United States Department of Agriculture

OFFICE OF INSPECTOR GENERAL

Risk Management Agency National Program Operations Reviews

05601-0001-22

April 2015

Risk Management Agency National Program Operations Reviews

Audit Report 05601-0001-22

What Were OIG's Objectives

We assessed whether RMA's NPORs reasonably determine if the AIPs are substantially in compliance with laws, regulations, and the SRA.

What OIG Reviewed

We conducted audit fieldwork at the national office in Washington, D.C.; the Central RCO in Kansas City, MO; the Midwest RCO in Indianapolis, IN; and the Southern RCO in Dallas, TX. To capture a broad range of policies at the three different RCOs, we sampled 50 of the 150 random and 6 of the 30 non-statistical crop insurance policies reviewed in the NPOR and then assessed the quality and thoroughness of the reviews.

What OIG Recommends

RMA should develop and implement specific instructions and checklists for performing crop insurance policy reviews and for conducting AIP operations reviews, as well as specific documentation requirements for supporting the reviews performed. Guidance and formal training should be developed and provided to the staff for performing NPORs. Finally, RMA should establish an agencywide quality assurance process to ensure consistent, reliable, and enforceable results.

RMA can improve its NPOR process to help ensure that the AIPs are substantially in compliance with laws, regulations, the SRA, and approved FCIC policies and procedures.

What OIG Found

The Department of Agriculture's RMA administers the Federal Crop Insurance Program, and helps insure producers against crop failures due to crop diseases, hurricanes, and other risks. Federal crop insurance is available solely through private companies, known as AIPs. RMA implemented the NPOR as one of its primary tools for assessing AIPs' compliance with laws, regulations, and the SRA, as well as for identifying program weaknesses.

OIG found that RMA has made improvements in its NPOR process; however, further improvements are needed to better determine AIP compliance with all crop insurance program requirements and to identify and address program vulnerabilities.

Our analysis of 50 NPOR reviews of crop insurance policies found instances of incomplete checklists, undocumented computations and assessments of the accuracy of indemnities paid by AIPs, no evidence of verification of the actual production history yields, and instances of AIP noncompliance. This occurred because RMA's NPOR procedures for testing crop insurance policies and for reviewing AIP operational controls were not sufficiently detailed in the *NPOR Handbook*. Specifically, RMA had not ensured consistent and thorough reviews; had not provided sufficient guidance and staff training for performing the reviews; and had not ensured that reliable second party reviews of NPOR procedures were performed. As a result, RMA cannot ensure that its NPORs will hold AIPs accountable for complying with the SRA. RMA agreed with our findings and recommendations, and we accepted management decision for all four recommendations in the report.

United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250

DATE: April 30, 2015

AUDIT NUMBER: 05601-0001-22

TO: Brandon C. Willis
Administrator
Risk Management Agency

ATTN: Heather L. Manzano
Deputy Administrator for Compliance

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Risk Management Agency National Program Operations Reviews

This report presents the results of the subject audit. Your written response to the official draft report, dated April 16, 2015, is included, in its entirety at the end of this report. Your response and the Office of Inspector General's position are incorporated into the relevant sections of the report. Based on your written response, we are accepting your management decision for all audit recommendations in the report, and no further response to this office is necessary.

In accordance with Departmental Regulation 1720-1, final action needs to be taken within 1 year of management decision to prevent being listed in the Department's annual Agency Financial 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. This report contains publically available information and will be posted in its entirety to our website (http://www.usda.gov/oig) in the near future.

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Background and Objectives

Background

The Federal Crop Insurance Act of 1938, as amended, established the Federal Crop Insurance Program. The Department of Agriculture's (USDA) Risk Management Agency (RMA) administers the Federal Crop Insurance Program, and helps insure producers against crop failures due to crop diseases, hurricanes, and other risks. Federal crop insurance is available solely through private companies, known as approved insurance providers (AIPs), which sell crop insurance policies and process claims for loss. AIPs directly insure producers and their crops, and RMA then reinsures the AIPs against a portion[1] of any losses they may incur. For Crop Year 2013, RMA's liability totaled almost $123.8 billion, with premium subsidies of $7.3 billion and indemnities of $12 billion.

RMA relies on AIPs to ensure program integrity by (1) performing growing season inspections; (2) reviewing reported producer yields; (3) performing onsite inspections; (4) ensuring there are no conflicts of interest;[2] and (5) ensuring indemnity payments are valid. Also, AIPs are required to monitor the work of their agents and loss adjusters by conducting quality control reviews of their own operations and reporting suspected instances of fraud, waste, or abuse to RMA.

RMA implemented the National Program Operations Review (NPOR) as one of its primary tools for assessing AIPs' compliance with laws, regulations, and the Standard Reinsurance Agreement (SRA), as well as for identifying program weaknesses. NPORs are conducted once every 3 years for each AIP by a designated regional compliance office (RCO). RMA reviews selected activities of AIP operations through questionnaires, interviews with AIP officials, onsite reviews of operations, documentation reviews, and a comprehensive review of 50 randomly selected crop insurance policies with claims over $2,500. An additional 10 judgmental policies are selected for review by each RCO to examine and assess a particular area of an AIP's operations.

