



U.S. Department of Agriculture
Office of Inspector General
Southwest Region
Audit Report

Risk Management Agency
Review of Written Agreements



Report No.
05002-1-Te
May 2001



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: May 21, 2001

REPLY TO

ATTN OF: 05002-1 Te

SUBJECT: Review of Written Agreements

TO: Phyllis Honor
Acting Administrator
Risk Management Agency

ATTN: Garland Westmoreland
Deputy Administrator
for Risk Compliance

We have conducted an audit survey of written agreements issued by the Risk Management Agency (RMA) for the crop-year (CY) 1999. We found that producers A and B (producer A's son) may have provided potentially false and misleading production history to justify their requested written agreements for potatoes in Cochran County, Texas. Producer A certified to having several good years of potato production in Gaines, Parmer, and Cochran Counties. However, after verifying his production history, we found that he potentially misrepresented his production when applying for the written agreement. As a result, producers A and B received written agreements that allowed them to collect insurance indemnities totaling \$1,044,341 and \$521,389, respectively.

We also identified several systematic weaknesses in the policies and procedures used to administer the written agreements. We found that in all five cases reviewed, some required information was missing from the written agreement requests. For example, we found that in three of the five cases reviewed, there were no documented marketability reviews, no evidence or support from the extension agent or other experts as to whether the crop could be grown in the area insured, and inadequate or no evidence that the crop was previously planted in the area. We also determined that there was not a system in place to track written agreements that were issued. As a result, we will initiate an audit to continue a more in-depth review of written agreements.

In RMA's written response, dated May 13, 2001, the Deputy Administrator of Risk Compliance conditionally concurred with the recommendation (attachment C). The Director of the Southern Regional Compliance Office will review the audit findings and issue either an initial determination to the insurance company or reasons for non-concurrence by July 31, 2001. We agree with the planned corrective action. To reach a management decision, we need documentation showing the amounts owed the Government have been collected or set up as accounts receivable.

BACKGROUND

A written agreement is a document designed to provide crop insurance for insurable crops when coverage or rates are unavailable and to modify multiple peril crop insurance offers. Any deviation, such as a lower premium rate, from a standard policy must be done through a written agreement. In addition, if RMA does not insure a crop in a county or area, a producer can still obtain insurance for the crop through a written agreement. Producers are required to submit information that convinces RMA that making the requested change will not be an unnecessary risk. Underwriters in RMA's regional offices (RO) review the requests and determine whether a written agreement should be issued.

If the producer does not have 3 consecutive years of production history for the crop in the county which the written agreement is requested, then his production history for that crop in other counties or a similar crop may be used to demonstrate the farming experience of the producer. A written agreement can be authorized if RMA determines that adequate information is available for the individual to establish an actuarially sound premium rate and insurance coverage for the crop.

OBJECTIVE

Our objective was to determine whether producers were using written agreements to circumvent and abuse crop insurance provisions. Also, we wanted to determine if written agreements were being administered by RMA in a manner that assured reasonable compliance with the provisions of applicable laws and regulations.

SCOPE AND METHODOLOGY

We obtained listings of CY 1999 written agreements issued by each of the 10 RO's. According to the information provided by RMA, RO's received requests for 8,913 written agreements, of which 5,999 were approved. The written agreements requested and approved by each RO are summarized in attachment B.

To perform our survey, we limited our scope to 198 written agreements in Texas issued through the Oklahoma City RO that were classified as "County Without Actuarial Table." Of those 198 written agreements issued, only 58 were accepted with a total liability of \$3,580,483. Eighteen of the producers received indemnities totaling \$2,219,426. The 58

policies had \$605,780 in premiums for a loss ratio of 3.66. We selected for review the five highest paid claims that had a total of \$2,123,417 in indemnities.

Since there is not a database quantifying the total liabilities and indemnities associated with written agreements, we could not determine the monetary effect written agreements have on RMA as a whole.

We conducted our survey from August 2000 through April 2001 in accordance with Government Auditing Standards.

