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Group Risk Crop Insurance

Audit Report 05601-14-Te
March 2010

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250

DATE: March 30, 2010

REPLY TO
ATTN OF: 05601-14-Te

TO: William J. Murphy
Administrator
Risk Management Agency

ATTN: Michael Hand
Deputy Administrator for Compliance

FROM: Gil H. Harden /s/
Acting Assistant Inspector General
for Audit

SUBJECT: Group Risk Crop Insurance

This report presents the results of the subject audit. Your written response to the official draft report, dated March 19, 2010, is included in its entirety as an attachment with excerpts and the Office of Inspector General's position incorporated with the recommendations in the report. Your response contained sufficient information to reach management decision on all recommendations contained in the report. No further action by your agency to this office is required.

Please follow your internal procedures in forwarding final-action correspondence to the Director, Planning and Accountability Division, Office of the Chief Financial Officer. Please note that Departmental Regulation 1720-1 requires 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.

We appreciate your timely response and the courtesies and cooperation extended to us by members of your staff during the audit.

Table of Contents

Executive Summary 1

Background & Objective 4

- **Background** 4
- **Objective** 6

Section 1: Monitoring Controls over GRP and GRIP Policies Need Improvement 7

- **Finding 1: AIPs Did Not Adequately Verify the Acres Producers Insured under GRP and GRIP Policies** 7
  - **Recommendation 1** 11
  - **Recommendation 2** 11
  - **Recommendation 3** 11
- **Finding 2: RMA Needs to Improve How it Tracks and Monitors the Results of Acreage Report Field Reviews** 12
  - **Recommendation 4** 14
  - **Recommendation 5** 14
  - **Recommendation 6** 15

Scope and Methodology 16

Abbreviations 18

Agency's Response 19

Risk Management Agency Group Risk Crop Insurance (Audit Report 05601-14-Te)

Executive Summary

To provide crop insurance to U.S. farmers, the Department of Agriculture's Risk Management Agency (RMA) partners with private insurance companies known as approved insurance providers (AIP). While AIPs are directly responsible for selling and servicing insurance policies and paying any indemnities, RMA reinsures the AIPs against a portion of losses they may suffer. Together, RMA and the AIPs offer producers the option of choosing many different insurance products, ranging from policies where indemnity payments are calculated on actual losses based on the producer's individual production history to policies where indemnity payments are determined based on the county average yield. Insurance products based on county average yields are called Group Risk Plan (GRP) and Group Risk Income Protection (GRIP) policies.[1] The Office of Inspector General (OIG) initiated this audit to evaluate the adequacy of RMA's and the AIPs' management controls over GRP and GRIP.

Group risk insurance differs from more traditional insurance products. With traditional crop insurance policies, producers are paid indemnities when their production falls below an historical average yield established for their farm. With GRP, losses are determined by comparing the entire county's actual yield with its historical yields, by crop. In other words, producers are indemnified if the county's actual yield for the year falls below the county's historical yield. This payment is made regardless of the individual farmer's yield, which could be above or below the county yield. The premise is that, on average, individual farmers' crop production will generally mirror the county's average.

A simplified example will help illustrate how GRP works. In 2007, a Dallam County, Texas, producer purchased a GRP policy insuring 1,000 acres of corn he planted and self-certified as irrigated.[2] The producer insured the crop for 90 percent of the expected county crop yield.[3] Historically, producers in Dallam County have produced 202.3 bushels of corn from irrigated acres. If Dallam County's actual yield falls below 182 bushels,[4] then the producer will receive an indemnity, even if he himself harvested 225 bushels from his land. The indemnity is determined by how far the county's actual yield falls below its historical yield, *regardless of the individual producer's yield*.

The scope of our audit was crop years 2005 and 2006. During those 2 crop years, a total of 15 AIPs participated in GRP and GRIP, insuring approximately 15,000 policies with liabilities totaling about $10.3 billion and issuing indemnity payments totaling around $224 million on about 6,500 policies. Based on reviews of 4 AIPs and a survey of 10 additional AIPs,[5] we found that RMA and the AIPs need to strengthen controls over GRP and GRIP policies. As part of

[1] A GRIP policy is similar to a GRP policy in that both pay indemnities based on how actual county yields differ from historical county yield, but GRIP policies allow producers to insure their income, instead of their yield (see Background for a more complete explanation).
[2] All producers who want coverage under GRP are eligible, but they must self-certify the crop planted, the number of acres planted, and whether the crop is irrigated or not.
[3] GRP and GRIP insurance coverage ranges from 50 percent to 90 percent of the expected county crop yield.
[4] 202.3 bushels times 90-percentage coverage equals 182 bushels.
[5] In 2005, only 9 of these 10 AIPs were operating. All 10 were operating in 2006.

their responsibility for servicing GRP and GRIP policies, AIPs are supposed to perform field inspections on a sample of producers (approximately 3 percent of their policies) to verify that the information producers have self-certified is accurate. Known as an acreage report field review, these inspections are required to be conducted no later than 120 days after the date when producers are required to report the acres they planted. The acreage report field review is the only review AIPs conduct of GRP and GRIP policies while the insured crops are being grown and harvested.