The *NPOR Handbook* was developed by RMA to provide its compliance investigators (CI) with guidance for verifying whether AIPs complied with Federal Crop Insurance Corporation's (FCIC) policies and procedures.[3] The *NPOR Handbook* contains 20 exhibits, including questionnaires, designed to review and test AIP controls, assess whether the controls are effectively designed and implemented, assess whether those controls are operating as intended, and review sampled crop insurance policies for compliance with the SRA requirements. Twelve of the *Handbook* exhibits each test a particular requirement of the SRA and are used to document the CIs' understanding of the AIP's operations. The CIs gather and review AIP documentation describing AIPs' processes and procedures used to deliver crop insurance, and interview key personnel responsible for those functions.

[1] 2013 *Standard Reinsurance Agreement*, Section II. Reinsurance.
[2] A conflict of interest exists when an employee or relative has a crop insurance contract insured by the AIP. When a conflict of interest is present, an AIP inspection is required prior to the payment of a claim.
[3] 2011 *Standard Reinsurance Agreement*, dated June 30, 2010.

Further, to manage the NPOR results of AIP controls and crop policies, RMA developed and implemented the Compliance Activities and Results System (CARS). CARS replaced MAGNUM, the aging case management system, in June 2009, and was developed to support more efficient and effective collection of information and work flow management for compliance offices.

The Office of Inspector General's (OIG) prior audit of RMA's compliance activities raised concerns as to whether the NPORs were sufficiently detailed to identify improper payments and their causes, and to provide for sufficient corrective actions.[4] OIG reported that RMA had not performed and documented an overall risk assessment of its program operations to identify areas vulnerable to fraud, waste, and abuse. Although RMA performed program and program risk assessments in the past, OIG found that these assessments did not identify specific threats or areas vulnerable to fraud, waste, and abuse. OIG concluded that RMA's compliance activities could be strengthened.

On October 23, 2013, the Office of Management and Budget (OMB) sent an email message to USDA's Office of the Chief Financial Officer stating that, in 2004, OMB allowed RMA to use an alternative methodology to measure improper payments. Since two OIG reports had identified this methodology as problematic,[5] OMB believed it was time for RMA to develop a new methodology. In its email, OMB rescinded the alternative methodology that was approved in 2004, and instructed RMA to develop a new methodology that would address the concerns OIG raised. The new methodology would need OMB's approval. RMA is beginning testing and implementation of a new methodology in fiscal year (FY) 2015 and expects full implementation by FY 2017. For FYs 2015 and 2016 Improper Payments Information Act (IPIA) reporting, RMA plans to focus its sampling and policy review efforts on 10 crops that account for about 90 percent of total policies earning premium[6] in the crop insurance program. In FY 2017, RMA plans to expand the sampling to all crops.

Objectives

We assessed whether RMA's NPORs reasonably determine if the AIPs are substantially in compliance with laws, regulations, the SRA, associated appendices, and approved FCIC policies and procedures. Also, we assessed if the NPORs provide an accurate and effective basis to determine RMA's improper payment rate, identify causes for improper payments, and take corrective action to reduce improper payments in accordance with IPIA and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), effective January 10, 2013.

During the course of our review, we learned that OMB had rescinded its approval of RMA's methodology for determining RMA's improper payment error rate and had instructed the agency to develop a new methodology. OIG is performing ongoing monitoring of RMA's testing and

[4] Audit 05601-011-At, *RMA Compliance Activities*, dated September 2009.
[5] Audit 05601-0011-At, *RMA Compliance Activities*, dated September 2009; and Audit 50024-0003-11, *Executive Order 13520, Reducing Improper Payments—Fiscal Year 2012 High-dollar Report Review*, dated August 2013.
[6] Total policies earning premium is an RMA term referring to the number of policies for which acreage has been reported to RMA.

implementation of the new methodology. Therefore, we did not determine whether the NPORs provide an accurate and effective basis for determining the improper payments rate, or assess RMA's corrective action to reduce improper payments in accordance with IPIA and IPERIA. However, we did look at whether the NPOR process was effective in identifying causes for improper payments.

Section 1: National Program Operation Review Effectiveness

Finding 1: RMA Needs More Detailed Procedures for Performing NPORs

We found that RMA has made improvements in its NPOR process, but further improvements are needed to better determine AIP compliance with all crop insurance program requirements and to identify and address program vulnerabilities. Our analysis of 50 NPOR crop insurance policies found instances of incomplete checklists, undocumented computations and assessments of the accuracy of indemnities paid by AIPs, no evidence of verification of the actual production history yields, and instances of AIP noncompliance. This occurred because RMA's NPOR procedures for reviewing AIP controls and testing crop insurance policies were not sufficiently detailed in the *NPOR Handbook*. RMA had not established the necessary procedures with specific testing and documentation requirements to ensure consistent and thorough reviews. As a result, RMA cannot ensure that its NPORs will provide the consistent and reliable results needed to hold AIPs accountable for meeting the requirements of the SRA, nor can it provide an overall program-wide assessment of crop insurance program vulnerabilities.

OMB Circular A-123 states that management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.[7] To assess AIPs' internal controls, RMA established the NPOR as a process designed to ensure that AIPs substantially comply with laws and regulations, as well as other requirements. NPORs consist of two distinct reviews: (1) an assessment of the AIPs' controls for delivering the crop insurance program; and (2) an assessment of the AIPs' performance in underwriting crop insurance policies, adjusting producer losses, and determining whether the indemnity was correctly determined.