FINDING

Written Agreements Obtained With Potentially False Certified Production

Producers A and B received written agreements to insure potatoes based on inaccurate production data. Producer A submitted certified production and yield reports, which significantly overstated his production of potatoes. Based on this production data, RMA issued written agreements to both producers A and B. As a result, producers A and B used the written agreements to obtain crop insurance and received indemnities totaling \$1,565,730.

For counties without actuarial documents for the crop that a written agreement is being requested, the request must include a completed Actual Production History (APH) form based on verifiable records of actual yields. A similar crop as determined by RMA may be used, if records for the same crop are unavailable for at least the most recent 3 consecutive CY's during the base period.¹

Producers A and B farmed together during the 1999 CY. On 1,028.5 acres of irrigated potatoes, producer A had a two-thirds share and producer B had the remaining one-third. Both producers A and B applied for separate written agreements, as is required by RMA regulations. However, they both submitted the same documentation for each of their written agreements. Everything contained in the documentation was in producer A's name, such as the land and prior production history. Employee A from the Oklahoma City RO stated that siblings may use their parents' information, such as production history, when applying for written agreements.²

Producer A submitted the following certified production and yield reports for three counties (Gaines, Parmer, and Cochran Counties) where he claimed to have grown potatoes in previous years.

¹ 1999 RMA Crop Insurance Handbook, section 3 B(2)(a), dated July 1997

² 1999 RMA Crop Insurance Handbook, section 4 C(8)(c), dated July 1997

COUNTY	CROP YEAR	TOTAL PRODUCTION (IN HUNDRED-WEIGHT)	ACRES	YIELD (HUNDRED-WEIGHT PER ACRE)
Gaines	1992	33,608	120	208
	1994	1,500	125	12
	1995	38,125	125	305
Parmer	1994	55,021	125	440
Cochran	1997	15,080	48	314

Based on the submitted documentation, the Oklahoma City RO issued written agreements in Cochran County to both producers A and B. The rate and yield for the written agreements were the same as the rates and yields for Yoakum County, an adjacent county. Yoakum County had a yield of 191 hundred-weight per acre for russet potatoes, 209 for red potatoes, and 198 for white potatoes. For years of no production history, producers A and B were assigned the base premium rates for Yoakum County at the 75 percent coverage level.

Although producers are required to retain verifiable records of production history to support their certified production and yield reports³, producer A did not submit such production records and claimed that he did not have access to such records because his buyers had gone out of business. We were able to verify producer A's production history through crop insurance records and through contacting one of his buyers and producer A himself. We found that he had insured the potatoes he grew in Gaines County. The records showed that producer A grew and insured potatoes for 4 years in Gaines County, instead of just the 3 years he claimed, from 1992 through 1995. In addition, producer A's actual production was much lower than what he had reported in his request for written agreement. When questioned about the differences in reported production for Gaines County, producer A claimed that he had grown the amount of potatoes that he put down on his production and yield report, but was unable to sell them because they would not pass grade inspection. Producer A stated he believes the majority of the potatoes were good and that he should be able to count them as production.

We were also able to obtain producer A's production records for his 1994 Parmer County potatoes from a buyer in Clovis, New Mexico. Although he did have production for this county, it was much lower than what producer A claimed on his production and yield report. As for the potatoes reported as grown in Cochran County in 1997, producer A stated that he was unable to find a market to sell the potatoes. As a result, he did not have any records to support his production for Cochran County.

³ 1999 RMA Written Agreement Handbook (FCIC 24020), section 3 B(2)(a), dated November 1998

The following is a summary of producer A's actual production history:

COUNTY	CROP YEAR	TOTAL PRODUCTION (IN HUNDRED-WEIGHT)	ACRES	YIELD (HUNDRED-WEIGHT PER ACRE)
Gaines	1992	1,472	123	12
	1993	0	100	0
	1994	863	125	7
	1995	911	140	7
Parmer	1994	20,885	125	167
Cochran	1997	0	48	0

Furthermore, producer A was put on RMA's Nonstandard Classification (NCS) list because of his poor production history. RMA discontinued the NCS system after 1998, but, from 1996 to 1998, producer A would have had to pay an 80 percent premium rate to insure potatoes in Gaines County.

