Insurance Handbook* for the 2006 and succeeding crop years, sec. 2, par. 2a, dated June 2005.

in overpayments (see exhibit C), because these producers had records available that should have been used to adjust the losses.²⁴

RCIS adjusters sometimes encouraged producers to choose their yields so that they could maximize their indemnities. For one producer, an RCIS loss adjuster obtained and used both the RMA-established average yield and the producer's 3-year average to complete the loss adjustment, depending upon the fruit crop type. From records we subpoenaed, we found that RCIS did this because the producer wrote to the AIP and requested that the loss adjuster use the RMA-established average yield for some of his crops and his actual historical yields for others. Essentially, RCIS allowed this producer to choose his yields to maximize his indemnity payment. RCIS overpaid this producer by an estimated \$18,676.

We also contacted 17 producers to learn how RCIS approached them when the AIP's loss adjuster began adjusting the losses: Six producers stated that they were given the option of using either their records or the RMA-established citrus yield; four producers stated that they were told that their records were unacceptable because they did not originate from a third party; one producer stated that the losses from 2004 Hurricanes Charlie, Francis, and Jeanne adversely impacted his yields, so it was better to use the RMA yield; five producers stated they were unaware why the RMA yield was used by the loss adjuster to compute the claim; and one producer stated that he may not have had enough past production records.

We interviewed three RCIS loss adjusters to discuss the procedures they followed when adjusting losses for the selected claims. The adjusters' responses to our questions, which were obtained in signed, sworn statements, confirmed the producers' version of events. One adjuster stated that he had requested the past production records for the claim he worked, but the producer chose not to provide the production records and the RMA-established average yields were used to adjust the claim. The other two adjusters had obtained past production records, but used the RMA-established average yields to adjust the losses without documenting why the provided producers' records were not used.²⁵

We concluded that RCIS should have processed these 26 claims using producers' available records. Because the AIP did not do so, its action resulted in at least an estimated \$2.8 million in overpayments for the 18 claims.

We concluded that RMA needs to instruct RH and RCIS to recalculate the producers' indemnities using available historical production records and loss adjustment procedures, and recover any overpayments. Beyond the 144 Florida claims we reviewed, these two AIPs settled a total of 2,274 Florida citrus claims in 2005, paying indemnities totaling \$53 million. For 84 percent of these 2,274 claims, totaling \$44.1 million, the AIPs requested to use RMA-established average yields. Given the problems we have found with such claims, we are

²⁴ For 1 of the 18 claims, we estimated that RCIS underpaid the producer \$1,475.

²⁵ One adjuster actually adjusted the loss using producer records on October 2, 2006 (almost a year after the hurricane), but when the claim was reviewed by the AIP, RCIS suspended the payment on October 16, 2006, pending the producer providing a certification to production. The suspension notice stated that RCIS needs to request RMA yields because the insured was unable to provide records for production. There was no explanation why the previously provided records were not used. Subsequently, the loss was adjusted and the claim was settled using the RMA-established average yields.

recommending that RMA determine if the AIPs properly calculated all 2005 citrus indemnities for which the AIPs requested to use a RMA-established average yield and to determine if producer records were available that would have resulted in a more accurate calculation of the indemnity. We also found that the quality control review process in place at these two AIPs did not identify these problems, which makes it unlikely that quality control reviewers would have identified similar problems with claims outside our sample.

We also note that it may no longer be possible to recalculate these indemnities correctly because the AIPs did not perform the “fruit-on-the-tree” appraisals at the time of loss, and the fruit has long since been harvested and sold to processing plants or packinghouses. The appraisal is fundamental to the loss adjustment process because it is the key to distinguishing between fruit lost due to an insurable cause of loss, like a hurricane, and fruit lost due to other, non-insurable causes. We found, however, that RH and RCIS did not perform this essential step in the loss adjustment process for 122 of 144 claims in our sample. Officials from both AIPs explained that they believed that performing appraisals at the time of loss was unnecessary since they were waiting until harvest to determine the indemnity, when appraisals would not be necessary. OIG maintains that appraisals at the time of loss are required by RMA and necessary to differentiate between fruit lost specifically due to Hurricane Wilma and fruit lost due to other causes. Without these required appraisals, we could not accurately recalculate the indemnities producers should have received, and have therefore estimated erroneous indemnity payments for 31 of the claims.