We found that RMA had not developed sufficiently detailed policies and procedures for CIs to follow when performing crop insurance policy reviews or AIP operations reviews, and had not established specific documentation requirements for ensuring consistent and thorough reviews. Also, an independent study by a contractor, issued in February 2014, questioned the reliability of compliance data used to estimate improper payments because of inconsistencies in review processes across different compliance regions. The contractor found that the lack of standardization in the NPOR process impacts reported findings, and observed that regional offices perform NPORs differently and their data are not comparable.

In addition, RMA had not provided formal training to its CIs on how to consistently apply the *NPOR Handbook* requirements and expectations for validating AIP operations and crop insurance policy reviews. We concluded that RMA needs to (1) improve its AIP crop insurance policy review process; (2) improve its reviews of the AIPs' controls; and (3) improve guidance and staff training for conducting both crop insurance policy reviews and AIP operations reviews.

[7] OMB Circular A-123, *Management's Responsibility for Internal Control*, dated December 21, 2004.

RMA Needs to Improve Its AIP Crop Insurance Policy Review Process

We found that RMA's crop insurance policy reviews need improvement because of inconsistent documentation to support the findings and testing performed by CIs entered in the CARS. RMA performs the NPOR crop insurance policy review to test whether the AIP correctly determined the crop insurance policy guarantees and related indemnities. For each AIP, RMA's compliance division randomly selected 50 crop insurance policies.[8] Each policy review requires the Regional Compliance Offices (RCOs) to (1) gather crop insurance policy documentation from the AIP supporting its underwriting and indemnity payments; (2) assess the accuracy of the AIP's underwriting, loss adjustment, and indemnity computations; and (3) perform interviews with the policyholder, loss adjuster, and insurance sales agent.

RMA's primary document for supporting the CI's crop insurance policy review is *NPOR Handbook,* Exhibit 14, the policy review checklist. The checklist is a one-page document in which CIs place a checkmark to indicate whether the documents listed on the checklist were verified. CIs enter their completed review documentation into CARS to document the work supporting their reviews and conclusions. There is no requirement for the CIs to provide written documentation supporting the testing performed as it relates to the checklist. The *NPOR Handbook* identifies that each office is responsible for entering and maintaining up-to-date review information in CARS, including creating and updating policy information result forms for each policy assigned for review, the status of each policy review, and copies of initial and final findings.

For the three RCOs, we reviewed the documentation the CIs gathered and filed in CARS supporting their crop insurance policy reviews to assess whether the documentation supported the testing performed and the conclusions reached. For each AIP reviewed in a NPOR, RMA randomly selects a sample of 50 crop policies with a claim over $2,500. To test the adequacy of CIs' crop insurance policy testing, we reviewed 50 of the 150 crop policies RMA randomly selected for review under the NPOR. We selected 25 policies with and 25 policies without findings identified by CIs.

For our review of 50 of RMA's crop insurance policy reviews, representing approximately $1.8 million in indemnities, we identified the following:

- For 32 of 50 crop insurance policies we reviewed, the policy review checklist was not completed or uploaded to CARS. We found 17 reviews where the checklist was missing and 15 reviews where the checklist was incomplete. Thus, CIs did not follow RMA's procedure for documenting crop insurance policy reviews on a checklist. As a result, there is no evidence whether CIs tested all of the items on the checklist to determine the AIP's compliance with the SRA and RMA procedures.

[8] RMA each year assigns one AIP to each of its six RCOs for an NPOR, with the goal of each AIP being reviewed every 3 years. We reviewed the 2012 NPORs for three of the six RCOs, the most recently completed reviews when the audit began. The NPOR requires the testing of the AIPs' performance of underwriting and computing indemnity payments.

- For 34 of the 50 crop insurance policies we reviewed, the CIs did not document their computations and assessment of the accuracy of indemnities paid by the AIP. We found that RMA lacked a procedure instructing CIs to document in CARS their testing of crop insurance policies and the required documentation to support the review. As a result, there is no assurance that a thorough review was performed to determine the accuracy of the indemnities paid by the AIP.
- For 30 of the 50 crop insurance policies we reviewed, the CIs did not document their computations to support the verification of the Actual Production History (APH) yields used by the AIP. We found that RMA lacked a procedure instructing CIs to maintain their documentation supporting the APH yield testing. Also, there is no procedure instructing CIs on the documentation required to be placed into CARS. As a result, there is no assurance that CIs performed a thorough review to determine the accuracy of AIPs' APH yield determinations.

In addition, we found that RMA's random policy reviews did not always identify instances of AIP noncompliance. While the *NPOR Handbook* provided a checklist of items for the crop insurance policy review, it does not prescribe specific testing nor contain instructions for documenting the details of the testing performed. From our review of 50 cases, we found additional conditions of noncompliance that CIs neither identified nor reported in CARs.