For more traditional insurance products, RMA has established a number of management controls to ensure that indemnities are paid only to producers who have suffered an actual loss. In contrast, GRP and GRIP policies are streamlined insurance products, and they lack many of these controls. For GRP and GRIP, unlike some other insurance products, AIPs are not required to verify any of the producers' data at signup or before acceptance of the insurance policy. For each crop year after signup, producers with GRP and GRIP policies need only to self-certify on their acreage reports the acreage they have planted. For GRP and GRIP, producers are not required to file a loss claim, and there is no loss adjustment process. In contrast, for more traditional insurance products, producers are required to file a loss claim and, as part of the loss adjustment process, AIPs are required to verify information provided by producers before issuing any indemnity payments. However, with GRP and GRIP, the AIPs' only opportunity to verify that producers have accurately self-certified their acreage is the acreage report field reviews.

We found that the four AIPs we reviewed were not adequately performing these acreage report field reviews: all four AIPs failed to perform acreage report field reviews in the required 120 days after producers submitted their acreage reports;[6] one AIP failed to perform field reviews of producers insured under GRIP policies at all; three AIPs did not physically inspect the crops insured, but simply performed a paper review against other available records; and three AIPs did not follow RMA's prescribed procedures for sampling policies for the acreage report field review. These four AIPs accepted $4.4 billion in liability for GRP and GRIP policies with reduced assurance that producers had correctly reported the acreages they planted (see Finding 1).

Once the AIPs have completed their acreage report field reviews, they are required to submit to RMA in Washington, D.C., a summary of the results 30 days before the counties' actual yield data is provided to the AIPs.[7] We found, however, that the AIPs are not submitting these summaries in a timely manner, with the required information, in a consistent format that would enable an RMA program reviewer to compare results among different AIPs. Also, RMA is not tracking the receipt of these summaries, reviewing them, and determining if they indicate any problematic trends. RMA does not regard review and followup on these summaries as a priority. OIG believes that the AIPs will more accurately prepare these summaries when RMA places greater emphasis on reviewing them.

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[6] Federal Crop Insurance Corporation (FCIC)-18040, *Group Risk Plan Insurance Standards Handbook*, section 4F, dated January 10, 2005, states that the AIP is required to perform the acreage report field reviews no later than 120 days after the acreage reporting date for the crop, which is listed in its Special Provisions. For some crops, the final reporting date is July 15 of the respective crop year.

[7] GRP final payment yields are RMA-determined yields using actual production data collected by the National Agricultural Statistics Service (NASS) for each insurable crop type and practice.

In this audit, we did not conduct any interviews with producers or conduct onsite inspection of the producers' acreage to ascertain whether the acreage reports were accurate. However, during the course of our review, another audit involving GRP and GRIP policies did look closely at producers and identified an issue with RMA's use of blended yields, which resulted in producers receiving excessive insurance indemnities.[8, 9]

While RMA has a number of quality control reviews that would apply to GRP and GRIP policies *after indemnities have been paid*, the AIPs' summaries of "acreage report field reviews" are RMA's only way to monitor how the AIPs are administering these policies *before indemnities are paid*. By not reviewing them, RMA is restricting its oversight, limiting itself to attempting to correct errors after they have been made, rather than preventing any potential overpayments (see Finding 2).

OIG concluded that RMA and the AIPs must take steps to improve these monitoring controls over GRP and GRIP policies. Streamlined insurance products of this sort can provide substantial benefits to producers, AIPs, RMA, and the Federal Government. However, once the streamlined management control structure has been established, it is vital that those management controls be effectively implemented by both the AIPs and RMA to ensure the integrity of the Federal crop insurance program.

Recommendation Summary

Notify the AIPs in writing that they are required to physically verify the crops they have insured as part of the acreage report field reviews.

Issue clarification to the AIPs regarding how they are to select GRP and GRIP policies for acreage report field reviews.

Develop procedures for tracking the receipt of acreage report field review summaries to ensure that each AIP is submitting timely, complete, and accurate information.

Develop procedures for reviewing the information AIPs submit.

Agency Response

In its March 19, 2010, written response to the report, RMA generally concurred with the findings and recommendations and provided proposed corrective actions. RMA's written response is included at the end of this report.

OIG Position

We accept the management decisions for all of the recommendations.

[8] A blended yield includes production from both irrigated and nonirrigated practices published by NASS and is referred to by NASS as "Total for Crop."
[9] See Audit Report 05601-4-KC.

Background

The Department of Agriculture's Risk Management Agency (RMA) administers the Federal crop insurance program, which helps insure producers against crop failures due to crop diseases, hurricanes, and other risks of production. Federal crop insurance is available solely through approved insurance providers (AIP) that market and service crop insurance policies and process claims for loss.

RMA administers the crop insurance program through a joint effort with AIPs under the Standard Reinsurance Agreement, a cooperative financial assistance agreement that allows AIPs to sell and service crop insurance program policies. Essentially, AIPs insure producers and their crops, and RMA subsidizes the producers' crop insurance premiums and reinsures the AIPs and reimburses them for administrative and operating expenses.

RMA and the AIPs offer producers a number of different insurance products. The most common type of policy requires producers to establish an historical average of what they have harvested by preparing an Actual Production History (APH). The APH covers historical yields over a 10-year period. Producers then insure a percentage of this yield, and pay premiums accordingly. If producers suffer a loss, they make a claim, and the AIP sends a loss adjuster to determine the amount of loss and the resulting indemnity. With an APH-based insurance policy, RMA has established a number of management controls for verifying the acreage and production insured prior to paying the indemnity. The loss adjustment process ensures that no indemnity will be paid on this insurance product until the crop has been physically inspected and the amount of loss is determined.