If RMA determines that the erroneously calculated claims can no longer be accurately recalculated because the AIPs did not perform these appraisals or obtain producers’ historical records, then RMA should take serious remedial action against the AIPs. The Standard Reinsurance Agreement provides that “[w]hen a failure to substantially comply with the provision of this Agreement or procedures by the Company ... materially affects the existence or the amount of the indemnity ... and FCIC is ... [u]nable to determine the correct amount of indemnity ... FCIC will deny reinsurance.”²⁶ We concluded that this provision of the Standard Reinsurance Agreement would apply to any claims that cannot be correctly recalculated because the AIPs did not follow RMA’s procedures, including not obtaining producers’ available records and not timely conducting appraisals after the losses.

We concluded that RMA needs to instruct the AIPs to review all Florida citrus indemnities for which RH and RCIS requested average yields from RMA, and recalculate and correct those indemnities. If the AIPs cannot correctly recalculate indemnities to be paid to citrus producers, then RMA needs to follow the Standard Reinsurance Agreement and deny reinsurance for indemnities using the RMA-established average yields,²⁷ totaling up to \$44.1 million (see exhibit A).

Recommendation 1

Identify all Hurricane Wilma citrus indemnity claims for which RH and RCIS used the RMA-established average yields and paid indemnities using such average yields.

²⁶ 2005 RMA Standard Reinsurance Agreement, sec. IV, par. H.7, dated June 10, 2004.

²⁷ 2005 RMA Standard Reinsurance Agreement, sec. IV, par. H.7, dated June 10, 2004.

Agency Response

In its August 1, 2011, response, RMA concurred with this recommendation, and stated that it expects to complete it by March 1, 2012.

OIG Position

We accept RMA's management decision for this recommendation.

Recommendation 2

Instruct RH and RCIS to recalculate the indemnity amounts on all loss claims that had used the RMA-established average yields using available producer historical records and loss appraisals as required by procedures and to collect from RH and RCIS any overpayments. If the indemnities cannot be properly or correctly recalculated because the AIPs did not perform or complete the required fruit-on-the-tree appraisals, deny the reinsurance on these loss claims (totaling \$44.1 million—\$[REDACTED] for RH and [REDACTED] for RCIS).

Agency Response

In its August 1, 2011, response, RMA agreed to review and assess the actions by each AIP, and where appropriate take actions to address and resolve discrepancies. RMA expects to complete this action by July 25, 2012.

OIG Position

Although RMA agreed with this recommendation, we need additional information before we can reach management decision. RMA needs to provide OIG with copies of its final determinations for all questioned indemnities (including copies of the accounts receivables established) or its justification for not pursuing questioned indemnity payments.

Section 2: Citrus Policy Program Weakness

Finding 2: RMA Needs To Revise its Florida Citrus Policy To Account for Revenue from Salvaged Fruit

Citrus producers have a choice of selling their fruit on different markets. They might sell particularly attractive fruit as fresh at a higher price, while they might sell less attractive fruit as juice or for another processed product at a lower price. We found, however, that RMA's Florida fresh citrus policy does not consider the revenue generated from selling hurricane-damaged and unattractive (and, therefore, unmarketable) fresh fruit for other purposes, such as juice, even though the revenue from juice sales can be significant. Of our CY 2006 sample of 144 claims, we found at least 2 producers who received \$2.5 million for unmarketable fresh fruit sold for juice after the fruit was considered a total loss.²⁸ Due to this policy omission, Florida citrus producers can receive significant amounts of revenue for fresh fruit that RMA's procedures consider of zero value.

The Florida citrus fruit policy provides that if producers cannot market their fresh market citrus crop as fresh fruit due to damage from an insurable cause, it is considered lost, or of zero value.²⁹

We found, however, that hurricane-damaged fruit that is unappealing to consumers as fresh fruit still had a value greater than zero since it can be sold for juice. According to National Agricultural Statistics Service data for 2006, the State average price per box for fresh grapefruit was \$13.96 and the price per box for grapefruit sold for juice was \$6.26.