We discussed producer A's production history with RO's personnel in Oklahoma City, Oklahoma. Employee A stated that he was unaware that producer A had incorrectly reported his production on his production and yield report. Employee A further stated that underwriters are not required to verify self-certified production information unless they have some reason to believe it is incorrect. Employee A stated that in this situation they would have tried to obtain the producer's real production history and use it to adjust the premium rate. He said that based on producer A's actual production, they would have either denied the written agreement or adjusted the insurance coverage to reflect producer A's poor production history.

Producer A's potentially false certification of his production history allowed him to receive a written agreement. In our opinion, the past production history of producers A and B is not adequate to establish an actuarial sound premium rate or insurance coverage. Therefore, producers A and B should not have received written agreements and should not have been paid a total of \$1,565,730 in crop insurance indemnities.

RECOMMENDATION:

We request RMA to take administrative action to recover crop insurance indemnities totaling \$1,565,730 from producers A and B and to pursue any other civil remedies that may be appropriate.

AGENCY RESPONSE:

The Deputy Administrator of Risk Compliance conditionally concurred with the recommendation (attachment C). The Director of the Southern Regional Compliance Office will review the audit findings and issue either an initial determination to the insurance company or reasons for non-concurrence by July 31, 2001.

OIG POSITION:

We agree with the planned corrective action. To reach a management decision, we need documentation showing the amounts owed the Government have been collected or set up as accounts receivable.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned and the timeframe for implementation for the recommendation for which a management decision has not yet been reached. Please note the regulation requires a management decision to be reached on the finding and recommendation within a maximum of 6 months from report issuance, and final action to be taken within 1 year of each management decision. Correspondence concerning final actions should be addressed to the Office of the Chief Financial Officer.

We appreciate the assistance and cooperation of your staff during the audit.

/s/
RICHARD D. LONG
Assistant Inspector General
for Audit

3 Attachments

Attachment A – Summary of Monetary Results

FINDING NUMBE R	RECOMMENDATIO N NUMBER	DESCRIPTION	AMOUNT	CATEGORY
		Potentially False Certified Production	\$1,565,730	Questioned Costs Recovery Recommended
TOTAL			\$1,565,730	

Attachment B – Written Agreements Requested and Approved by Regional Office in 1999

REGIONAL OFFICE	NUMBER OF REQUESTS	WRITTEN AGREEMENTS APPROVED*
Billings, MT	1,338	735
Davis, CA	52	38
Jackson, MS	745	521
Oklahoma City, OK	1,002	691
Raleigh, NC	748	513
Spokane, WA	145	74
Springfield, IL	2,515	2,019
St Paul, MN	578	382
Topeka, KS	1,042	570
Valdosta, GA	748	456
Totals	8,913	5,999

- Since insurance companies were not required to flag policies with written agreements for 1999, we are unable to determine how many of the approved written agreements were accepted.

Attachment C – RMA Response to Draft Report



United States Department of Agriculture

Farm and Foreign Agricultural Services
Risk Management Agency

MAY 13 2001

TO: Ernest M Hayashi
Director, Farm & Foreign Agricultural Division
Office of Inspector General

FROM: Garland D. Westmoreland *for by [signature]*
Deputy Administrator of Risk Compliance

SUBJECT: OIG Audit Discussion Draft 05002-1-Te – Review of Written Agreement

I have reviewed the subject report and conditionally concur with the findings and do not desire an exit conference. The Director of the Risk Management Agency's Southern Regional Compliance Office (SRCO) will request copies of the audit working papers from your Temple Office. If the SRCO concurs with the audit findings and recommendations, they will issue an initial determination to the insurance provider. If the SRCO does not concur, they will provide the basis for the non-concurrence with recommendations for resolving them. The SRCO expects to complete its review and issue either an initial determination or reasons for non-concurrence by July 31, 2001.



•1400 Independence Ave., SW•Stop 0801•Washington, DC 20250-0801

The Risk Management Agency Administers and Oversees
All Programs Authorized Under the Federal Crop Insurance Corporation

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