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Office of Inspector General
Southwest Region
Audit Report

Risk Management Agency
Review of Written Agreements



Report No.
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December 2003



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: December 30, 2003

REPLY TO
ATTN OF: 05601-11-Te

SUBJECT: Risk Management Agency – Review of Written Agreements

TO: Ross J. Davidson, Jr.
Administrator
Risk Management Agency

ATTN: Michael Hand
Deputy Administrator
Risk Compliance

This report presents the results of our audit of the written agreements. Your response to the official draft report, dated November 20, 2003, is included in its entirety as exhibit J with excerpts and the Office of Inspector General's position incorporated into the Findings and Recommendations section of the report. Your response contained sufficient justification to reach management decisions on Recommendations Nos. 1, 2, and 3. Please follow Departmental and your internal agency procedures in forwarding final action correspondence to the Director, Planning and Accountability Division, Office of the Chief Financial Officer.

Based on the response, management decisions have not been reached for Recommendations Nos. 4, 5, 6, and 7. The information needed to reach management decisions is set forth in the OIG Position section after each recommendation. In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned and the timeframes for implementation for those recommendations for which a management decision has not yet been reached. Please note that the regulation requires a management decision to be reached for all recommendations within a maximum of 6 months from the date of report issuance. Final action on the management decisions should be completed within 1 year of the date of the management decisions to preclude being listed in the Department's annual Performance and Accountability Report.

Ross J. Davidson, Jr.

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We appreciate the courtesies and cooperation extended to us by members of your staff during the audit. If you have any questions, please contact me at 720-6945, or have a member of your staff contact Ernest M. Hayashi, Director, Farm and Foreign Agricultural Division, at 720-2887.

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

EXECUTIVE SUMMARY

RISK MANAGEMENT AGENCY REVIEW OF WRITTEN AGREEMENTS

AUDIT REPORT NO. 05601-11-Te

RESULTS IN BRIEF

The Risk Management Agency (RMA) provides crop insurance coverage either through a standard policy or through a written agreement. Written agreements give some flexibility to the crop insurance program by allowing RMA regions to insure crops in areas where coverage is unavailable or to modify existing policies (e.g., to lower premiums, include new units, etc.) for insured acres. A written agreement is issued in response to a producer's request for coverage and is RMA's commitment to provide that coverage under specific terms and conditions. Some producers will reject the agreements because of the terms and conditions. Producers who accept the agreements can have policies issued to them from their insurance providers.

Because RMA regions issue written agreements without national office oversight, we concluded that the agreements were vulnerable to abuse. A limited Office of Inspector General (OIG) review of crop year (CY) 1999 agreements performed in the year 2000 suggested that this was the case; two producers received indemnities totaling over \$1.5 million through written agreements that were based on misleading production data. The RMA region approving the agreements did not verify the data that the producers had submitted.

We performed the current review of CY 2001 agreements to determine if the agreements were written in accordance with Federal law and with the terms of Federal crop insurance policies. Specific objectives were to determine if the RMA regions were issuing the agreements based upon sufficient information; if they were monitoring the agreements to ensure they were properly enforced; and if they were entering into agreements that were actuarially sufficient, in terms of both the crops and the producers insured.

For this review, we statistically selected a sample of 202 written agreements issued by 10 RMA regions nationwide. These agreements were serviced by 12 insurance providers.

We determined that some of the problems noted in our review of CY 1999 agreements continued into CY 2001 and that the program remains vulnerable to abuse. Regions are issuing written agreements without having the information they need to justify the actuarial changes, and many of the crops insured under written agreements may not be actuarially sufficient. Although the RMA National Office had established procedures for issuing written agreements, national office managers provided no oversight of the regions to ensure the procedures were being followed. The national office itself did not effectively track the agreements and exercised little control over the information about the agreements that insurance providers entered into RMA's system.

Missing documentation. Personnel at the regional offices (RO) issued written agreements without reviewing the documentation required by RMA guidance as necessary support for actuarial changes. Missing were actual production histories, evidence of crop adaptability, normal planting dates for the area, method of irrigation, etc. Insurance providers did not always submit this documentation, and, in most cases when documentation was missing, RO personnel did not request it. Nor was there always evidence that RO personnel actually reviewed the documentation when it had been submitted, or that they researched the claim history of the insured to determine the actuarial sufficiency.

ROs issued 111 of our sample 202 agreements without reviewing all required documents, and they issued 112 of the 202 without researching the producers' prior claim histories. Risk management specialists were not required to justify the missing documentation, and no policy was established to include prior claim histories in the review process.

We confirmed the specific deficiencies noted during our desk review for each sample case for 2 of the 10 RMA ROs visited. Based on validation of incomplete written agreement requests at both the Billings and Jackson ROs, 46 of the 55 written agreements were still considered incomplete. We determined that 25 of the 55 incomplete requests were renewals from a previous year's issued written agreement, and only 2 of the 25 written agreements had the required documentation in the initial written agreement request files.

Regional personnel stated upon validation of the deficiencies that the number of required documents was unnecessary, and that decisions regarding written agreements were based largely on the knowledge and expertise of the staff, which obviated the need for documentation. (See exhibits H and I for validation comments from the Billings and Jackson ROs, respectively.) However, losses paid under the agreements suggest that the regions need to pay greater attention to recorded data. Loss ratios under written agreements exceeded the RMA goal of 1.07 (\$1.07 in

indemnities paid for every \$1 in premiums collected). Although the loss ratio within our sample had a large sampling precision and precluded us from projecting a number to the universe for all CY 2001 policies, we were able to perform nonstatistical analyses on other available data. We reviewed the loss ratios for the 59 crops insured under written agreements recorded in the RMA data acceptance system and compared these with the loss ratios for all standard crop policies. We found that written agreements had an overall loss ratio of 1.13, higher than the 0.94 loss ratio for all standard RMA crop policies.¹ Further analysis indicated that for the 59 crops with written agreements, 26 exceeded the loss ratio for the standard insurance policy for the same crops. (See exhibit E.)

The loss ratio figures suggest that the crops and producers insured through written agreements pose a greater risk than those insured through standard policies and are not actuarially sufficient. RMA's exposure on written agreements is, therefore, of concern. We project that for the CY 2001 written agreements approved without benefit of required documentation, RMA accrued an additional \$138.7 million in liability (exposure) and \$7.6 million in subsidized premiums.

Inadequate tracking system. RMA officials were unable to accurately and effectively track accepted written agreements. RMA's data acceptance system does not always identify units associated with written agreements and does not always correctly identify the terms under which written agreements provide coverage. Insurance providers could enter agreements into the system without identifying the units covered by those agreements or without applying the same terms of coverage that appeared in the written agreements. RMA did not have controls to prevent this from occurring.

Of the 202 written agreements in our sample, 112 resulted in insurance coverage and should have been entered into RMA's system. However, only 65 of the 112 had been entered and identified as written agreements. The remaining 47 were entered but not identified as written agreements. For one sample agreement with an indemnity, the insurance provider entered a 34-bushel expected yield for the acreage instead of the 12-bushel yield set by the written agreement. RMA paid an indemnity of \$915 based on the 34-bushel yield.