- For two policies, the CIs did not identify that the AIP's loss adjuster did not follow loss adjustment procedures when determining farm stored production. The *Loss Adjustment Manual* requires that loss adjusters document, on a special report for storage structures of farm stored production, any calculations made to determine gross production reported on the claim form. Also, the adjusters should retain copies of their calculations in the contract folder. We found that the AIP's crop insurance policy files did not contain the required special report supporting farm stored production. Thus, we were not able to determine the accuracy of farm stored production, which is necessary to correctly compute the indemnity due. The CIs' policy review testing did not identify this noncompliance.
- For another policy, the CI did not identify that the AIP's loss adjuster did not obtain the proper certification to support production reported on the production worksheet. While the AIP's loss adjuster used a government document[9] to support the production, we found that neither a representative from the cotton gin nor the producer had signed the certification of production on the form, as required. Further, the CI who performed the policy review testing neither identified, nor took exception, to this AIP's noncompliance with RMA procedures.

[9] *ASCS-503*, *Identification of Cotton Production*. This form requires a signature from both the producer and a representative from the ginner, warehouse operator, or buyer certifying that the number of bales and total lint pounds of cotton were ginned, stored, or bought from the producer.

RMA Needs to Improve Its Reviews of AIPs' Controls for Delivering the Crop Insurance Program

We found that the RCOs did not consistently test the AIPs' controls, nor did they place adequate supporting documentation into CARS. The *NPOR Handbook* provides operations review documentation guidelines to the CIs in the *NPOR Handbook* exhibits. Any deviations from the handbook must be approved by the Deputy Administrator for Compliance. The NPOR files we reviewed did not contain the necessary approval from the Deputy Administrator for Compliance for modifying the review procedures. Further, RMA does not have written procedures specifying the required documentation that CIs must file in CARS supporting the review.

RMA performs AIP control reviews to determine if AIPs have designed the necessary internal controls to deliver the crop insurance program in accordance with all requirements and to assess whether the controls are functioning as intended. The *NPOR Handbook* provides 11 exhibits designed to test the AIP's controls and compliance with the SRA requirements. These exhibits cover 15 areas of AIP operations, such as, but not limited to, conflict of interest; training of agents and loss adjusters; quality control; large claims reviews; and reporting of suspected misrepresentation, fraud, waste, and abuse.

AIPs provide program delivery services for which payment is made by RMA in the form of an administrative and operating expenses subsidy. As the agency responsible for oversight, RMA has the authority to scrutinize the conduct of program participants and must ensure that standards are applied consistently. RMA bears the burden of showing error or omission or noncompliance with policy or procedures by an AIP. AIPs must comply with the SRA. When an AIP does not comply with its obligations under the SRA, RMA may impose sanctions, including suspending the AIP from selling any new policies or renewing existing policies. For RMA to impose these penalties, it must show a pattern or practice of an AIP's noncompliance with the SRA or FCIC procedures and must determine that an AIP or its service providers, agents, and loss adjusters did not provide services or comply with these provisions. Therefore, it is critical for RMA to perform consistent and reliable reviews of AIPs' crop insurance policies, as well as their overall operations, to document results needed to hold AIPs accountable.

We reviewed three RCOs and found the following:

- One RCO reviewed an AIP's controls and reported two issues of noncompliance: the AIP did not complete the conflict of interest reviews required by Appendix IV of the SRA; and the AIP did not transmit the results of the $100,000 quality control reviews in an accurate manner, as required by Appendix IV. Although these findings were reported, we found that the RCO did not complete the *NPOR Handbook* exhibits to document its findings. Thus, we could not determine the extent or quality of work performed by the RCO, whether conclusions the RCO reached were supported, and whether the work performed was sufficient to identify instances where the AIP did not fulfill its SRA requirements.

- Another RCO used a report summary to document the AIP's control reviews performed in lieu of the *NPOR Handbook* exhibits. We found that the supporting documentation did not contain complete details to identify the testing performed or the process the RCO utilized in conducting its review. Because the RCO review did not utilize the *NPOR Handbook* exhibits and the summary work papers did not contain documentation of the RCO's testing of the AIP's controls, we could not determine the extent or quality of work performed by the RCO or whether conclusions the RCO reached were supported.

RMA Compliance Needs to Improve Guidance and Staff Training for Conducting NPORs

We found that RMA's CIs did not always follow the *NPOR Handbook*, did not complete exhibits and questionnaires, and did not document testing performed for reviews. The CIs explained that they had not been provided formal training on the expectations for performing NPORs, and any training was generally limited to on-the-job training. As a result of the lack of training and guidance, CIs must interpret the *NPOR Handbook* requirements for performing their NPORs, determine the prescribed testing needed, and determine the documentation necessary to support their reviews. Further, the lack of training and guidance has resulted in inconsistent documentation being entered into CARS supporting the CIs' reviews.