More recently, RMA has introduced more diverse insurance products, such as the Group Risk Plan (GRP). A new concept for the crop insurance industry and an effective means of risk management, GRP is based on the notion that producers in a given county will suffer losses similar to countywide losses, and that losses can be determined based on countywide averages. Instead of determining losses by comparing an individual producer's expected yield with his actual yield as determined by a loss adjuster, a GRP policy determines losses by comparing the county's actual and historical yield, by crop.[10]

GRP policies are primarily intended for producers whose crop yields correlate closely to those of the county average. Since GRP does not provide protection based on the producer's individual yield, it is possible for an individual producer to have a low crop yield on his insured acreage, but not receive a payment under his GRP plan because the county's overall actual yield did not fall below the county's historical yield. Likewise, the county could have a reduced crop yield that triggers payments to insured producers whose actual yields may have exceeded the county's historical or actual yield.

[10] RMA uses 30 years of county crop yields assimilated by NASS to calculate the expected county yield for GRP. The calculation has an adjustment for the long-term yield trend.

The Group Risk Income Protection (GRIP) is similar to GRP, except that indemnities are paid, not solely based on variations in the county production yields, but on yields combined with the estimated future market price for the crop. Using this insurance product, a producer can insure a certain level of revenue. If the county production yield, the estimated future commodity price, or some combination thereof, falls beneath a certain threshold, then the producer is paid an indemnity. Any indemnities paid are not dependent on the producer's crop production or the actual selling price the insurer received for his crop. Rather, the average revenue for the county is the basis for any GRIP payments just as average county production is the basis for GRP payments.

Both of these insurance products are becoming more popular. In crop year 2000, GRP and GRIP constituted only 3 percent of total crop acres insured by RMA.[11] Yet, by crop year 2006, this figure rose to 19 percent.[12] Within those 7 years, these combined insurance plans have shown a 600-percent increase in acreage coverage.

Part of the reason for the popularity of GRP and GRIP policies is that they are streamlined insurance products and are much simpler than more traditional insurance, both for the producer and the AIP. At the time of the application, producers self-certify as to their insurability, including crop and acreage to be planted, and their interest in the insured crop. Subsequently, producers have only to report the number of acres they planted for the crop insured. They do not have to establish a production history, nor do they have to deal with a loss adjuster.

Similarly, AIPs process GRP and GRIP indemnities based on crop yield and revenue data provided by RMA rather than data the AIPs normally obtain during their loss adjustment process for other crop insurance programs. This greatly simplifies the process of paying an indemnity, but it also eliminates an important control measure. During the loss adjustment process, the AIP could determine that the crop was actually planted, that the insured crop acres and shares as reported by the insurer are correct, and that the insured farming practice was followed (i.e., irrigated versus nonirrigated).

For GRP and GRIP policies, the AIPs' only required monitoring process to validate that the insured crop was actually planted and grown using good farming practices is the acreage report field reviews. According to the GRP handbook, AIPs should perform these acreage report field reviews on selected policies (approximately 3 percent of the AIPs' policies) no later than 120 days after the acreage reporting date for the selected crop. The acreage report field review is intended to verify the acreage the producer self-certified, as well as the crop and whether the crop was irrigated or not. The AIPs must complete these acreage report field reviews prior to the destruction of the crop residue and must provide the results of their acreage report field reviews 30 days before RMA releases the yield and revenue data.[13, 14]

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[11] 5.9 million acres of the 206.5 million acres insured.
[12] 35.8 million acres of the 242 million acres insured.
[13] FCIC-18040, *Group Risk Plan Insurance Standards Handbook*, section 4F, dated January 10, 2005.
[14] RMA releases crop yields, which have been compiled by NASS, beginning in March for the prior crop year (i.e., 2008 crop year yields released March 2009).

According to the 2005 Standard Reinsurance Agreement, AIPs are responsible for implementing a quality control review process for all insurance products.[15] Performed *after* the producer has claimed a loss, the quality control review process includes verifying that information provided by the policyholders, agents, and loss adjusters is true and accurate; verifying that the crop insurance contract constitutes an eligible crop insurance contract; implementing procedures for detecting and reporting any instance of fraud, waste, and abuse by policyholders, AIP employees or affiliates; and taking any such actions as directed by RMA to correct systemic, procedural, or other problems revealed by quality control reviews. Such responsibilities include the following reviews:

- reviews of claims in excess of $100,000 to verify all information used to establish the indemnity;
- reviews of conflict of interest for eligible crop insurance claims of persons directly affiliated with the Federal crop insurance program;
- notification to RMA of a potential claim on an eligible crop insurance contract that is likely to exceed $500,000, so that RMA may participate in the loss determination; and
- other such reviews (including monitoring programs) as may be determined necessary by FCIC to protect program integrity.

Unlike acreage report field reviews, however, all of these quality control reviews would—for GRP and GRIP policies—be performed after indemnities have already been paid. For GRP and GRIP, the acreage report review is the only review AIPs conduct while crops are being grown and harvested.