RMA was unaware of the misidentified yield because the RMA Written Agreement Handbook (handbook) for processing written agreements

¹ We emphasize that the 1.13 loss ratio for policies insured through written agreements could be higher or lower if all written agreements are included in the calculation. RMA's data acceptance system did not properly identify all policies insured through written agreements.

does not include a review process to determine if the terms of the written agreements are the ones actually applied to the insured units.

Tracking and monitoring written agreements continues to be a problem for RMA. We raised this issue in our previous review of CY 1999 written agreements, when we reported that RMA had no system to track the agreements it issued. At that time, RMA officials told us that these shortcomings would be rectified for CY 2000.

During our review, it came to our attention that some written agreements for counties without actuarial documents were issued for crops similar to but not the same as the crops for which the producers submitted actual production histories. A “similar” crop is one classified under a broad grouping of crops, such as row crops, tree crops, vine crops, etc. An Office of the General Counsel (OGC) official stated that the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994 authorizes written agreements with an individual producer if the producer has actuarially sound data relating to production of that crop. There is no mention of a “similar” crop.

An RMA official stated that based on comments received from OGC, RMA would no longer insure “similar” crops through written agreements. A review of the language in the proposed 2003 handbook for counties without actuarial documents confirmed that the reference to a similar crop was eliminated. This was the only instance during our audit where we encountered agreements that were not written in accordance with Federal law.

KEY RECOMMENDATIONS

We recommend that RMA National Office officials provide oversight of RO activities related to written agreements, and that they develop a review form to ensure that all needed and required documentation has been obtained and reviewed. The review form should include a step to check the previous claim histories of the insureds as well as a step to document the analysis and determination performed by regional personnel. The form should show a justification for any deviation from procedure based on the knowledge and experience of field staff. A copy of the signed, completed review form should be maintained as part of the written agreement file documentation.

We also recommend that RMA establish procedures to ensure that insurance providers (1) properly enter into the data acceptance system those units insured under written agreements, and (2) correctly apply the terms of the written agreements to the applicable units. RMA should explain the procedures to the insurance providers and establish the actions it will take against those who repeatedly fail to identify the written agreements or apply the proper terms.

AGENCY RESPONSE

In a letter dated November 20, 2002, RMA generally concurred with the findings and recommendations and provided proposed actions. (See exhibit J.) RMA agreed to issue procedures for conducting reviews of written agreements in each RO to include reports within 90 days from the date of this memorandum. A review form and guidance to include a checklist will be issued to the RMA ROs. The review form will include a step to verify the previous claim history of the insured. This review form will be issued to the RMA ROs within 90 days from the date of this memorandum.

Even though RMA concurred with Recommendations Nos. 4, 5, 6, and 7, they believed current procedures were sufficient to satisfy the proposed recommendations. Specifically, RMA stated that current procedures for processing written agreements were sufficient to document the completeness and approval determination by the risk management specialist along with the review and approval of the agreement by the supervisor.

RMA also stated that there have been enhancements to the written agreement process to support the data acceptance system since 2001. A written agreement submitted to the data acceptance system is verified with the RO databases to ensure that the written agreement was issued to the insurance provider, producer, crop, and county. In addition, RMA will review on reissued written agreements whether the correct terms were applied on the previous year's written agreement to the extent possible. Any errors would be forwarded to the applicable compliance office for follow up. Also, language has previously been incorporated into the overall company performance assessments under the standard reinsurance agreement to take action against insurance providers who repeatedly fail to identify the written agreements or apply the proper terms.

OIG POSITION

We accept the management decision for Recommendations Nos. 1, 2, and 3. For final action, provide the Director, Planning and Accountability Division, Office of the Chief Financial Officer (OCFO/PAD), a copy of the written agreement review form and guidance that includes a checklist. However, to reach management decisions for the other recommendations, we will need additional documentation or information.

On Recommendation No. 4, a step should be included in the review form referred to in Recommendation No. 2 to document the analysis and determination performed by the staff risk management specialist as well as the review and approval performed by the senior risk management specialist.

For Recommendations Nos. 5 and 6, RMA needs to either clarify that the current procedure established in 2003 identifies those units insured under written agreements that were not identified by the insurance providers or establish such a procedure. RMA needs to expand the verification of units insured through written agreements in the data acceptance system to include a review of the written agreement terms issued by the RMA ROs. In addition, RMA needs to provide the additional guidance it will be providing to insurance providers to ensure that written agreement identification numbers are properly entered.

On Recommendation No. 7, we need information on procedures established to take corrective action against insurance providers who continually fail to identify units associated with written agreements or misapply terms of written agreements.

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INTRODUCTION

BACKGROUND

The Federal Agriculture Improvement and Reform Act of 1996 authorized the formation of RMA to handle the day-to-day operations of the Federal Crop Insurance Program, which is administered by the Federal Crop Insurance Corporation (FCIC). FCIC provides producers with insurance coverage against crop failures due to crop diseases, hurricanes, and other risks of production. With RMA approval, insurance providers issue crop insurance policies, collect premiums, and service all claims. RMA reinsures the providers against losses paid to the producers under the terms of the program.

The Federal Crop Insurance Act of 1980 contains provisions for expanding crop insurance to more crops and to provide coverage in most counties throughout the United States.

Written agreements are used by RMA 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. The written agreement allows the flexibility to provide insurance coverage for land or persons involved in the production of insurable crops and to amend the terms and conditions of insurance provided in the insurance policy when specifically permitted by regulation, crop policy, actuarial documents, or special provisions.

Producers submit written agreement requests through their insurance providers to risk management specialists in the RMA ROs. Risk management specialists review the requests and determine if a written agreement should be issued. Producers and their insurance providers are required to submit sufficient documentation to support the establishment of an actuarially sound premium rate and insurance coverage for the insurable crop. Prior to approval, RO personnel are responsible for ensuring that sufficient documentation is obtained in support of the approved written agreement. The director of each RO or an authorized designee must approve all written agreements.

A written agreement is a commitment on the part of RMA to insure the specified crop on the specified farm units during that CY under the terms and conditions expressed in the agreement. Once RMA has issued a written agreement in response to a specific request, the insurance

provider forwards the agreement to the producer, who must decide whether to accept RMA's terms and conditions for the agreement. If the producer accepts the terms and conditions, the insurance provider maintains the agreement until the producer notifies the provider that the coverage proposed in the agreement is wanted. When the producer requests the coverage, the insurance provider issues the policy and enters the written agreement into RMS' database as an issued policy. If the producer rejects the agreement or fails to request the coverage before the insurance deadline for that CY, no policy is issued under that written agreement.

This audit was initiated as a result of an audit survey of CY 1999 written agreements, which had been issued by one RO. In the survey, OIG auditors identified instances of noncompliance with RMA policies and procedures in the written agreement approval process at this RO.

Our primary concern with the RO's approval process was that in all five cases we reviewed, some of the information required by RMA was missing from the written agreement requests. Three of the requests had no documented marketability reviews and no evidence that the crop for which insurance coverage was being requested had ever been grown or could be grown in the area approved for coverage under the written agreements.