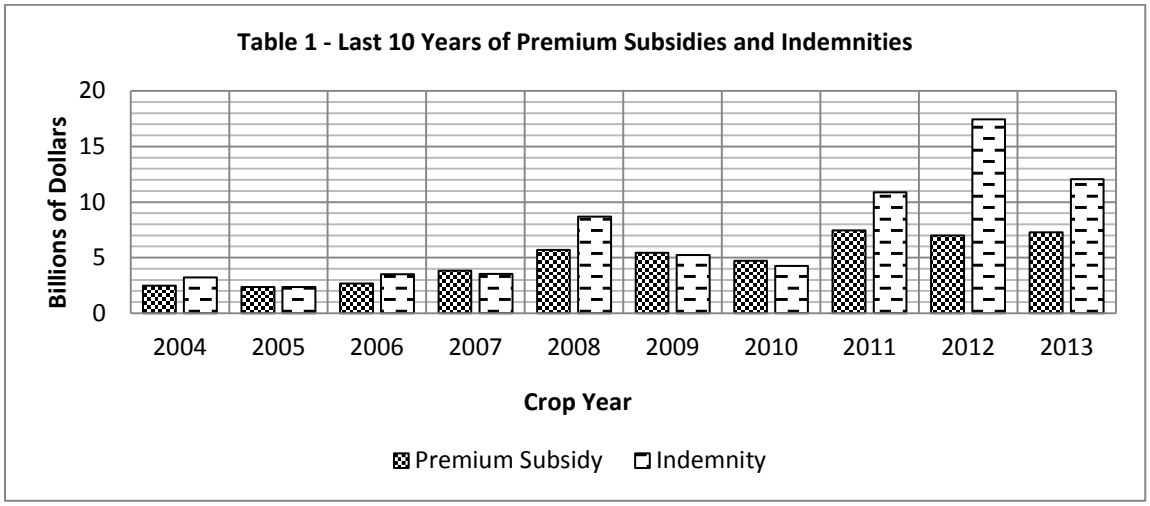
When we spoke to RMA officials about these comments, they stated that the agency believes the best findings are generated when CIs use professional judgment, past experience, and innovative thinking. Also, officials explained that, because the *Crop Insurance Handbook* is too large to assess all components of the crop insurance program, RMA did not want to restrict crop insurance policy reviews with "excessive" rigor and structure. The officials explained that RMA depends upon the knowledge and experience of CIs to address the crop insurance program requirements. While we agree that professional judgment, experience, and innovative thinking are essential for CIs to adequately review AIPs' operations, we also believe that RMA should provide formal training to supplement these skills. By providing formal training and guidance, CIs will be able to perform thorough reviews, consistently document in CARS the testing performed to support the conclusions reached, and better identify crop insurance program weaknesses.

By reviewing the AIPs' operations, RMA provides oversight and ensures the integrity of the program. This oversight is especially important because the Federal Crop Insurance Program has grown significantly in recent years. RMA's total liability[10] has increased from approximately $46.6 billion in 2004 to almost $123.8 billion in 2013, a 166 percent increase in the past 10 years. During that time, premium subsidies[11] and indemnities have also increased (see Table 1), with indemnities reaching a high of $17.4 billion in crop year 2012.

[10] Liability is the total amount of insurance; the value of a production guarantee, or revenue protection guarantee for the unit.

[11] The Standard Reinsurance Agreement refers to premium subsidy as *Risk Subsidy*. Risk subsidy is defined as the portion of the premium for an eligible crop insurance contract paid by FCIC on behalf of the policyholder.

The below chart shows the growth for the last 10 years of premium subsidies and indemnities.



As the cost of the program grows, RMA needs to improve its reviews of insurance providers' operations and crop insurance policies to ensure that fraud, waste, and abuse in the program are minimized. We concluded that RMA needed to implement a standardized methodology to perform and document the crop insurance policy and AIP operations reviews.

Recommendation 1

Develop and implement a standardized methodology, including instructions and checklists, to document reviews in the CARS and record crop insurance policy and AIP operations reviews and testing to ensure that the results of the reviews are fully supported and sufficient information is gathered.

Agency Response

In its April 16, 2015, response, RMA stated the following.

> RMA is in the process of re-evaluating and redesigning its current AIP operations review process. One objective is to develop a standardized set of guidelines that the Regional Compliance Offices (RCOs) will use to conduct AIP operations reviews consistently across the regions. RMA will develop detailed instructions and checklists which will address the audit steps and testing to be performed during the reviews. In addition, RMA will include instructions explaining the type of supporting documentation required to be uploaded in CARS, ensuring consistent and thorough reviews.
>
> RMA is in the process of finalizing a contract with a business consultant to assist in the redesign of RMA's AIP operations reviews. The contract is estimated to begin June 2015 and end May 2016.
>
> RMA has revised our review process for crop insurance policy reviews for IPERA reporting purposes. This IPERA process reviews a statistically valid randomly selected

> sample of policies from the entire crop insurance program as mandated by OMB in order to determine the crop insurance program error rate. A review guide was developed for consistency of reviews between RCOs, and employees were all trained in the review process and expectations. RMA will have an IPERA improper payment rate based on this new process for reporting to the OCFO in fiscal year 2015.

OIG Position

We accept management decision for this recommendation.

Recommendation 2

Develop and implement documentation requirements to ensure that RMA calculations support the accuracy of premiums, yields, and indemnities.

Agency Response

In its April 16, 2015, response, RMA stated the following.

> RMA is making progress with its plans to automate the Premium/Indemnity Calculator Module in CARS to ensure that calculations are performed and recorded in CARS consistently throughout the RCOs. RMA is expecting to have the module operational by the end of FY 2015.
>
> In addition, as part of the redesign of the AIP operations reviews, RMA will evaluate the type of documentation that compliance investigators must upload in CARS to support the accuracy of premiums, yields and indemnities. Based on the results of this evaluation, RMA will develop and provide specific guidelines to the RCOs to ensure compliance with the established requirements. RMA documentation requirements will be developed and implemented by May 2016.
>
> For purposes of IPERA reporting, RMA has addressed documentation requirements for policy reviews. When completing reviews, investigators complete a File Review Summary form that details the responses to each individual question of the review guide and the documentation reviewed/used to answer the question. Investigators upload to CARS the completed File Review Summary with notes to support the policy review conclusions.