Objective

The audit's objective was to evaluate the adequacy of the management controls over GRP and GRIP to ensure that they are effectively administered and ensure program integrity.

[15] Standard Reinsurance Agreement, appendix IV, section III.A(18), dated June 10, 2004.

Section 1: Monitoring Controls over GRP and GRIP Policies Need Improvement

Finding 1: AIPs Did Not Adequately Verify the Acres Producers Insured under GRP and GRIP Policies

As part of administering GRP and GRIP policies, AIPs must perform acreage report field reviews—actual physical inspections—of approximately 3 percent of policies for crops they insure to verify the acreage producers have reported. Despite the fact that the acreage report field reviews are the AIPs' only opportunity to physically verify the acreage for which they have accepted liability, we found that the four AIPs we reviewed were not adequately performing the reviews as required: all four AIPs failed to perform some acreage report field reviews within the required 120 days after producers have submitted their acreage reports; one AIP had failed to perform any acreage report field reviews on GRIP policies; three AIPs did not physically visit the crops or acreage insured, but simply checked against other records; and three AIPs did not follow RMA's prescribed process for selecting policies for the acreage report field review. The AIPs involved each presented different reasons for their failure to monitor these policies correctly; for example, some AIPs contended that the handbook did not explicitly require such field reviews or was not clear. Given the importance of this management control for these insurance products, these four AIPs, and the Federal Government, have reduced assurance that the $4.4 billion in liability these four AIPs accepted in crop years 2005 and 2006 attached to policies with accurate reported acreages.

When AIPs sign the Standard Reinsurance Agreement, they enter into a contractual agreement to underwrite, service, and, if appropriate, process claims on the policies for which they accept liability. As part of the AIPs' responsibilities, they are required to verify the accuracy of the information policyholders provide. Verifying such information includes field inspection, as well as file reviews.

Because GRP and GRIP are streamlined insurance products designed to minimize the paperwork and administrative burdens associated with other sorts of crop insurance, several of RMA's management controls that apply to more conventional types of crop insurance are absent. For example, AIPs do not perform preacceptance inspections to verify the producer's eligibility and insurability of the crop before insurance attaches, nor do they adjust for losses after producers claim that their crops have been damaged. Instead, losses are automatically determined using NASS' county actual yield for the insured crop.

The absence of loss adjustment policies and procedures over GRP and GRIP policies increases the importance of acreage report field reviews because they are the AIPs' only opportunity to verify the physical existence of the crop and acreage they have insured. After producers have reported the number of acres they have planted, by crop, AIPs have 120 days to select a sample of GRP and GRIP policies (approximately 3 percent of these policies) and perform a field inspection of the crops to verify the insured acreage (and practice).[16] Compared with other types of crop insurance—which require a loss adjuster to visit the fields to determine losses before

[16] Generally, July 15 is the final reporting date, so the 120 days begins on this day and extends into November.

indemnity payments are issued—the administrative burden GRP and GRIP places on the AIPs is relatively light, as the acreage report field review is the only review AIPs conduct while crops are being grown and harvested.

We found, however, that the four AIPs we reviewed were not adequately performing the acreage report field reviews for GRP and GRIP. In crop years 2005 and 2006, these four AIPs insured $4.4 billion in GRP and GRIP, and paid $87.5 million in indemnities, yet they did not adequately verify the existence of the acreage and crops for which they had accepted liability. (Since RMA was not monitoring or reviewing the summaries submitted by the AIPs, it was not aware of the following problems – see Finding 2.)

AIPs Did Not Perform Acreage Report Field Reviews Timely

AIPs must perform acreage report field reviews no later than 120 days after the acreage reporting date for the crop.[17] Of the 36 GRP and GRIP policies for crop years 2005 and 2006 we reviewed at 4 AIPs, we found that the AIPs had not performed acreage report field reviews timely for 14 of the policies. If the review is not performed timely, then it may not be effective, since the crop is likely harvested. The 4 AIPs we reviewed processed 12 of the 14 crop year 2005 reviews and 2 of the 22 crop year 2006 reviews after November 15 of the crop year in question.[18]

Each of the four AIPs acknowledged that they had not timely processed all their acreage reviews, though each offered a different explanation. One stated that it was an oversight; a second stated that the 120-day timeframe was too short; a third did not realize that the acreage report field reviews were required; and the fourth provided no explanation. Unless the AIPs perform the acreage report field reviews in a timely manner, they are less likely to verify the practice and existence of the crop they have insured.

AIP Did Not Conduct Acreage Report Field Reviews for GRIP Policies

Of the four AIPs we reviewed, we found that three had monitoring procedures that included performing acreage report field reviews for GRIP policies. The fourth AIP did not perform these field reviews because it was unaware that the same reviews should be done for GRIP as for GRP. When we mentioned to the AIP that it should review these policies, the AIP agreed that it would do so beginning in 2007. Without performing these reviews, the AIP had no assurance of the accuracy of the acreage it had insured.

RMA published a handbook for GRP, but it did not publish separate instructions for GRIP. RMA officials told us that they had verbally instructed the AIPs that the companies should have the same monitoring procedure for GRIP policies as they do for GRP, which meant that the companies should follow the GRP handbook. However, RMA officials acknowledged that they provided no written instructions to the AIPs to this effect because they believed the GRP handbook was sufficient.