For two of the five written agreements we reviewed, the producers did not provide official production histories but submitted the same self-certified production information. (They had farmed together the previous year.) Our audit found this information to be potentially false and misleading. The producers, in fact, had a history of poor production. RMA personnel at the RO said that if they had known the actual history, they would have either denied the two requests for written agreements or adjusted the insurance coverage. As a result of the RMA coverage, the producers received over \$1.5 million in indemnities to which they were not entitled.

We also noted at the time of our survey that RMA had no system to track and monitor written agreements that had been issued. RMA's data acceptance system was available, but it was not programmed to track the agreements. RMA told OIG auditors that this shortcoming was to be rectified for CY 2000.

OBJECTIVES

The primary objective of this audit was to determine if the written agreements issued by RMA were authorized by law and by Federal crop insurance policy provisions. Our secondary objectives were to determine if (1) RMA approved written agreements based upon sufficient and complete information, (2) RMA could properly and effectively track and monitor all written agreements issued by RMA and accepted by producers, and (3) the loss ratios for policies attached to accepted written agreements were reasonable.

SCOPE

Our audit coverage included written agreements issued for CY 2001. From RMA databases of written agreements maintained by the RMA ROs, we compiled a listing of 13,809 written agreement requests submitted by producers as of September 6, 2001, for that CY. Of this number, 9,266 written agreements were issued by RMA. (For the remaining 4,543 applicants, either RMA turned down the requests, or the applicants themselves rejected the written agreements RMA issued to them.) From the universe of 9,266 agreements, we selected a statistical sample of 202 written agreements to review as the basis for statistically valid projections. (See statistical sample design at exhibit F.) The majority of sample written agreements reviewed were for counties that had high-risk land and for counties that had no actuarial tables. (See exhibit B for a breakdown of the written agreement types reviewed.)

As noted in the background section of this report, producers do not always accept the written agreements for which they apply, and even if they accept the agreements, they do not always ask their insurance providers for the agreed-upon coverage. In the case of our audit sample of 202 written agreements, only 112 resulted in insurance coverage for the crops. We are able to project from these 112 written agreements that, as of March 11, 2002, the liability for all 9,266 written agreements amounted to \$227.1 million. We also project that producers paid \$11 million in premiums and received subsidized premiums of \$13.4 million, for a total premium of \$24.4 million for their insurance coverage. (See exhibit G.) Our estimate of \$227 million has a sampling precision of 46.5 percent. We are 95 percent certain that there was at least a total liability in crop insurance of \$121.5 million.

We also judgmentally selected two written agreements for one producer in Montana that had a policy issued for dry beans. These two written agreements were selected because the dry beans insured through them were for an undesignated class not listed on the actuarial documents and

because large indemnities were paid on the policy. The policy for these two written agreements had a liability of \$827,437 and an indemnity of \$645,892.

The 202 written agreements in our sample had been issued by 10 separate RMA ROs. We performed onsite reviews at two of these offices - the Billings, Montana, RO and the Jackson, Mississippi, RO. We also performed onsite reviews at RMA's National Office. We did not visit any of the 12 insurance providers that issued policies for the 112 agreements in our sample that resulted in coverage. For a complete list of the regions and providers associated with the written agreements in our sample, see exhibit C.

Fieldwork for this audit was conducted from November 2001 through December 2002.

This audit was conducted in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. Accordingly, the audit included such tests of program and accounting records as necessary to meet the audit objectives.

METHODOLOGY

To determine if RMA ROs had sufficient information to justify approving written agreements, we obtained copies of documentation the ROs used to support the issuance of each of the 202 sample cases in our review. For this review we compared documentation we obtained for each sample case to that required by RMA guidance in support of establishment of actuarially sound premium rate and insurance coverage. We then determined if documentation was sufficient as required by procedure to support the decision to issue a written agreement for each case.

In order to determine if each of the 202 sampled written agreements was authorized by law and by Federal crop insurance policy provisions, we reviewed the agreements by type (e.g., dry beans, nonirrigated corn) and compared them to the types allowed under law and/or Federal crop insurance policy provisions.

To determine if RMA was able to effectively track and monitor issued written agreements, we downloaded information, as of March 11, 2002, that RMA captured in its CY 2001 data acceptance system for the written agreements in our sample. We simultaneously collected information on the sample agreements from the ROs that issued them and the insurance companies that provided the policies for them. We then compared the information collected from the regions and the insurance providers to the downloaded information. From this test, we determined if insured units for

which written agreements were issued had been identified in the database with the appropriate written agreement identification number.

After reviewing the information from the data acceptance system, we summarized the liability, premium, producer share of premium, and indemnity for the 202 statistically selected written agreements. (See exhibit C.) This information was then used to estimate the total universe of liability, premium, and producer share of premium for all units insured through written agreements. (See exhibit G.)

To determine the loss ratios for policies associated with written agreements, we compared the total indemnities paid on policies resulting from written agreements in our sample to the total premiums earned for those policies. However, we could not compute an overall loss ratio for the policies in our sample because this ratio (of the two random variables—indemnity amount to premium amount) had a large sampling precision due to the large number of agreements for which no policies were issued and no indemnities were paid. This large sampling precision precluded our projecting a loss ratio to the universe. For analytical purposes, we returned to RMA's data acceptance system and downloaded information on all written agreements. We reviewed the loss ratios on a crop-by-crop basis for crops insured through these agreements and compared them with the loss ratios for the same crops insured through standard policies. However, since we determined that all written agreements were not recorded in the RMA data acceptance system (Finding No. 4), comparisons of the data were limited.

During the onsite reviews at the Billings, Montana, RO and the Jackson, Mississippi, RO, we verified the ROs' written agreement review and approval process as well as their tracking capabilities. As part of this review, we confirmed all cases in the statistical sample where documentation was not considered sufficient, as required by procedure to issue a written agreement.

The two judgmentally selected written agreements for dry beans in Montana were reviewed to determine if documentation was sufficient, as required by procedure to support the decision to issue a written agreement, and if any such incomplete documentation might have contributed to the indemnity paid.

FINDINGS AND RECOMMENDATIONS

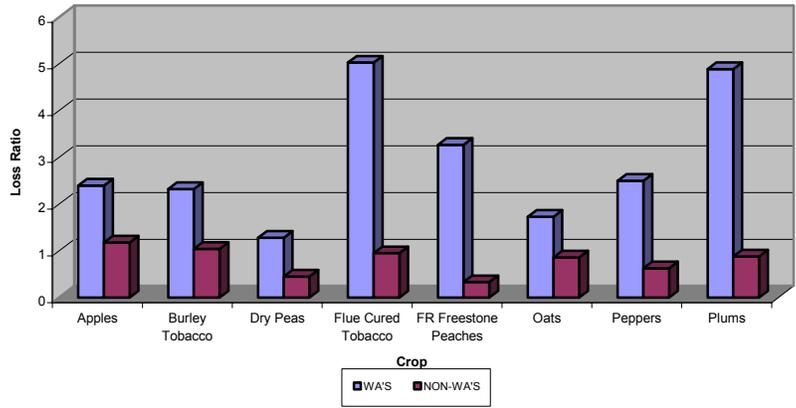
CHAPTER 1	RMA MANAGERS NEED TO ESTABLISH OVERSIGHT OF WRITTEN AGREEMENTS
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In issuing written agreements, RMA's ROs were allowing deviations from approved crop insurance policies without properly verifying that the crop or the producer was worth the risk of insuring. RO personnel issued written agreements without having the documentation required by RMA procedures, improperly determined that the missing documentation was not needed, and either did not ask insurance companies to supply the information or neglected to follow up once they had asked for it. Missing were such vital documents as histories of crop production, research on the marketability of the crop, and data on the sources of water for irrigation. (See exhibit B for a complete list.) The process for approving written agreements had little accountability and no national office oversight. Regional senior risk management specialists were not requiring rank-and-file specialists to account for their determinations in the absence of verifiable, documented data, and national office personnel were not reviewing regional activities supporting the written agreements program.