For two of our sampled producers who claimed losses on fresh grapefruit due to Hurricane Wilma, we determined that they received significant revenue for fruit that the AIP determined was a total loss, in accordance with RMA's policy. When these two producers graded their fruit at harvest, they culled a great deal of fruit, concluding that it was unfit for sale as fresh fruit and sent it to canneries for juice. We found:

- One producer was paid a \$4.2 million indemnity for his CY 2006 fresh market grapefruit crop (with an insurance liability of \$5.1 million) for damages caused by Hurricane Wilma. In addition, the producer received \$1.8 million in revenue for the same hurricane-damaged fruit that was delivered and sold for juice. Thus, the total receipts for the damaged grapefruit crop amounted to \$6.0 million, which was greater than the producer's insured liability of \$5.1 million.

²⁸ Because our review was not designed to identify this type of problem, we found these two instances only because the producers provided us more information than we requested. More producers than these two may have received income for fruit that was considered of zero value.

²⁹ Florida Citrus Fruit Crop Provisions (99-026), sec. 10 (h), effective for CY 1999 and succeeding crop years and revised March 6, 2008, provides that when an AIP settles a claim under this policy, individual tangerines, tangelos, navel oranges, temple oranges, Murcott honey oranges, fresh grapefruit, or fresh late oranges, that are unmarketable as fresh fruit due to wind damage from a hurricane that results in the fruit not meeting the standards for packing as fresh fruit, will be considered 100-percent damaged. Therefore, fresh fruit that is harvested before the claim is settled and could not be marketed as fresh is considered 100-percent damaged.

- Another producer was paid a \$1.2 million indemnity for his CY 2006 Hurricane Wilma-damaged fresh market grapefruit crop (with an insurance liability of \$2.6 million). The producer received another \$700,000 in revenue for that same damaged fruit after it was sold for juice. The total receipts for the damaged fresh grapefruit were \$1.9 million.

Unlike the Florida citrus fruit policy, the Texas citrus fruit policy is an approved historical yield program where producers are required to account for their past production. The Texas policy provides procedures to account for damaged fruit not marketed as fresh when determining producer losses. According to the Texas policy, if citrus is not marketed as fresh due to an insurable cause, the AIP must determine a value for the damaged fruit and take that value into account when calculating the indemnity.

We concluded that RMA's Florida citrus fruit crop insurance product, as currently designed, allows producers to receive indemnities in excess of their actual losses because it does not account for revenues from hurricane-damaged fresh fruit that producers sell for juice. For future crop years, RMA should revise the Florida citrus fruit policy to account for salvage value when hurricane-damaged fresh fruit is sold for an alternative use.

Recommendation 3

Revise the Florida citrus fruit policy so that it accounts for revenue that producers receive for damaged fresh fruit that is sold for an alternative use, and reduces the indemnity accordingly.

Agency Response

In its August 1, 2011, response, RMA concurred with this recommendation, and stated that it intends to revise the Florida citrus policy to account for the value of salvaged fruit due to any insured cause of loss in calculating indemnities. The revised policy is targeted to be in effect for the 2014 crop year at the earliest. In a subsequent email message, RMA stated that for the policy change to be effective for the 2014 crop year, it will issue the policy change by January 31, 2013.

OIG Position

We accept RMA's management decision for this recommendation.

Section 3: Future Emergency Loss Procedures

Finding 3: RMA Should Not Provide Yields with Future Emergency Loss Procedures

In response to future disasters, RMA should not include RMA-established average yields if it issues emergency loss procedures for Florida citrus. As we found during our audit, the RMA-established average yields inflated producers' yields between 5 to 338 percent. One producer, for instance, averaged 117 boxes of fresh grapefruit per acre, but the RH indemnified this producer at 451-boxes per acre, using the RMA-established average yields. The yield was inflated by 285 percent. This inflated yield that RMA computed occurred because RMA does not maintain historical production data regarding citrus in Florida, and so when it established this yield, it used production and acreage data from the National Agricultural Statistics Service to compute an established yield for its 2005 emergency loss procedures. Because these RMA-established average yields were so high, we concluded that AIPs disregarded RMA's requirements to obtain producers' historical records of production, and instead used the RMA-established average yields (see Finding 1). If the AIPs had used producers' historical records of production for 31 of the 144 claims we reviewed, they would have prevented estimated overpayments of at least \$5.5 million.³⁰