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[17] FCIC-18040, *Group Risk Plan Insurance Standards Handbook*, section 4F, dated January 10, 2005.
[18] The latest crop year 2005 review was performed in April 2006, and the latest crop year 2006 review was performed in February 2007.

In addition to the 4 AIPs we reviewed, we conducted a survey of 10 additional AIPs and found that 4 more were not performing acreage report field reviews for GRIP policies. When we informed the five AIPs that were not performing acreage report field reviews for GRIP policies, three stated they were revising their acreage review procedures to include GRIP policies in subsequent years.[19] The other two AIPs declined to change their policies without written directions from RMA.

AIPs Did Not Physically Verify the Existence of the Crop During Their Acreage Report Field Reviews

Of the 36 GRP and GRIP policies we reviewed at 4 AIPs, we found that 3 AIPs did not physically verify the existence of the crops involving 24 policies, as required by the GRP handbook. Each of the three AIPs that did not perform these required physical inspections presented different explanations. One AIP stated that it did not consider physical field visits to be cost-effective; another stated that it did not interpret "field reviews" to include the physical verification of the crop; and the third stated that it was not the company's policy to perform physical verifications of the crops insured. For all three AIPs, the decision not to physically verify the crops meant that the AIPs lacked assurance that crop acreage the producers reported actually existed.

According to the GRP manual, AIPs must perform a "field review" of the crops they insure.[20] We maintain that the term "field review" is not ambiguous and clearly requires AIPs to physically inspect the crops they insure. RMA officials confirmed that "field reviews" are intended to be physical inspections of the crops insured under these insurance products. Moreover, the Standard Reinsurance Agreement defines field inspections as a visit to the policyholder's farming operation for the purpose of making findings necessary to determine eligibility and compliance with program terms and conditions.[21]

In addition to the 4 AIPs we reviewed, we conducted a survey of 10 additional AIPs and found that 3 more were not performing physical inspections of the crops they insured. When we informed the six AIPs in total that were not performing physical inspections that RMA officials had stated they were required to physically inspect the selected crop acres, four stated they were revising their review procedures, and physical field visits would be performed in subsequent crop years. The other two AIPs declined to revise their underwriting procedures until RMA put this requirement in writing. However, we believe that the Standard Reinsurance Agreement clearly defines what is required in field reviews.

OIG noted that one of the AIPs performing physical field visits stated that the physical verifications were the only means of validating the producers' self-certifications of important information such as the acreage insured. Officials at this AIP realized that

[19] These five AIPs were already performing GRP acreage reviews.
[20] FCIC-18040, *Group Risk Plan Insurance Standards Handbook*, section 4F, dated January 10, 2005.
[21] Standard Reinsurance Agreement, appendix IV, dated June 10, 2004.

these acreage reviews were their only opportunity to verify the insured acres since no loss appraisals would be performed before the AIP paid indemnities.

AIPs Failed to Select Policies for the Acreage Report Field Reviews According to RMA's Policies

Of the four AIPs reviewed, we found that three were not selecting policies for the acreage report review according to RMA's procedure. One of these AIPs did not select and review all policies where there was a possible conflict of interest because its employees overlooked some policies. All three AIPs failed to select the required 3-percent sample correctly. These AIPs did not understand that RMA requires them to select 3 percent of policies for reported acres *by crop*,[22] and they instead selected 3 percent from the total number of GRP and GRIP policies. Due to problems with how individual policies were selected for review, one AIP did not review policies that were at high risk for fraud, waste, and abuse due to conflict of interest (see next paragraph for examples of potential conflict of interest situations), and all three were not reviewing the proportion of individual crop policies that RMA expects them to review.

We believe that RMA has established a clear process for selecting GRP and GRIP policies for acreage report field reviews. AIPs must conduct acreage report field reviews for policies belonging to employees of the insurance provider, FCIC or its representatives, adjusters, and agents; all policies for which misrepresentation or concealment of material facts is suspected; all late-filed acreage reports; all unreported acreage reports; and all "zero" acreage reports.[23] Once these mandatory policies have been identified, the AIPs must select no less than a 3-percent random sample by crop for all GRP and GRIP crop policies with reported acreage.[24]

We found, however, that three of the four AIPs we reviewed incorrectly applied RMA procedures. After they had performed their mandatory reviews, they each selected 3 percent of the remaining policies, instead of 3 percent by crop. Due to this decision, AIPs likely reviewed more than 3 percent of common crops, and less than 3 percent of uncommon crops. In other words, the AIPs were failing to verify the required proportion of reported acres for each crop.

Overall, we concluded that the AIPs were not adequately performing acreage report field reviews to verify the accuracy of the crop acreage producers self-certified and insured under GRP and GRIP policies. Since this is the only control for these types of policies before payments are issued, we concluded that RMA needs to take steps to ensure that AIPs are performing these required acreage report field reviews.

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[22] FCIC-18040, *Group Risk Plan Insurance Standards Handbook*, section 4F, dated January 10, 2005.
[23] GRP and GRIP policies are issued for a specific crop in a specific county and are to remain in effect for subsequent crop years until cancelled. Until the policy is cancelled, the producer is required to report each crop year all acreage planted as the insured crop; if none is planted, the producer is still required to report that "zero" crop acreage was planted.
[24] FCIC-18040, *Group Risk Plan Insurance Standards Handbook*, section 4F, dated January 10, 2005.