OIG Position

We accept management decision for this recommendation.

Recommendation 3

Develop and provide formal training to reviewers and RCO directors regarding crop insurance policy and AIP operations reviews. That training should define review expectations, specify documentation requirements, and ensure consistent reviews among RCOs.

Agency Response

In its April 16, 2015, response, RMA stated the following.

> RMA will develop a standardized set of guidelines that the RCOs will use to conduct AIP operations reviews consistently across the regions. Once the guidelines are finalized, the business consultant, in conjunction with RMA, will develop and conduct training to the RCOs on the approved processes. The training will communicate the changes, facilitate adoption, set expectations and deliver the revised processes to all RCOs to ensure the processes are performed consistently. The rollout of the training is estimated to occur April/May 2016.
>
> RMA has already established training in regards to crop insurance policy reviews for IPERA purposes. A nationwide training of RCO employees was held in February 2015 which established expectations, documentation requirements, and addressed consistency in reviews among RCOs for IPERA reporting.

OIG Position

We accept management decision for this recommendation.

Finding 2: RMA Needs to Ensure RCOs Perform Reliable Second Party Reviews of NPOR Procedures

We found that RMA does not ensure that RCOs perform reliable second party reviews of NPOR procedures. RMA's *NPOR Handbook* did not require a second party or supervisory review to ensure the accuracy, consistency, or overall quality of the crop insurance policy reviews. During our review, we did not see documentation showing that RCO Directors or lead CIs reviewed or signed off on the procedures performed. As reported in Finding 1, RCO CIs performing crop insurance policy reviews did not always follow the *NPOR Handbook* and did not always upload all of their review documentation into RMA's CARS system that supports the CIs' crop insurance policy reviews and determinations. RCO directors and CIs told us that, generally, the lead compliance reviewer performs a second party review when findings have been identified only to reconfirm the reported finding, but there is not a specific review requirement. However, for random policy reviews where findings were not reported, a cursory review was performed. As a result, RMA has no assurance that its NPOR of crop insurance policies and AIP controls are consistent, identify all program weaknesses requiring corrective actions, and reliably report on the AIP's overall compliance with the SRA and FCIC crop insurance program requirements.

OMB Circular A-123 requires that management must develop and maintain effective internal control that provides assurance that significant weaknesses in the design or operation of internal controls, which could adversely affect the agency's ability to meet its objectives, would be prevented or detected in a timely manner.[12]

The lead CI responsible for the NPOR at one RCO did not perform second party reviews on policies for which there were no findings, and the CI at two RCOs said that only a cursory review was performed for the policies with no findings. Also, our review at all three RCOs found inconsistencies in the crop insurance policy reviews performed by CIs to determine whether the AIP had complied with the SRA when adjusting producer claims. We reviewed 50 of the 150 crop insurance policy reviews completed by CIs for the three RCOs we visited. During our review of the 50 policies, we did not see documentation showing that RCO directors or lead CIs signed off on the reviews. We identified the following review inconsistencies:

- For 32 of the 50 crop insurance policy reviews, the Policy Review Checklists were either missing or not fully completed.
- For 30 of the 50 crop insurance policy reviews, CARS had no supporting documentation to show that the CI verified APH calculations and yields.
- For 12 of the 50 crop insurance policy reviews, CIs had not fully completed interview questionnaires and there were missing interviews with the producers, loss adjusters, or insurance agents.
- For 34 of the 50 crop insurance policy reviews, CARS contained no documentation to show that the CI assessed the accuracy of the indemnity.

Further, we found that CIs performing the policy reviews did not always detect when AIP loss adjusters did not follow RMA loss adjustment procedures. In some instances, the CIs did not detect certain loss adjustment deficiencies, such as missing documentation supporting indemnity claims. For the NPORs, AIPs are notified that a policy was selected for review and they are required to provide the complete crop insurance file, including all the documentation supporting the policy written and claims paid to RMA. For three policies we reviewed, we found that the AIP loss adjusters had not documented their calculations for farm stored production or obtained a valid certification of production sold, which would be necessary to accurately determine the production to count[13] when adjusting losses. This deficiency was not identified by the CI reviewer. We concluded that a second party review could have identified these loss adjustment deficiencies that were not identified by the CI reviewer.

We concluded that second party reviews would help ensure that crop insurance policy reviews by CIs were consistently performed, weaknesses were identified, and results of the reviews were

[12] OMB Circular A-123, *Management's Responsibility for Internal Control*, dated December 21, 2004.
[13] Production to count is the producer's actual production of a crop. The production to count is used to reduce the production guarantee when computing the production loss incurred that is used to compute the producer's indemnity payment.

reliable and consistent. Ensuring that such actions are performed would provide a more accurate assessment of each AIP's overall compliance with the SRA.

Recommendation 4

Develop and implement a second party review process for crop insurance policy reviews and AIP control reviews, including policies without findings, to ensure the reviews were properly completed and all issues were identified and reported.