According to RMA's 2005 emergency loss procedures, AIPs had to determine producers' average yield using producers' historical records for a minimum of 3 continuous years, up to a maximum of 10 years, including the previous crop year's production records, and then use this average to adjust the loss. AIPs were required to obtain producers' records unless the records had been destroyed by Hurricane Wilma. If producers' records had been destroyed by the hurricane or if the producer was unable to provide the minimum of three years of records, AIPs were to contact RMA for an RMA-established average yield based on the variety and age of the tree.

Since RMA does not maintain historical citrus production data for Florida, it used Statewide production data collected by the National Agricultural Statistics Service to compute the RMA-established average yields it provided to AIPs.³¹ RMA's Kansas City office determined the Statewide average for different crop types—oranges, grapefruit, etc. It determined a yield for each fruit type and tree age classification. At that point, an RMA regional service office reviewed the yields. RMA employees at the regional service office obtained an industry forecast of orange production for 2006, and used it to develop a reduction factor, since they realized that the 2006 projected crop production would be reduced because of the 2005 hurricanes. They reduced the average yield determined by the Kansas City office by approximately 11 percent.

³⁰ Even though we were able to obtain production records related to 90 claims, we estimated the indemnity payment using producers' historical records for only 31 claims because estimating these claims is resource-intensive because we had to look through historical records for each crop type to compute producer's average yields. RCIS processed a separate loss claim for each producer by crop type; in contrast, RH processed one claim for each producer that included all losses for the different crop types.

³¹ Florida citrus fruit production data are collected by the National Agricultural Statistics Service. To develop the RMA-established average yields used in the emergency loss procedures for Hurricane Wilma, RMA used several reports prepared by the National Agricultural Statistics Service that covered several crop years.

The RMA regional service office then used these reduced average yields when, under the emergency loss procedures, AIPs requested average yields. Based on our review, however, these average yields were still anywhere from 5 to 338 percent too high.

As we have discussed in Finding 1, for 90 of the 144 claims, when the AIPs adjusted producers' losses, they circumvented both the emergency loss procedures and LASH by not obtaining producers' historical records of production, which would have resulted in a more accurate adjustment of losses as required by RMA procedures. Instead, the AIPs requested and used the higher RMA-established average yields.

Given the severity of the issues, on June 21, 2010, we issued a management alert to RMA detailing our concerns regarding storms occurring during the 2010 hurricane season, and beyond. Addressed to the RMA Administrator, this alert recommended that future emergency loss procedures should not provide an RMA-established average yield; instead, RMA should require AIPs to use producers' historical production records to establish an actual average yield for loss adjustment purposes.

Recommendation 4

Future emergency loss procedures should not provide for an RMA average yield; instead, RMA should require AIPs to use producer historical production records to establish an actual citrus yield for loss adjustment purposes.

Agency Response

In its July 2, 2010, response to our Management Alert, RMA concurred with this recommendation and stated that it will, "in the event of another hurricane, implement this recommendation."

OIG Position

We accept RMA's management decision for this recommendation.

Finding 4: RMA Should Establish Timeframes for Any Future Emergency Loss Procedures

Although RMA's intent in issuing emergency loss procedures was to expedite payments to producers, the AIPs delayed adjusting the losses. Approximately 98 percent of the indemnities were issued more than 3 months after Hurricane Wilma. This occurred because, when RMA published its emergency loss procedures, it did not establish a specific timeframe within which AIPs were to use the emergency loss procedures for crops damaged by Hurricane Wilma. The AIPs took advantage of RMA's open-ended timeframe and often waited until after harvest to adjust losses, but still used the RMA-established average yields from the emergency loss procedures.