Recommendation 1

Notify the AIPs in writing that they are required to perform acreage report field reviews for GRIP policies just as for GRP policies.

Agency Response

RMA's written response, dated March 19, 2010, stated that RMA will issue an Informational Memorandum within the next 90 days to AIPs instructing them to perform acreage report field reviews for GRIP policies just as for GRP policies.

OIG Position

We accept management decision for Recommendation 1.

Recommendation 2

Notify the AIPs in writing that they are required to physically inspect the crops they have insured as part of the acreage report field reviews.

Agency Response

RMA's written response, dated March 19, 2010, stated that RMA will issue an Informational Memorandum within the next 90 days to AIPs instructing them to physically inspect the crops they have insured as part of the acreage report field reviews.

OIG Position

We accept management decision for Recommendation 2.

Recommendation 3

Issue clarification to the AIPs regarding how they are to select GRP and GRIP policies for the acreage report field reviews.

Agency Response

RMA's written response, dated March 19, 2010, stated that RMA will issue an Informational Memorandum within the next 90 days to AIPs instructing them how they are to select GRP and GRIP policies for the acreage report field reviews.

OIG Position

We accept management decision for Recommendation 3.

Finding 2: RMA Needs to Improve How it Tracks and Monitors the Results of Acreage Report Field Reviews

RMA requires AIPs to submit summaries of the acreage report field reviews they perform for GRP and GRIP policies to RMA's Compliance Office in Washington, D.C., but those summaries are not currently being used or serving as an effective tool to track and monitor the AIPs' performance. They are not submitted timely, they do not contain the required information, and they are not submitted in a consistent format that facilitates comparing the information submitted by several AIPs. More importantly, however, RMA's Compliance Office has no procedures for tracking the receipt of these summaries, reviewing them, following up on any missing or deficient summaries, or determining if they indicate any problematic trends. Instead, the summaries—if they are received—are filed for National Program Operations Reviews, which may not occur until 3 years later and may not include a review of these summaries. This problem has occurred because RMA's Compliance Office has not regarded review and follow up on these summaries as a priority. Instead, it views the submission of these summaries simply as conveying the impression to the AIPs that RMA is monitoring them. These summaries are, however, RMA's only way of monitoring the AIPs' administration of GRP and GRIP policies before the quality review process. By not reviewing them, RMA is effectively limiting its oversight to the quality control review process, which necessarily occurs after payment has been issued.

After the AIPs have performed their acreage report field reviews, they are required to submit a written summary of the results to RMA's Washington, D.C., Compliance Office no later than 30 days prior to the date FCIC releases the payment yield for the insured crop. The summary must identify any discrepancies found from the acreage that was originally reported.[25]

We found, however, that this control was not functioning as designed. Not only were the AIPs not submitting their reports timely and with appropriate information, but RMA's Compliance Office was not tracking the receipt of the summaries, reviewing the information they contained, or determining if the summaries had uncovered any significant discrepancies between what producers reported and what the AIPs found.

Acreage Report Field Review Summaries Not Submitted Timely

Of the four AIPs we reviewed, we found that for crop year 2005 none had submitted their review summaries timely—30 days prior to the date FCIC releases the payment yield for the insured crop. For crop year 2006, one of these four AIPs did submit its summaries on time, but the other three did not.[26]

[25] FCIC-18040, *Group Risk Plan Insurance Standards Handbook*, sections 4G and 4H, dated January 10, 2005. Insurability determines if that crop insurance was available in that county, and if the crop was planted and reported in a timely manner.

[26] In some cases, AIPs submitted summary reports after FCIC released the payment yield. RMA releases crop yields around the end of March for the prior crop year. For crop year 2005, three AIPs submitted reports in April 2006 and one AIP submitted a report in June 2006. For crop year 2006, two AIPs submitted reports in April 2007, and the third AIP did not submit a report to RMA.

Acreage Report Field Review Summaries Did Not Contain Correct Information

Of the four AIPs we reviewed, we found that, in 2005 and 2006, only one submitted correct information in its summary.

Part of the problem is that RMA's Compliance Office had not specified to the AIPs how they should submit their summaries, and thus left the AIPs to submit the information in any format they liked. Not only did the AIPs not submit correct information, but the information they did submit was submitted inconsistently. This made meaningful comparisons between their summaries very difficult, if not impossible.

This problem continued in 2006 as several AIPs began submitting their summaries via RMA's Data Acceptance System using a Record 57 format.[27] Although this was not an unreasonable response to the reporting requirement, the Record 57 format is inadequate for capturing the acreage review summary data as required by the GRP handbook because it lacks fields for reporting acreage report field review criteria, the accuracy of reported shares, or the crop's insurability. Unless RMA changes its reporting requirements, AIPs using the Record 57 format will continue to incorrectly report their acreage report field review summaries.

RMA's Compliance Office Does Not Track the Receipt of the Acreage Report Field Review Summaries

We found that RMA's Compliance Office has no procedures for tracking the receipt of these acreage report field review summaries to verify that the AIPs have submitted their acreage report field reviews timely, nor is there a review of the information submitted to determine its completeness. The Deputy Administrator for Compliance explained that RMA uses the annual submission of these summaries as a reminder to the AIPs that they should be performing the required acreage report field reviews and also to remind them that RMA will review the validity of the information during its National Program Operations Reviews.