Agency Response

In its April 16, 2015, response, RMA stated the following.

> In March 2015, RMA adopted a quality control (QC) review of the 254 crop insurance policies tested during the IPERA audit. This QC review consists of a second party evaluation by a Senior Deputy Director or Director in the respective RCO, to ensure the compliance investigator sufficiently addressed all the questions in the review guide, identified and reported all material deficiencies, and reached valid conclusions based on the supporting documentation in CARS. Furthermore, as an added review before submitting the findings letter to the AIP, all initial findings are evaluated by a centralized Findings Review Team comprised of representatives from all RCOs, to ensure consistency among RCOs in reporting errors.
>
> RMA plans to address the quality control review requirements over the AIP operations reviews during the re-evaluation and redesign of RMA's current AIP operations review process which should be completed by May 2016.

OIG Position

We accept management decision for this recommendation.

Scope and Methodology

We conducted our audit of RMA's NPORs at the RMA national office in Washington, D.C.; the Central Regional Compliance Office in Kansas City, Missouri; the Midwest Regional Compliance Office in Indianapolis, Indiana; and the Southern Regional Compliance Office in Dallas, Texas.

Our audit covered the NPORs performed by three RCOs in calendar year 2012, covering the AIPs' crop year 2011 activity. Using RMA's online Summary of Business database,[14] we determined that for crop year 2011, RMA's Federal Crop Insurance Program had liabilities totaling over $114 billion, indemnity payments totaling almost $11 billion, and premium subsidies totaling over $7 billion.

We non-statistically selected three of the six RCOs to review their calendar year 2012 NPORs. We eliminated three RCOs because (1) the Northern Regional Compliance Office was not assigned a 2012 NPOR; (2) a new director was hired for the Eastern Regional Compliance Office when our audit began; and (3) the Western Regional Compliance Office had delayed completion of the 2012 NPOR due to staff turnover.

For each NPOR, the National Compliance Office randomly selects 50 AIP crop insurance policies with indemnities over $2,500 for the RCOs to review from the AIP's book of business. Also, each RCO judgmentally selects an additional 10 crop insurance policies for review. The three RCOs we selected reviewed a total of 150 random and 30 judgmentally selected crop insurance policies related to the operations of three AIPs in 2012 for crop year 2011.

We non-statistically selected 50 of the 150 random crop insurance policies and 6 of the 30 judgmental crop insurance policies reviewed by the three RCOs visited to assess the quality and thoroughness of the reviews. For the random crop insurance policies, we reviewed 25 policies where CIs identified AIP noncompliance and 25 policies where CIs determined the AIP policies were in compliance with RMA procedures, selecting policy reviews performed by a cross section of CIs from the various RCOs. For the six RCO judgmentally selected policies, we reviewed three policies where CIs identified AIP noncompliance and three policies where CIs determined the AIP policies were in compliance with RMA procedures. For each policy reviewed, we verified the documentation the CI loaded in CARS to support what the CI reviewed and how they determined the issues reported. Additionally, we went to RMA's website to obtain required dates of when key records needed to be certified by the producer and/or loss adjuster (e.g., acreage report) and whether such documents were signed within the required due date.

To accomplish our objectives we:

- Reviewed documentation obtained from RMA's national office, including applicable regulations and handbooks: (1) *Loss Adjustment Manual;* (2) *Crop Insurance Handbook;* (3) *Crop Specific Loss Adjustment Standards Handbook;* (4) Basic Crop Provisions; (5) actuarial data; and (6) *NPOR Handbook*.

[14] FCIC *Summary of Business Reports and Data* for 2011-2014, dated September 8, 2014.

- Reviewed the 2011 SRA.
- Reviewed OMB's Circular A-123, "Management's Responsibility for Internal Control."
- Reviewed RMA's Crop Insurance Program website, www.rma.usda.gov.
- Interviewed RMA National Compliance Office officials responsible for communication related to and the oversight of the NPOR process.
- Interviewed RMA national office Reinsurance Services officials responsible for the implementation of corrective actions and assessment of penalties resulting from NPORs.
- Interviewed RCO Directors and CIs responsible for the oversight and execution of the NPOR process.
- Developed and evaluated responses to questionnaires sent to RMA CIs that completed the NPOR crop insurance policy reviews to obtain an understanding of the NPOR process and controls over the reporting of results.
- Obtained access to RMA's CARS system to review RMA documentation of NPOR policy reviews. This system is a repository of documentation supporting the reviews performed by CIs for AIP control testing and crop insurance policy reviews.
- Reviewed and assessed adequacy of three RCO reviews of AIP controls and the RCO reviews performed of crop insurance policies through examination of documentation contained in CARS.

During the course of our audit, we did not assess the CARS system or any other computer systems used by RMA as part of the NPOR to determine the overall reliability of these systems; however, we did utilize the NPOR documentation located within these systems to perform the reviews necessary to assess the quality of the RMA NPOR process.

We conducted our audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provided a reasonable basis for our findings.