According to the emergency loss procedures, “[t]he Risk Management Agency (RMA) is authorizing emergency loss adjustment procedures that will streamline certain loss determinations on specific crops to accelerate (OIG emphasis) the adjustment of losses and issuance of indemnity payments to crop insurance policyholders in the affected areas.”³² In addition, RMA stated that the “[a]pplication of the emergency procedures is limited to those situations where the catastrophic nature of the losses is such that not authorizing these emergency loss procedures would result in unnecessary delays (OIG emphasis) in processing claims.” However, RMA did not specify a timeframe for AIPs to adjust citrus fruit losses and compute indemnities according to these emergency loss procedures.

For both RH and RCIS, we reviewed the settlement dates for all citrus policies receiving an indemnity. The AIPs had a total of 500 policies with citrus fruit claims resulting from Hurricane Wilma. Of these 500 policies, we found that the AIPs did not pay 98 percent of the indemnities until more than 3 months after the hurricane. For example, one producer reported losses to his early and midseason oranges to the insurance agent on October 26, 2005—two days after Hurricane Wilma hit the producer’s grove—but the claim was not settled until January 2007, 15 months after Hurricane Wilma (and the loss adjustor used the RMA-established average yields in calculating the producer’s indemnity payment).

When we asked loss adjusters why they did not settle claims immediately after the hurricane, the adjusters stated that, in order to determine the amount of loss and calculate the indemnity, the consensus was they had to wait until the producers completed harvesting their crops. The loss adjusters interviewed stated that the only way to obtain final production numbers was to wait until harvest. We note, however, that waiting months until the harvest negated the need for the use of RMA’s emergency loss procedures. If adjusters did not appraise fruit losses soon after the damage occurred, then they could not distinguish between fruit lost due to Hurricane Wilma and fruit lost due to other causes.

We also note that waiting months to settle the claim does not expedite the loss adjustment process and does not conform to the intent of RMA’s emergency loss procedures. OIG maintains that once the producers had decided they would wait until harvest to settle claims, the AIPs should have followed RMA’s general loss adjustment procedures as outlined by the Florida citrus fruit LASH. Since the loss adjusters we spoke to were instructed to wait until harvest, OIG maintains they should not have used RMA emergency loss procedures at all, and should have instead used the Florida citrus fruit LASH, which does not authorize the use of average yields.

We discussed this issue with RMA officials on June 10, 2010, and reported it in our management alert issued on June 21, 2010. For future emergency loss procedures, we recommended that RMA should establish a limited timeframe for issuing indemnity payments under the expedited procedures. For any payments issued after the established timeframe, AIPs need to follow RMA’s LASH when adjusting any loss claims.

³² RMA Manager’s Bulletin No. MGR-05-020, dated November 4, 2005.

Recommendation 5

Future emergency loss procedures should establish a limited timeframe for issuing indemnity payments under the expedited procedures. Otherwise, for any payments issued after the timeframe, AIPs need to follow RMA's LASH when adjusting any loss claims.

Agency Response

In its July 2, 2010, response to our Management Alert, RMA concurred with this recommendation and stated that it will, "in the event of another hurricane, implement this recommendation."

OIG Position

We accept RMA's management decision for this recommendation.

Scope and Methodology

Our audit covered RMA's oversight of RH's and RCIS' administration of loss adjustment determinations made for citrus fruit loss claims resulting from 2005 Hurricane Wilma under the CY 2006 Florida citrus fruit policy.³³ We initiated fieldwork in May 2008 at RMA Headquarters and completed our fieldwork in December 2010.

Based on our initial audit results from our claims review, our fieldwork focused on determining whether the AIPs had properly used the emergency loss procedures in processing claims resulting from Hurricane Wilma. This resulted in meetings with RMA's Headquarters and the Office of the General Counsel (OGC) to develop a plan for identifying whether there was a pattern of AIP misuse by [REDACTED]

For CY 2006, RMA reinsured a total of \$384.9 million in Florida citrus liability through the Florida citrus fruit crop insurance program. RH sold and serviced [REDACTED] Florida citrus fruit policies with a liability totaling [REDACTED], or [REDACTED] percent of the total liability, while RCIS sold and serviced [REDACTED] Florida citrus fruit policies with a liability totaling [REDACTED], or [REDACTED] percent of the total liability. The crop insurance policies written by these two AIPs accounted for 77 percent of the total liability in Florida.