We observed that there was a direct relationship between written agreements and loss ratios (that is, ratios of indemnities to premiums) greater than the break-even point of 1.00. The overall loss ratio for all written agreements recorded in the RMA data acceptance system was 1.13, higher than the 0.94 loss ratio for all standard RMA crop policies. Indeed, loss ratios for almost half of the crops with written agreements (26 of 59 crops) exceeded the loss ratios for all policies for these same crops. (See exhibit E.) The loss ratio for 8 of the 26 crops exceeded the RMA goal of 1.07 and was more than 2 times the loss ratio for the same crop insured by standard policy rather than by written agreement.

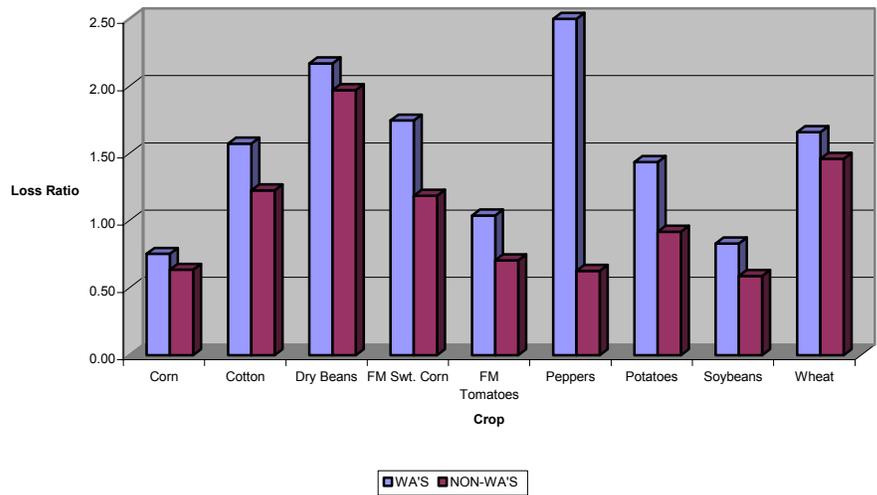
Figure 1 on the following page illustrates the loss ratio variations for the eight crops insured by both written agreements (WA) and standard crop policies (non-WA).

Figure 1: Written Agreement Loss Ratios That Are Greater Than Twice Those of Standard Crop Policies



Further analysis revealed that 9 of the 26 crops had total CY 2001 indemnities that exceeded \$500,000 on crops covered by written agreements. In all nine instances, the loss ratio for policies insured with a written agreement exceeded the loss ratio for the same crop insured under policies without written agreements; in some instances the increase was significant. The following figure illustrates this condition.

Figure 2: Comparison of Loss Ratios for Crops with Total Written Agreement Indemnities Exceeding \$500,000 for CY 2001



The higher loss ratios that result from written agreements compared to standard policies suggest that the issuance of those agreements in the absence of all required documentation does not result in actuarially sufficient insurance coverage. The national office needs to actively monitor the ROs to ensure that written agreements are actuarially sound and that their terms and conditions are based on verifiable, documented data.

FINDING NO. 1

**NO ASSURANCE THAT
CROPS INSURED THROUGH
APPROVED WRITTEN
AGREEMENTS WERE
ACTUARIALLY SUFFICIENT**

RMA RO personnel issued most written agreements without obtaining the information that would have shown whether the crop or the producer was worth the risk of insuring. Insurance providers did not submit the documentation that was required for written agreements, and RO personnel either overlooked the procedures or did not seek to obtain the documentation because they believed their own expertise made the documentation unnecessary. The national

office was unaware that regions were issuing written agreements in the absence of prescribed information. Although the national office had issued handbook instructions prescribing the documents that needed to be analyzed before a written agreement could be issued, national office managers provided no oversight to ensure that regions were complying with the handbook requirements. As a result, RMA faced a potential \$138.7 million in additional liability in CY 2001 and paid subsidized premiums of \$7.6 million for crops whose insurance coverage was based on written agreements that provided RMA with no assurance that the policies it was underwriting were actuarially sound and sufficient.

The RMA handbook used for processing CY 2001 written agreement requests describes the minimum required information and documentation that must be provided by insurance providers in their requests.² This guidance also provides procedures that RO personnel are to follow in order to obtain documentation missing from the original requests.³ Documentation should be sufficient to reasonably assure RMA officials that the land and producer have the ability to produce and market the proposed insured crops before written agreements are approved.

The documentation required depends on whether the agreement is being written for a county that already has actuarial documents or one that does not. Written agreements processed for counties with no actuarial

² Manual FCIC 24020, 2001 Written Agreement Handbook, section 3, paragraphs B(2) and B(3), dated November 2000.

³ Manual FCIC 24020, 2001 Written Agreement Handbook, section 3, paragraphs F(1) and F(2), dated November 2000.

documents require (1) a completed actual production history (APH) form based on verifiable records of actual yields for the crop or a similar crop determined by RMA, (2) evidence of adaptability, (3) legal description of the land, Farm Service Agency (FSA) farm serial number including tract number, and an FSA aerial photograph or legible maps delineating field boundaries where the applicant intends to plant the crop, (4) dates the applicant and other growers in the area normally plant and harvest the crop, (5) the name, location of the market at which the crop will be sold, and the approximate distance from the farm to that location, and (6) if applicable, irrigated water source, method of irrigation, and the amount of water for irrigated coverage.⁴ All other written agreement requests require documentation for only the first three elements listed above.⁵

a. Insurance Providers Did Not Submit All Required Documentation For Written Agreements

Our review of the statistically selected sample of 202 CY 2001 written agreements revealed that in 111 (almost 55 percent) of the cases, insurance providers did not submit all documentation required by RMA procedures with their requests. We estimate that there were 5,092 out of the 9,266 written agreements approved and issued in CY 2001 (almost 55 percent) without the required minimum documentation.

In the 111 cases that were missing required documentation, 60 were processed using the handbook requirements for counties with no actuarial documents, and the remaining 51 were processed using the requirements for all other written agreements. The following table shows the types of documentation missing for both categories. (Also see exhibit B for a complete list of missing documents according to policy, RMA region, and insurance provider.)

Table 1: Documents Missing From Requests For Written Agreements

Required Documentation	No. Of Requests Missing Documentation—Counties With No Actuarial Documents	No. Of Requests Missing Documentation—All Other Types of Requests
Actual Production History	12	26
Evidence of Adaptability	41	29
Legal Description of Land	23	40
Planting Dates	54	
Name and Location of Market	53	
Source of Water	26	

⁴ Manual FCIC 24020, 2001 Written Agreement Handbook, section 3, paragraph B(2), dated November 2000.