OIG notes, however, that National Program Operations Reviews are performed only once every 3 years, and that GRP and GRIP policies (and these report summaries) will not necessarily be the focus of the reviews.

RMA's Compliance Office Does Not Track the Summaries to Determine if Acreage Report Field Reviews Uncovered Significant Discrepancies in the Acreage Reported

The summaries submitted by the AIPs are designed to report discrepancies between the acreage producers reported and the acreage the AIPs found when they performed physical inspections of the crop (see Finding 1). While RMA does have other sorts of quality control reviews that might detect problems with GRP and GRIP policies after claims are paid, the acreage report field review is the only process that might reveal problematic

[27] Record 57 is an RMA report submitted by the AIPs to report the results of their quality control reviews.

trends as they were occurring—i.e., before indemnity payments are made. We found, however, that RMA's Compliance Office was not reviewing these summaries to determine if they revealed discrepancies between what producers reported and what the AIPs found.

While variations in how AIPs were reporting these summaries made it difficult for RMA to monitor effective program administration or to ensure program integrity, we found that RMA was not tracking the receipt of these summaries, reviewing them, or taking any action regarding them. RMA officials stated that they were filing these summaries for use during the agency's National Program Operations Reviews, but when we asked to see the summaries, they could not provide them.

Just as the acreage report field reviews are the AIPs' only opportunity to physically verify the crop they are insuring under GRP and GRIP policies, so the submission of these summaries is RMA's only control to verify that the AIPs are performing the reviews correctly, that acreages are being reported accurately, and that the insurance products are functioning as designed before the quality review process. Given the overall importance of these summaries as a control, RMA needs to take steps to strengthen its procedures for tracking and reviewing them.

Recommendation 4

Develop procedures for tracking the receipt of acreage report field review summaries to ensure that each AIP is submitting timely, complete, and accurate information.

Agency Response

RMA's written response, dated March 19, 2010, stated that RMA's Compliance Office will develop within the next 90 days procedures for tracking the receipt of acreage report field review summaries to ensure they are submitted timely and the information is complete and accurate.

OIG Position

We accept management decision for Recommendation 4.

Recommendation 5

Provide the AIPs with a form for submitting this information completely and consistently.

Agency Response

RMA's written response, dated March 19, 2010, stated that RMA will include in the Informational Memorandum to be issued within the next 90 days, a reporting form to be used by all AIPs to report their yearly GRP and GRIP results to RMA's Compliance Office.

OIG Position

We accept management decision for Recommendation 5.

Recommendation 6

Develop procedures for reviewing the information AIPs submit, and take action on any problems identified.

Agency Response

RMA's written response, dated March 19, 2010, stated that RMA's Compliance Office will develop within the next 90 days procedures for assessing and evaluating the GRP and GRIP information submitted by each AIP, and the action to be taken when the information identifies a problem.

OIG Position

We accept management decision for Recommendation 6.

Scope and Methodology

Audit fieldwork was performed from April 2006 to August 2009, and included fieldwork at the RMA national office in Washington, D.C.; RMA's Product Management Division in Kansas City, Missouri; RMA's regional office in Oklahoma; and RMA's compliance offices in California and Texas. We also visited AIPs in Ramsey, Minnesota; Anoka, Minnesota; Amarillo, Texas; and Lubbock, Texas.

The scope of our audit was crop years 2005 and 2006, except as identified below. The same problems found in 2005 and 2006 continue to exist. Of the 15 AIPs that participated in the program in crop years 2005 and 2006, the 4 AIPs we visited insured $4.4 billion of $10.3 billion (43 percent) and paid $87.5 million of $223.8 million (39 percent) in indemnities on 6,504 of 14,943 policies.[28]

We evaluated the adequacy of RMA's and the AIPs' management controls over GRP and GRIP. To accomplish our objectives, the audit included interviews with RMA and AIP personnel and examinations of policies, procedures, and activities. Specifically, we:

- Reviewed relevant laws, regulations, policies, and procedures to gain an understanding of GRP and GRIP.
- Interviewed RMA officials to identify and assess controls over GRP and GRIP activities, including acreage report field reviews.
- Reviewed RMA's Performance and Accountability Report for fiscal years 2005 through 2007, and its 2005 Program Assessment Rating Tool review.
- Identified and reviewed GRP and GRIP data-mining reports produced for RMA.
- Performed analysis of GRP and GRIP participation data including liabilities, premiums, indemnities, and loss ratios from crop years 1993 (GRP) and 1999 (GRIP) through 2006 for both.
- Reviewed and evaluated how RMA determined expected and harvested prices and expected yields for county crop offerings for GRP and GRIP.
- Evaluated RMA's policies and procedures for conducting its compliance activities, including its National Program Operations Review handbook, GRP handbook, manager's bulletins, and other internal guidance.
- Interviewed officials at one RMA regional office and reviewed documentation for that region's $500,000 claims reviews.
- Interviewed officials at two RMA regional compliance offices to determine how, during the National Program Operations Reviews, they reviewed the AIPs' management controls over reporting acreage report field review summaries.
- Judgmentally selected and interviewed 10 agents whose businesses had the largest net reported acreage of GRP and GRIP policies and obtained their insight about the growth of these insurance plans.
- Reviewed 14 National Program Operations Review reports performed for crop years 2002 through 2006.