In order to identify potential management control weaknesses in the adjustment of Florida citrus fruit losses, we analyzed citrus fruit loss claims resulting from Hurricane Wilma. The February 12, 2009, database of 2005 hurricane claims we reviewed consisted of 2,420 citrus fruit claims totaling \$60.8 million in indemnities for CY 2006. Of the \$60.8 million in indemnities paid, RH paid [REDACTED] ([REDACTED] percent) and RCIS [REDACTED] ([REDACTED] percent).

We analyzed the database to identify the producers who received the largest citrus fruit indemnity payments. From this analysis, we judgmentally selected 10 producers insured by RH and 5 producers insured by RCIS for a detailed review. These 15 producers filed 31 claims (13 with RH and 18 with RCIS) and received indemnity payments totaling \$18.7 million, or 31 percent, of \$60.8 million in indemnities paid.³⁴

Since our analysis found that these two AIPs were not following prescribed RMA loss adjustment policies and procedures, we consulted with OGC [REDACTED]

[REDACTED] We added 113 claim files and interviews with an additional 65 producers to confirm our determinations. Overall, we reviewed a total of 144 claim files and interviewed a total of 80 producers whose claims were adjusted by RH and RCIS.

³³ Because Hurricane Wilma struck Florida on October 24, 2005, the storm occurred during RMA's 2006 crop year, which ran from May 31, 2005, through June 30, 2006.

³⁴ The 10 RH producers filed 13 claims totaling \$14,221,316 in indemnities and 5 RCIS producers filed 18 claims totaling \$4,434,222 in indemnities (total \$18.7 million).

Fieldwork was performed at the RMA national office in Washington, D.C., and the RMA regional office in Valdosta, Georgia. We also performed fieldwork at RH's southern division office in Grayson, Georgia, and RCIS' regional sales and service office in Winston-Salem, North Carolina. Finally, we performed fieldwork at the selected producers' offices throughout counties in central Florida. We also visited one citrus grove.

Throughout the audit, we worked with RMA officials to ensure that our indemnity calculations were correct and that we had correctly understood the agency's policies and procedures.

To accomplish our objectives, we performed the following audit steps:

At RMA, we:

- Interviewed RMA's management to identify the agency's controls over RH's and RCIS' administration of the citrus fruit crop insurance program.
- Attended Florida citrus fruit loss adjustment training provided by the citrus fruit insurance specialists from RMA's Valdosta regional office.
- Obtained and reviewed documentation of policy and claim information that the AIPs reported to RMA.
- Consulted with RMA citrus fruit program specialists to confirm our understanding of citrus fruit policy requirements and obtained policy clarifications as needed.
- Provided RMA's senior management with ongoing briefings and summaries of work performed.

At RH, we:

- Interviewed RH's senior management.
- Obtained and reviewed loss claim and quality control review files for the claims of 10 RH producers selected for review.
- Confirmed that RH had developed its own procedures and certification forms to adjust CY 2006 Hurricane Wilma claims.
- Interviewed the 10 RH loss adjusters and quality control reviewers who processed the 13 claims that we attempted to recalculate.
- Determined RH policy and procedures for adjusters to follow when computing indemnity payments.
- Subpoenaed RH loss adjustment communications between company management and its loss adjustment staff.

At RCIS, we:

- Interviewed RCIS' senior management.

- Obtained and reviewed loss claim and quality control review files for the claims of five RCIS producers selected for review.
- Confirmed that RCIS had developed its own procedures to adjust CY 2006 Hurricane Wilma claims.
- Interviewed the three RCIS loss adjusters who processed the 18 claims that we attempted to recalculate.
- Determined RCIS policy and procedures for adjusters to follow when computing indemnity payments.
- Subpoenaed RCIS loss adjustment communications between company management and its loss adjustment staff.

For 139 of the 144 claims selected for review, we:

- Interviewed producers, owners, and staff to obtain an understanding of policies they purchased and the claims they filed.
- Requested signed statements explaining what action the AIPs' loss adjusters took to adjust their losses and determined whether the producers had prior crop years' production records available.
- Obtained and reviewed available producers' records to support their past production and claim worksheet.