⁵ Manual FCIC 24020, 2001 Written Agreement Handbook, section 3, paragraph B(3), dated November 2000.

Our sample contained only 63 agreements for counties with no actuarial documents. As our numbers show, almost all of these 63 agreements were missing documentation of one sort or another. (See exhibit B.) The majority (36) of the remaining 51 written agreements that were missing documentation were for high-risk land, an undesignated type or practice, nonirrigated corn, and peanuts and tobacco.

b. ROs Did Not Adequately Follow Up To Obtain Missing Documents

Of the 111 agreements that were not fully documented, 108 contained no evidence that RO personnel had requested the missing documentation. As stated earlier, the handbook provides procedures that RO personnel are to follow in order to obtain documentation missing from the original requests. We confirmed the specific deficiencies noted during our desk review for each sample case for 2 of the 10 RMA ROs visited. Based on our validation of incomplete written agreement requests at both the Billings and Jackson ROs, 46 of the 55 written agreements were still considered incomplete. At the two ROs visited, officials acknowledged that they were not following procedures to the letter but did not believe the procedures were appropriate for all cases.

An official in the Jackson, Mississippi, RO stated that not all required documentation was needed. He said that the land description and aerial photos are only needed for first-time requests or when requesting a review of additional land not on a previous request. The information on crop adaptability, dates, and markets is required for initial requests for crops in counties without actuarial programs. It is not required for renewal of a request previously issued. It also becomes less important after several requests have been approved for the crop in the county or if the crop has an insurance program in an adjoining county. This documentation was not requested in subsequent years when reissuing a written agreement because the crop insurance handbook requires agents to submit only the signed request and a copy of the previous agreement.

Officials at the ROs in both Billings, Montana, and Jackson, Mississippi, similarly stated that the APH document is required only for new requests. Our validation of the written agreement renewal requests at the Billings and Jackson ROs found that 25 of the 55 incomplete requests were renewals from a previous year's issued written agreement. However, only 2 of the 25 written agreements had the required documentation in the initial written agreement request files.

As a further explanation for the missing documentation, the RO officials said the primary reason the RO did not require the documentation was that the RO staff could arrive at a determination based on their knowledge and experience of agronomics and the land in the region. They stated that the knowledge and experience of their reviewers often obviates the need for the minimum supporting documentation. (See exhibits H and I for validation comments from the Billings and Jackson ROs, respectively.)

In our opinion, the knowledge and experience of the staff may be important in rendering a written agreement determination, but the staff must first obtain and review all the documentation required by procedure before using this knowledge and experience to produce an actuarially sound written agreement. The written agreement loss ratios discussed earlier in this report suggest that knowledge and experience alone may have limitations.

During our field visit to the RO at Billings, Montana, we observed that one team of risk management specialists used a review form created by their team leader to help manage the volume of written agreement applications they were assigned. The review form allowed the staff specialists as well as the senior specialist to determine which applications were complete and which would require followup requests for additional information. Also, the regional manager of the Jackson RO informed us that, as a result of our audit, his region had developed a checklist to ensure that all required information was received.

We believe that a review form like the one used by the Billings RO offers a useful method by which specialists can control their workloads and with which managers can ensure compliance with the written agreement requirements. We are, therefore, recommending that RMA create a review form and implement it nationally. We also are recommending that a copy of the signed, completed review form be maintained as part of the written agreement file documentation.

c. National Office Managers Did Not Provide Oversight Of RO Written Agreement Activities

RMA's Insurance Services is the Headquarters' Division directly involved in the written agreements program. Insurance Services compiles nationwide data on policies issued under written agreements and tracks these policies in the RMA data acceptance system. (See Finding No. 4 for the difficulties we found with RMA's ability to track the agreements.) We contacted the Insurance Services Division to determine the extent of the oversight provided by national office managers of the regions regarding the written agreements program.

The Acting Deputy Administrator for Insurance Services informed us that the division did not have the staff to visit the regions and relied on the regions to review their own performance to ensure compliance with handbook requirements.

The RMA Headquarters' Division that could provide any onsite reviews of the regions is the Compliance Office. The Compliance Office generally responds to concerns raised about loss claims and the producers' and insurance providers' compliance with the requirements of the crop insurance program. The Compliance Office will also respond to concerns raised about the operations of specific ROs. During our review, however, we determined that compliance officers did not visit any region for the express purpose of reviewing regional compliance with the handbook procedures for written agreements.

We did find that in responding to one recent request, an RMA compliance officer discovered a problem that involved written agreements with incomplete documentation. The discovery occurred after the Compliance Office received complaints about coverage of forage in Nebraska. An RMA compliance official sent a November 9, 2001, letter to the Acting Deputy Administrator for Insurance Services in which he reported that producers of forage in Nebraska were receiving excessive coverage under written agreements without having to provide verifiable production records. During the compliance review, the producers were unable to substantiate their claimed yields. Neither the ROs nor the insurance providers had informed the producers of the documentation requirement and did not verify the information the producers submitted with the agreement applications.

In its November 9 letter, the Compliance Office recommended that the RO administering the agreements in Nebraska ensure that it receives all supporting documentation before it issues any more agreements for forage coverage. The letter also recommended that if the RO was unsatisfied with the documentation, it could refer the request for written agreement to the Compliance Office for review before approval.

In a subsequent letter to the Director for the RO, the compliance official noted that the same deficiency was evident a year later.

We reviewed the proposed changes to the 2001 handbook and did not find any changes that would eliminate any of the documentation required to be provided by the insurance companies on written agreement requests, or allow the ROs to rely on the knowledge and experience of its staff rather than the required documentation. We concluded that the national office needs to strengthen its oversight of RO activities concerning written

agreements. Although RMA's Insurance Services Division has issued procedures governing the issuance of written agreements, including requirements for documentation that will verify the actuarial sufficiency of any coverage offered through such agreements, ROs have not complied with these procedures. Given the loss ratios we found associated with written agreements, we concluded that the track record of the agreements, as currently administered by the ROs, raises questions about the terms and conditions they contain. The findings of RMA's Compliance Office in Nebraska also confirm that the written agreements program provides an opportunity for abuse.

RECOMMENDATION NO. 1

Establish procedures for RMA's National Office oversight of RO activities related to the written agreements program.

AGENCY RESPONSE

RMA concurs with the recommendation. The Assistant Deputy Administrator for Insurance Services who directs and supervises the RMA ROs will conduct reviews of written agreements in each RO. These reviews will be analysis of data in the RO written agreement system and on actual onsite visits and records reviews in each RO. Reports will be issued after each review. Procedures for conducting reviews will be issued within 90 days from November 20, 2003.

OIG POSITION

We accept the RMA management decision. For final action, RMA needs to provide OCFO/PAD with a copy of the review procedures when issued.

RECOMMENDATION NO. 2

Develop a review form and guidance to include a checklist to ensure that all needed and required documentation has been obtained and reviewed to ensure that actuarial changes made by issued written agreements are justified. A copy of the signed, completed review form should be maintained as part of the written agreement file documentation.

AGENCY RESPONSE

RMA concurs with the recommendation. The Assistant Deputy Administrator for Insurance Services, who directs and supervises the RMA ROs, will issue a review form and guidance to include a checklist within 90 days from November 20, 2003.