Abbreviations

AIP .....Approved Insurance Provider
APH.....Actual Production History
CARS .....Compliance Activities and Reporting System
CI.....Compliance Investigator
FCIC.....Federal Crop Insurance Corporation
FY .....Fiscal Year
IPIA.....Improper Payments Information Act
IPERIA.....Improper Payments Elimination and Recovery Improvement Act
OIG .....Office of Inspector General
OMB .....Office of Management and Budget
NPOR.....National Program Operations Review
RCO .....Regional Compliance Office
RMA .....Risk Management Agency
SRA.....Standard Reinsurance Agreement
USDA .....Department of Agriculture

USDA'S
RISK MANAGEMENT AGENCY
RESPONSE TO AUDIT REPORT

United States Department of Agriculture

Farm and Foreign Agricultural Services
Risk Management Agency

April 16, 2015

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

FROM: Heather Manzano **/s/ Heather Manzano**
Audit Liaison Official

SUBJECT: Office of Inspector General Audit 05601-0001-22, Draft Report, Risk Management Agency National Program Operations Reviews

RMA requests Management Decision for Recommendation 1through 4 for OIG Audit 05601-0001-22, Draft Report, Risk Management Agency National Program Operations Reviews.

RECOMMENDATION 1

Develop and implement a standardized methodology, including instructions and checklists, to document reviews in the Compliance Activities and Reporting System (CARS) and record crop insurance policy and approved insurance provider (AIP) operations reviews and testing to ensure that the results of the reviews are fully supported and sufficient information is gathered.

RMA RESPONSE

RMA is in the process of re-evaluating and redesigning its current AIP operations review process. One objective is to develop a standardized set of guidelines that the Regional Compliance Offices (RCOs) will use to conduct AIP operations reviews consistently across the regions. RMA will develop detailed instructions and checklists which will address the audit steps and testing to be performed during the reviews. In addition, RMA will include instructions explaining the type of supporting documentation required to be uploaded in CARS, ensuring consistent and thorough reviews.

RMA is in the process of finalizing a contract with a business consultant to assist in the redesign of RMA's AIP operations reviews. The contract is estimated to begin June 2015 and end May 2016.

Deputy Administrator for Compliance
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RMA has revised our review process for crop insurance policy reviews for IPERA reporting purposes. This IPERA process reviews a statistically valid randomly selected sample of policies from the entire crop insurance program as mandated by OMB in order to determine the crop insurance program error rate. A review guide was developed for consistency of reviews between RCOs, and employees were all trained in the review process and expectations. RMA will have an IPERA improper payment rate based on this new process for reporting to the OCFO in fiscal year 2015.

RECOMMENDATION 2

Develop and implement documentation requirements to ensure that RMA calculations support the accuracy of premiums, yields, and indemnities.

RMA RESPONSE

RMA is making progress with its plans to automate the Premium/Indemnity Calculator Module in CARS to ensure that calculations are performed and recorded in CARS consistently throughout the RCOs. RMA is expecting to have the module operational by the end of FY 2015.

In addition, as part of the redesign of the AIP operations reviews, RMA will evaluate the type of documentation that compliance investigators must upload in CARS to support the accuracy of premiums, yields and indemnities. Based on the results of this evaluation, RMA will develop and provide specific guidelines to the RCOs to ensure compliance with the established requirements. RMA documentation requirements will be developed and implemented by May 2016.

For purposes of IPERA reporting, RMA has addressed documentation requirements for policy reviews. When completing reviews, investigators complete a File Review Summary form that details the responses to each individual question of the review guide and the documentation reviewed/used to answer the question. Investigators upload to CARS the completed File Review Summary with notes to support the policy review conclusions.

RECOMMENDATION 3

Develop and provide formal training to reviewers and the Regional Compliance Office (RCO) directors regarding crop insurance policy and AIP operations reviews. That training should define review expectations, specify documentation requirements, and ensure consistent reviews among RCOs.

RMA RESPONSE

RMA will develop a standardized set of guidelines that the RCOs will use to conduct AIP operations reviews consistently across the regions. Once the guidelines are finalized, the business consultant, in conjunction with RMA, will develop and conduct training to the RCOs on the approved processes. The training will communicate the changes, facilitate adoption, set expectations and deliver the revised processes to all RCOs to ensure the processes are performed consistently. The rollout of the training is estimated to occur April/May 2016.

RMA has already established training in regards to crop insurance policy reviews for IPERA purposes. A nationwide training of RCO employees was held in February 2015 which established expectations, documentation requirements, and addressed consistency in reviews among RCOs for IPERA reporting.

RECOMMENDATION 4

Develop and implement a second party review process for crop insurance policy reviews and AIP control reviews, including policies without findings, to ensure the reviews were properly completed and all issues were identified and reported.

RMA RESPONSE

In March 2015, RMA adopted a quality control (QC) review of the 254 crop insurance policies tested during the IPERA audit. This QC review consists of a second party evaluation by a Senior Deputy Director or Director in the respective RCO, to ensure the compliance investigator sufficiently addressed all the questions in the review guide, identified and reported all material deficiencies, and reached valid conclusions based on the supporting documentation in CARS. Furthermore, as an added review before submitting the findings letter to the AIP, all initial findings are evaluated by a centralized Findings Review Team comprised of representatives from all RCOs, to ensure consistency among RCOs in reporting errors.

RMA plans to address the quality control review requirements over the AIP operations reviews during the re-evaluation and redesign of RMA's current AIP operations review process which should be completed by May 2016.

Should you have any questions or would like additional information concerning this matter, please contact Nicole Smith Lees at (202) 260-8085.

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