For 31 of the 144 claims, we:

- Computed the producers' historical average yields from production records they provided and estimated erroneous indemnity payments.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Abbreviations

AIP	Approved Insurance Provider
CY	Crop Year
FCIC	Federal Crop Insurance Corporation
LAM	Loss Adjustment Manual Standards Handbook
LASH	Loss Adjustment Standards Handbook
OCFO	Office of the Chief Financial Officer
OGC	Office of the General Counsel
OIG	Office of Inspector General
RCIS	Rural Community Insurance Services
RH	Rain and Hail
RMA	Risk Management Agency

Exhibit A: Summary of Monetary Results

Finding	Recommendation	Description	Amount	Category
1	2	Indemnities Paid to RH and RCIS insured producers	\$44,059,385	Questioned Costs, Recovery Recommended

The above five column table summarizes the monetary results from findings discussed in this report. The first column is titled finding number and it identifies the report finding where the monetary exception is presented. The second column is titled recommendation number and it identifies the recommendation number in the report that contains action for the monetary exception. The third column is titled description and it briefly describes the type of exception. The fourth column is titled amount and it contains the monetary amount of the exception. The fifth column is titled category and provides a classification for the errors cited in the third column.

Exhibit B: Rain and Hail Estimated Payment Errors

Claim	Producer	Crop Type	AIP Indemnity	OIG Estimated Indemnity	Over (under) Payment
1	A	CS I	\$832,912	\$160,468	\$672,444
2	B	CS VII	\$1,195,218	\$286,238	\$908,980
3	C	CS VII	\$4,222,825	\$3,946,077	\$276,748
4	D	CS IV	\$74,307	\$65,016	\$9,291
5	D	CS V	\$872,119	\$739,853	\$132,266
6	D	CS VII	\$186,738	\$185,310	\$1,428
7	E	CS I	\$2,635,435	\$2,375,718	\$259,717
8	E	CS II	\$2,874,060	\$2,622,488	\$251,572
9	F	CS VII	\$88,475	\$65,325	\$23,150
10	G	CS VII	\$737,775	\$714,203	\$23,572
11	H	CS I	\$78,018	\$55,465	\$22,553
12	I	CS VII	\$277,826	\$223,544	\$54,282
13	J	CS I	\$145,608	\$72,304	\$73,304
TOTAL			\$14,221,316	\$11,512,009	\$2,709,307

The above 6 column table summarizes OIG’s review of 13 Rain and Hail citrus fruit claims and our estimates of payment errors. The first column is titled claim and contains a sequential number for each of the claims reviewed. The second column is titled producer and contains letter codes to identify producers. The third column is titled crop type and contains the crop code to identify which of the seven types of citrus crops were reviewed. The fourth column is titled AIP indemnity and contains the amount of the indemnity paid to the coded producer by Rain and Hail. The fifth column is titled OIG estimated indemnity and contains our estimates of the indemnity payments using producers’ historical production records to estimate the indemnity. The sixth column is titled overpayments and contains the estimated indemnity overpayment to the producer.

Exhibit C: Rural Community Insurance Services Estimated Payment Errors

Claim	Producer	Crop Type	AIP Indemnity	OIG Estimated Indemnity	Over Payment	Under Payment
14	K	CS I	\$576,735	\$278,147	\$298,588	\$0
15	K	CS II	\$1,007,091	\$385,802	\$621,289	\$0
16	K	CS IV	\$56,003	\$19,137	\$36,866	\$0
17	K	CS V	\$17,171	\$0	\$17,171	\$0
18	K	CS VII	\$481,568	\$389,500	\$92,068	\$0
19	L	CS I	\$190,401	\$153,981	\$36,420	\$0
20	L	CS II	\$143,633	\$0	\$143,633	\$0
21	L	CS IV	\$27,664	\$14,511	\$13,153	\$0
22	L	CS V	\$42,777	\$34,147	\$8,630	\$0
23	L	CS VII	\$538,809	\$65,737	\$473,072	\$0
24	M	CS I	\$36,850	\$38,325	\$0	\$1,475
25	M	CS II	\$134,340	\$16,247	\$118,093	\$0
26	M	CS IV	\$65,922	\$47,852	\$18,070	\$0
27	M	CS V	\$92,149	\$26,633	\$65,516	\$0
28	M	CS VII	\$54,371	\$25,961	\$28,410	\$0
29	N	CS V	\$110,817	\$73,537	\$37,280	\$0
30	O	CS V	\$103,315	\$84,639	\$18,676	\$0
31	O	CS VII	\$755,606	\$0	\$755,606	\$0
TOTAL			\$4,435,222	\$1,654,156	\$2,782,541	\$1,475