This form will be part of the written agreement file and subject to review by the Assistant Deputy Administrator. However, while current procedure does generally require that all “required documentation” be sent to the RO, the actual use of or need for information to issue a written agreement is highly variable depending on the crop and type of actuarial request being made. In many instances certain “required information” would be inconsequential in the review of a particular written agreement request. The RO will document the receipt of “required information” and any “required information” it determines is not applicable for the type of agreement being requested.

OIG POSITION

when issued.

We accept the RMA management decision. For final action, RMA needs to provide OCFO/PAD with a copy of the review form and guidance that includes a checklist

FINDING NO. 2
REGIONS NEED TO REVIEW
PRODUCER CLAIM
HISTORIES

conditions than for which they qualify.

Risk management specialists do not verify the actuarial sufficiency of the producer by reviewing any history he or she may have of claiming indemnities for crop losses. The specialists do not review this history because there are no procedures that require them to do so. Producers with frequent past crop loss claims may represent an increased risk and may seek more convenient terms and

We found that risk management specialists did not routinely review the previous claim histories of the insured producers before issuing the written agreements. A large loss by the insured could have a significant impact on the rates and terms issued for a written agreement. However, the RMA CY 2001 handbook did not require risk managers to review the claim histories, and in 112 of the 202 cases we reviewed (55 percent), there was no evidence that they did so. We estimate that in CY 2001, there were 5,138 requests that contained no evidence that risk management specialists reviewed prior claim history of the insured before issuing the written agreement.

For the 90 written agreements that were supported by claim histories, we found there was no policy on the part of the regional managers to obtain the histories and no consistency on the part of staff specialists in reviewing them. Some of the same specialists who obtained the history for one producer did not obtain it for another. Specialists we spoke to said they reviewed the histories when they believed they needed to (i.e., when

there was a significant fluctuation in crop production) and made determinations without using the histories when they believed the histories were superfluous.

We concluded that some review of an applicant's claim history is needed before RMA may determine that the producer's written agreement is actuarially sound. Staff specialists tacitly confirm this when they do obtain claim histories and even when they profess to know the history of the applicant in the absence of documented evidence of claims. Claim histories are as useful and necessary in determining the actuarial sufficiency of a producer as the yield and marketability data are in determining the actuarial sufficiency of the crop. However, in our review of the proposed changes to the 2001 handbook, we found no new requirements that risk management specialists review the previous claim histories of the insureds before issuing a written agreement.

We did not review the previous claim histories of the insureds for the 112 cases mentioned above to determine if claim data would have made a significant difference in the rates and terms assigned for the issued written agreements.

RECOMMENDATION NO. 3

Include a step in the review form referred to in Recommendation No. 2 to check the previous claim histories of the insureds before issuing the written agreements.

AGENCY RESPONSE

RMA concurs with the recommendation. RMA will incorporate the stated step into the review form as described in Recommendation No. 2.

OIG POSITION

histories of the insureds.

We accept the RMA management decision. For final action, RMA needs to provide OCFO/PAD with a copy of the review form that includes a step to check the previous claim

FINDING NO. 3

**RO MANAGERS DID NOT
PERFORM EFFECTIVE
SECOND-PARTY REVIEWS OF
DETERMINATIONS MADE BY
RISK MANAGEMENT
SPECIALISTS**

Risk management specialists did not document how they determined the actuarial sufficiency of coverage offered under written agreements, and RO managers did not indicate how they concluded the staff specialists collected the required information, justified its absence, or verified the actuarial soundness of the data that was collected. Although an RO manager's signature on the written agreement gave evidence of the manager's review of the staff specialist's determination, that review was ineffective in

ensuring that the specialist complied with all handbook requirements. No procedures govern the review process and allow the RO managers to authorize staff specialists to substitute their own knowledge and experience for any missing documentation.

When requests for written agreements are received by an RO, they are assigned to risk management specialists. These specialists are required to review the supporting documentation supplied by the insurance providers, request any missing documentation, and determine whether the agreement should be approved. According to the handbook, the director of each RO or an authorized designee must approve all written agreements. In most cases, the senior risk management specialist at the RO has been given authority to approve or deny written agreements based upon the risk management specialist's determination that the agreement is actuarially sound.

We found that RO risk management specialists did not routinely document their determinations to approve written agreement requests, and, in many cases, there was no evidence that the specialists actually analyzed the requests. Without having to explain their analyses or the basis for their determinations, the risk management specialists were under no obligation to justify how they came to approve written agreements that were not supported by the required documentation. Second-party reviews by senior risk management specialists did not require the staff specialists either to obtain the missing documents or to justify their determinations.

For the 202 agreements we reviewed, we credited the staff specialist with having actually analyzed the requests if he or she initialed some of the documents related to the requests. This occurred for 136 of the sampled agreements, where the staff specialist's initials appeared on some minimal documentation. For 66 of the sampled agreements, there was no evidence that the staff specialists analyzed the documentation. Further, the only evidence that the senior specialist performed a second-party review of the determinations made for any of the 202 agreements was the

senior specialist's signature on the agreements. For 13 agreements, the senior specialists had performed the initial analyses and, therefore, indicated approval of their own work. These 13 agreements were among the 66 with no evidence of primary analysis.

Because 136 agreements showed some evidence of primary analysis, we concluded that the determinations made by the staff specialists in these cases had undergone a second-party review. Conversely, because 66 agreements showed no evidence of primary analysis, we concluded there had been no second-party review. (We do not recognize approval of one's own work as constituting a "second-party" review.) We, therefore, estimate that in CY 2001, there were 3,027 requests that contained no evidence that senior risk management specialists performed required second-party reviews.

An RMA Insurance Services official stated that with over 14,000 written agreement requests, it would be very time-consuming to fully document the review performed in each case. However, the official agreed that on complex cases it would seem necessary to document the review.

We reviewed the proposed changes to the 2001 handbook and found no new requirement that risk management specialists justify their actuarial changes when approving written agreements.

Without sufficient documentation, RMA cannot ensure that the actuarial changes made for crops insured as a result of the approved written agreements were justified. We estimate that for CY 2001, RMA could have incurred an additional \$138.7 million in liabilities and \$7.6 million in producer premium subsidies for crops whose insurance coverage was based on written agreement requests that provided RMA with no assurance that the policies it was underwriting were actuarially sufficient.

RECOMMENDATION NO. 4

Include a step in the review form referred to in Recommendation No. 2 to document the analysis and determination performed by the staff risk management specialist as well as any review and approval performed by the senior risk management specialist, or other designee as assigned by the regional manager. Any deviation from procedure based on the knowledge and experience of field staff must be properly authorized and fully documented and justified in the applicable written agreement request file.

AGENCY RESPONSE

RMA concurs with the recommendation. RMA agrees, as a standard office practice, that a manager or designee review both the written agreement and file folder at the same time. Current procedure requires the written agreement to be worked and initialed for completeness and recommended for approval by the risk management specialist. It also requires the supervisor to review the agreement and sign for approval. RMA believes this process is sufficient to address the concern raised by OIG and believes no further action is required to resolve this issue.