[28] In 2005, there were 14 AIPs operating. In 2006, there were 15 AIPs operating. The four AIPs that we visited were operating in both 2005 and 2006. One of the AIPs did not respond to our questionnaire.

To verify that the payment process was functioning as designed, we requested payment documentation from five AIPs with the largest indemnities on GRP and GRIP policies for crop years 2005 and 2006. We selected two payments from each of the five AIPs. The 10 payments totaling just over $5 million were recomputed. The crop acreage was reviewed using the producer's Form FSA-578, "Report of Acreage." The yield and revenue figures were obtained from the RMA website, and the producer's policy provided the coverage level and per-acre insured amount. We found that all 10 payments were correctly calculated.

In October 2007, we performed onsite reviews at two AIPs, which we selected because they administered the largest indemnities of GRP and GRIP policies for crop years 2005 and 2006. Then, in January and February 2008, we made onsite reviews at two AIPs that were located geographically proximate to OIG's Southwest Regional Office. At each AIP, we reviewed how the company processed the acreage report field reviews, and reviewed the AIPs' supporting documents for the sampled 36 acreage report field reviews processed for crop years 2005 and 2006.

Finally, we prepared a questionnaire to find out how the 15 AIPs active in crop years 2005 and 2006 were administering their GRP and GRIP policies. We received responses from 14 of the 15 AIPs contacted. We compared their responses to the acreage report field review requirements.

During the course of our review, OIG became aware of a problem with GRP and GRIP policies in certain counties, whereby producers who farmed without irrigation could be indemnified at the rate for an irrigated crop. In this way, they could receive an indemnity that far exceeded their loss. This report does not address this concern, as it was followed up on by a separate audit, conducted by OIG's Great Plains Regional Office.[29]

We did not conduct any interviews with producers, verify the producers' eligibility, or review the AIPs' process for receiving or validating the application process. During the onsite reviews at four AIPs, we did review the AIPs' process for conducting $100,000 reviews for GRP and GRIP policies. We found problems with how three of the AIPs were conducting the $100,000 reviews. Specifically, we found that the AIPs did not select all of the $100,000 policies that should have been reviewed. Because RMA had already cited the three AIPs in question as having deficiencies with the $100,000 review process in its National Program Operations Reviews, we did not perform further work on this issue.

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

[29] Report No. 05601-4-KC, "Use of National Agricultural Statistics Service County Average Yields for the Group Risk Protection Plans of Insurance," dated March 4, 2009.

Abbreviations

AIP	Approved Insurance Provider
APH	Actual Production History
FCIC	Federal Crop Insurance Corporation
GRIP	Group Risk Income Protection
GRP	Group Risk Plan
NASS	National Agricultural Statistics Service
OIG	Office of Inspector General
RMA	Risk Management Agency

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: Robert W. Young
Assistant Inspector General for Audit
Office of Inspector General

March 19, 2010

FROM: Michael Hand
Audit Liaison Official

SUBJECT: Office of Inspector General Audit 05601-14-Te, Official Draft Report, Group Risk Crop Insurance

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

RECOMMENDATION NO. 1:

Notify the AIPs in writing that they are required to perform acreage report field reviews for GRIP policies just as for GRP.

RMA Response:

RMA will issue an Informational Memorandum within the next 90 days to AIPs instructing them to perform acreage report field reviews for GRIP polices just as for GRP.

RMA requests management decision for this recommendation.

RECOMMENDATION NO. 2:

Notify the AIPs in writing that they are required to physically inspect the crops they have insured as part of the acreage report field reviews.

RMA Response:

RMA will issue an Informational Memorandum within the next 90 days to AIPs instructing them to physically inspect the crops they have insured as part of the acreage report field reviews.

RMA requests management decision for this recommendation.

RECOMMENDATION NO. 3:

Issue clarification to the AIPs regarding how they are to select GRP and GRIP policies for the acreage report field reviews.

RMA Response:

RMA will issue an Informational Memorandum within the next 90 days to AIPs instructing them how they are to select GRP and GRIP policies for the acreage report field reviews.

RMA requests management decision for this recommendation.

RECOMMENDATION NO. 4:

Develop procedures for tracking the receipt of acreage report field review summaries to ensure that each AIP is submitting timely, complete and accurate information

RMA Response:

RMA Compliance will develop within the next 90 days procedures for tracking the receipt of acreage report field review summaries to ensure they are submitted timely and the information is complete and accurate.

RMA requests management decision for this recommendation.

RECOMMENDATION NO. 5:

Provide the AIPs with a form for submitting this information completely and consistently.

RMA Response:

RMA will include in the Informational Memorandum referenced above; a reporting form to be used by all AIPs to report their yearly GRP and GRIP results to Compliance.

RMA requests management decision for this recommendation.

RECOMMENDATION NO. 6:

Develop procedures for reviewing the information AIPs submit, and take action on any problems identified.

RMA Response:

RMA Compliance will develop within the next 90 days procedures for assessing and evaluating the GRP and GRIP information submitted by each AIP, and the action to be taken when the information identifies a problem.

RMA requests management decision for this recommendation.

Should you have any questions or require additional information, please contact Alan Sneeringer at (202) 720-8813.