The above 7 column table summarizes our review of 18 RCIS citrus fruit claims and our estimates of payment errors. The first column is titled claim and contains a sequential number for each of the claims reviewed. The second column is titled producer and contains letter codes to identify producers. The third column is titled crop type and contains the crop code to identify which of the seven types of citrus crops were reviewed. The fourth column is titled AIP indemnity and contains the amount of the indemnity paid to the coded producer by RCIS. The fifth column is titled OIG estimated indemnity and contains our estimates of the indemnity payments using producers' historical production records to estimate the indemnity. The sixth column is titled overpayments and contains the estimated indemnity overpayment to the producer. The seventh column is titled underpayments and contains estimated indemnity underpayment to the producer.

USDA'S

RISK MANAGEMENT AGENCY

RESPONSE TO AUDIT REPORT



United States
Department of
Agriculture

Risk
Management
Agency

1400 Independence
Avenue, SW
Stop 0801
Washington, DC
20250-0801

TO: Gil H. Harden
Assistant Inspector General for Audit
Office of Inspector General

August 1, 2011

FROM: Michael Hand /s/
Audit Liaison Official

SUBJECT: Office of Inspector General Audit 05099-29-At, Official Draft Report,
Citrus Crop Indemnity Payments from Hurricane Wilma in Florida

Outlined below is the Risk Management Agency's (RMA) response to the subject report.

RECOMMENDATION NO. 1:

Identify all Hurricane Wilma citrus indemnity claims for which RH and RCIS requested use of the RMA-established average yields and paid indemnities using such average yields.

RMA Response:

RMA concurs with this action, and expects to complete it by March 1, 2012.

RMA requests management decision for this recommendation.

RECOMMENDATION NO. 2:

Instruct RH and RCIS to recalculate the indemnity amounts on all loss claims that had used the RMA-established average yields using available producer historical records and loss appraisals as required by procedures and to collect from RH and RCIS any overpayments. If the indemnities cannot be properly or correctly recalculated because the AIPs did not perform or complete the required fruit-on-the-tree appraisals, deny the reinsurance on these loss claims (totaling \$44.1 million—\$ [REDACTED] for RH and [REDACTED] for RCIS).

RMA Response:

RMA will review and assess the actions by each AIP, and where appropriate take actions to address and resolve any identified discrepancies. RMA expects to complete this action by July 25, 2012.

RMA requests management decision for this recommendation.

The Risk Management Agency Administers
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RECOMMENDATION NO. 3:

Revise the Florida citrus fruit policy so that it accounts for revenue that producers receive for damaged fresh fruit that is sold for an alternative use, and reduces the indemnity accordingly.

RMA Response:

RMA concurs with OIG's recommendation. The Florida Citrus Fruit policy accounts for salvage value of fruit insured as fresh (i.e. Citrus IV, V, VII, and VIII) damaged only by freeze. Fruit damaged by other insured causes that is unmarketable as fresh is considered to be 100 percent damaged with no salvage value. The reason fruit damaged by causes other than freeze is considered 100 percent damaged is because when the policy was written, it was determined the type of damage that would occur, from hail for example, would cause injuries to the skin of the fruit rendering it unsalvageable. However, it has recently come to RMA's attention that this is not necessarily the case. RMA intends to revise the Florida Citrus policy to account for the value of salvaged fruit due to any insured cause of loss in calculating indemnities. The revised policy is targeted to be in effect for the 2014 crop year at the earliest.

RMA requests management decision for this recommendation.

Should you have any questions concerning the above responses or would like to discuss them in more detail, please contact Alan Sneeringer at (202) 720-8813.