OIG POSITION

We cannot accept the RMA management decision. Based on our review of the current procedure, we determined that 66 of the 202 statistically selected written agreements did not contain evidence of analysis by the risk management specialist. Even though the senior risk management specialist initially reviewed 13 of the 66 written agreements, there was no evidence of review for the remaining 53 (66 minus 13) written agreements. In addition, the 66 written agreements did not contain evidence of a second-party review. In order to reach management decision, we need a step included in the review form referred to in Recommendation No. 2 to document the analysis and determination performed by the staff risk management specialist, as well as the review and approval performed by the senior risk management specialist. We also believe this is a needed step to ensure that any deviation from procedure by the risk management specialist is fully documented and justified in the applicable written agreement request file.

FINDING NO. 4

RMA's data acceptance system does not always identify units associated with written agreements and does not always correctly identify the terms under which written agreements provided coverage. RMA does not have controls to ensure that insurance providers inputting written agreement data into RMA's database supply the appropriate information. Because information was missing or entered incorrectly, RMA officials could neither accurately track the number of written agreements nor ensure their effectiveness.

Manual FCIC-M13, The Federal Crop Insurance Data Acceptance System Handbook, requires that insurance providers report written agreement data to RMA. The providers enter the data directly into RMA's system once the producer informs the provider that the coverage for the units stipulated in the written agreement is desired. The provider issues a policy for the coverage and reports the coverage as having been issued under a written agreement.

a. Not All Units Insured Under Written Agreements Were Identified As Such In RMA's Data Acceptance System

Our review of the 202 statistically selected written agreements approved in CY 2001 revealed that many were not identified in the RMA data acceptance system. According to the insurance providers, 112 of our 202 sample written agreements resulted in insurance coverage. However, RMA's data acceptance system recognized only 65 of these 112 cases. For the remaining 47 cases, the insurance providers had entered the farm units without identifying them as being associated with written agreements. Of these 47 written agreements, 32 were for high-risk land. The remaining 15 cases represented 11 different written agreement types.

We estimate that 2,156 CY 2001 written agreements were not identified with their associated units in the RMA data acceptance system.

An RMA Insurance Services official stated that RMA continues to have a problem with the identification in the data acceptance system of units associated with approved written agreements. In 1999, the Insurance

Services Division was not capturing this data. Each year since 1999 it has improved on the process but still finds insurance units in the system that are related to written agreements but not identified as such.

Because many units were not identified in the RMA data acceptance system as having been insured under an issued written agreement, RMA officials were unable to accurately track the number of agreements either by total numbers or by total liabilities and indemnities paid. Furthermore, RMA officials were not able to determine the overall effectiveness of written agreements in achieving their purpose of providing actuarially sound crop insurance where programs were not in place.

b. Terms Of Written Agreements Were Not Always Correctly Identified In The Data Acceptance System

Insurance providers did not always enter into RMA's data acceptance system the same terms of coverage that appeared on the written agreements for the units insured. The RMA handbook for processing written agreements does not include a review process to determine if the terms on the written agreements, maintained by the ROs, were the ones actually applied to the applicable insured units.⁶

During our audit, we found that, for one sample agreement with an indemnity, the terms stated on the issued written agreement completed by the risk management specialist were not correctly identified in RMA's system and were not applied to the applicable insured unit by the insurance agent. This written agreement was for a new breaking request (i.e., land that had not been previously farmed). The new breaking of the land occurred in the spring of the current CY to be followed by planting. Because the land had not been previously farmed, RMA assigned it a transitional yield (T-yield) set by the county, instead of the yield historically achieved by the producer's other units. Further, because of reduced water and productivity on the land, the risk management specialist reduced the T-yield by 50 percent on the written agreement worksheet, recognizing the T-yield as "nonstandard."

On the written agreement maintained by the Billings, Montana, RO, the T-yield for the new unit was set at 12 bushels per acre. However, when OIG auditors reviewed the indemnity on this written agreement as it was entered into the data acceptance system, they found that the new unit actually received a yield of 34 bushels per acre, a yield that

⁶ Manual FCIC 24020, 2001 Written Agreement Handbook, section 4, dated November 2000.

reflected the producer's actual production history (APH) on the adjoining units. In establishing coverage and losses for the producer, the insurance provider used the producer's existing database, which contained the APH yield rather than the nonstandard T-yield and calculated the loss accordingly. Because the unit did not achieve the 34 bushels per acre, RMA paid an indemnity of \$915 on the unit.

The senior risk management specialist surmised that the problem on this written agreement occurred because procedures in the crop insurance handbook for CY 2001 did not require insurance providers to use a database separate from the existing APH database when encountering nonstandard T-yields. The handbook procedure for 2001 only required the providers to use a separate database if the land was in a different T-yield map area.

After we brought the discrepancy in this case to RMA's attention during our field review, the agency proposed a change in its handbook for CY 2003. Language was added to the handbook stating that a separate database was needed if the T-yield was different for any reason. In addition, the senior risk management specialist also stated that the RO now includes a statement on the written agreement (CY 2002) stating that when a reduced T-yield is issued, a separate database must be maintained for newly broken land the initial year of breakout.

Although this situation has been corrected, it clearly shows the vulnerability of not having a procedure in place to verify that the terms stated on the written agreements are correctly applied to the applicable insured units.

We reviewed the proposed changes to the 2001 handbook and did not find any procedures that would require a review of the terms and rates for insured units associated with issued written agreements.

A RMA Insurance Services official stated that RMA was definitely concerned that there was no subsequent review of written agreement terms. The official noted, however, that it was not possible for her division to review all of the units insured through written agreements.

We concluded that RMA needs to establish procedures that ensure the correct information is entered into the data acceptance system. Because insurance providers and not the ROs are responsible for entering this information, RMA should provide guidance to the providers that explains the process and the requirements. RMA should also make clear to the providers what enforcement actions it will take against those who repeatedly fail to identify the units associated with written agreements or

repeatedly misapply the terms of the agreements after having received the guidance.

RECOMMENDATION NO. 5

Establish a procedure to ensure that units insured under written agreements are properly entered into the data acceptance system or are reconciled to the written agreements issued by the ROs. Provide guidance to insurance providers explaining the process and requirements to input written agreement identification numbers into RMA databases for units insured under the applicable written agreements.

AGENCY RESPONSE

RMA concurs with the recommendation. RMA has enhanced the written agreement process to support the data acceptance system since 2001. Beginning with the 2003 reinsurance year, written agreements submitted to the data acceptance system are verified with the RO databases to ensure a written agreement was issued to insurance provider, producer crop, and county.

Each night, the databases of the ROs are accessed, and written agreement data is retrieved and used to update the written agreement table in the database. After the database has been updated, a process runs that creates a flat data file for data acceptance system edits for the following processing day. This data is then used to create an indexed sequential access method for the data acceptance system written agreement edits.

OIG POSITION

We cannot accept the RMA management decision. We understand that beginning in 2003, written agreements issued by the ROs are matched against the written agreements identified in the data acceptance system. It is our understanding that the insurance provider, producer crop, and county are verified in this check procedure. However, the proposed corrective action does not state whether the units insured through written agreements that are not listed in the data acceptance system by the insurance providers would be identified as errors. The proposed corrective action also does not identify actions taken when errors are identified. Our review determined that the insurance providers did not identify 47 out of 112 units insured through written agreements as such in the data acceptance system. In order to reach management decision, RMA needs

to clarify the current procedure to identify those units insured under written agreements that were not identified by the insurance providers in the data acceptance system and take corrective action or establish such a procedure. In addition, RMA needs to provide the additional guidance it will be providing to insurance providers to ensure that written agreement identification numbers are properly entered.

RECOMMENDATION NO. 6

procedures.

Establish a procedure to ensure that providers correctly apply the terms of the written agreements to the applicable units and provide guidance to the providers on these

AGENCY RESPONSE

RMA concurs with the recommendation. RMA believes the issue as to whether the “terms of the written agreements” have been correctly applied to the applicable unit(s) has been addressed in Recommendation No. 5. Recommendation No. 5 outlines a process for verifying the terms of the written agreement issued by the RO. This process is the same as those accepted by RMA for reinsurance.

In addition, RMA will assure that when the insured requests the written agreement to be reissued for the succeeding crop year, as part of the experience review, the risk management specialist will review and document (through the checklist discussed in Recommendation No. 2), to the extent possible, that the correct terms of the agreement were applied. When errors are discovered, the risk management specialist forwards the matter to the applicable compliance office for followup.

OIG POSITION

We cannot accept the RMA management decision. We understand that the new procedure instituted in 2003 ensures that written agreements submitted to the data acceptance system are verified with the RO databases to ensure a written agreement was issued to the insurance provider, producer crop, and county. However, the proposed corrective action does not include a match of the terms on the written agreement issued by the RO to the terms identified in the data acceptance system for those units insured through written agreements. In order to reach management decision, RMA needs to expand the verification of units insured through written agreements in the data acceptance system to include a review of the written agreement terms issued by the RMA ROs.

RECOMMENDATION NO. 7

of the agreements after
program requirements.

Establish the actions that will be taken against insurance providers who repeatedly fail to identify the units associated with written agreements, or repeatedly misapply the terms having received guidance from RMA on the

AGENCY RESPONSE

negotiated Standard Reinsurance Agreement.

RMA concurs with the recommendation. RMA responded that this recommendation has been previously incorporated into overall company performance assessments under the

OIG POSITION

We cannot accept the RMA management decision. We understand that the current Standard Reinsurance Agreement includes actions to be taken for collection of erroneous payments/overpayments and that sanctions and penalties can be imposed for program noncompliance and fraud. However, this language does not address situations where insurance providers continually fail to identify units associated with written agreements or misapply terms of written agreements. In order to reach management decision, we need additional information on procedures established to take corrective action against insurance providers who continually fail to identify units associated with written agreements or misapply terms of written agreements.

GENERAL COMMENTS

The statistics we gathered for this audit indicate that RMA expends much of its time analyzing requests for written agreements for which no insurance policies are ever issued. We are suggesting that RMA consider ways to reduce its workload by eliminating from its approval process those requests that are observably less apt to result in any type of crop insurance coverage.

As noted in the scope section of this report, the number of insurance policies issued as a result of requests for written agreements for CY 2001 was small compared to the number of requests themselves. Insurance providers issued insurance policies for 112 (55 percent) of the 202 requests for written agreements we sampled. However, our sample of 202 requests was drawn from a universe of 9,266 agreements issued, not the 13,809 total requests made in 2001. Consequently, the sample of 202 requests does not take into account the pool of 4,543 requests for which RMA did not issue an agreement. Consequently, the number of requests that actually result in insurance policies is considerably less than half the number of requests submitted, and may indeed be only a third of that number.

Insurance providers who forward their producers' requests for written agreements to RMA are in a position to distinguish a serious request from a disinterested one, yet they clearly do not exercise any discretion. Rather, they appear to place the burden of making such a distinction on RMA. The absence of required documentation, which is clearly prescribed in the handbook, is one indicator of the level of attention the providers are paying to those requests. (See Finding No. 1.)

We believe RMA needs to filter out requests that are not serious and that are apt to be disapproved automatically by RMA or, once approved, are apt to be rejected or ignored by the producer. One method is to require insurance providers to complete a certification and an attendant checklist with each request to show that the provider has reviewed the producer's documentation and attests to its completeness. Such a certification would not relieve ROs of ensuring the requests contained all necessary documentation, but it would give the providers cause to work with their clients to produce a serious request. Clients who are only marginally interested in the program may be disinclined to invest more time in their application.

EXHIBIT A - SUMMARY OF MONETARY RESULTS

CHAPTER NUMBER	FINDING NUMBER	DESCRIPTION	AMOUNT	CATEGORY
1	1	Written Agreements Approved Without Required Documentation for Actuarial Changes	\$7.6 million	FTBPTBU ^{1/} Management or Operating Improvements/ Savings
TOTAL			\$7.6 million	

^{1/} = Funds To Be Put To Better Use

EXHIBIT B – SUMMARY OF EXCEPTIONS BY TYPE OF WRITTEN AGREEMENT (WA), REGIONAL OFFICE, AND INSURANCE PROVIDER

	Exception: Number of WAs With:						Number of WAs With Policies	Exception: WA Policies Not Recorded in DAS*
	Number of WAs Reviewed	Inadequate/ Missing Required Documentation	Inadequate Followup to Obtain Documentation	No Check Against Prior Claim History	Ineffective Second-Party Reviews			
<u>Type of WA:</u>								
County With No Actuarial Documents	63	60	58	46	30	43	1	
Dry Beans	8	3	3	7	0	2	1	
High-Risk Land	78	11	11	25	19	40	32	
New Breaking	3	0	0	2	1	2	2	
Nonirrigated Corn	7	7	7	7	6	6	1	
Nursery Plant List	1	0	0	0	0	1	1	
Organic	4	3	3	3	2	4	1	
Other	2	1	0	0	0	1	1	
Peanut and Tobacco	7	7	7	2	0	4	3	
Policy Amendment	3	3	3	3	0	2	2	
Rotation Exception	1	1	1	1	0	0	0	
Special Purpose Corn Undesignated	2	1	1	2	0	2	0	
Type/Practice	14	11	11	11	7	2	0	
Unit Agreement	1	0	0	0	0	1	1	
Unrated, Unclassified	8	3	3	3	1	2	1	
Total	202	111	108	112	66	112	47	
<u>Regional Office:</u>								
Billings	56	34	34	44	22	22	6	
Jackson	22	11	11	12	2	10	5	
Oklahoma City	14	11	10	9	4	6	2	
Raleigh	8	8	8	6	3	7	2	
Spokane	5	5	5	4	1	3	0	
Springfield	52	11	10	16	11	32	22	
St. Paul	12	7	7	6	10	9	2	
Topeka	23	16	15	13	13	17	5	
Valdosta	9	8	8	2	0	6	3	
Davis	1	0	0	0	0	0	0	
Total	202	111	108	112	66	112	47	

* = Data Acceptance System

	Exception: Number of WAs With:						Exception: WA Policies Not Recorded in DAS*
	Number of WAs Reviewed	Inadequate/ Missing Required Documentation	Inadequate Followup to Obtain Documentation	No Check Against Prior Claim History	Ineffective Second Party Reviews	Number of WAs With Policies	
<u>Insurance Provider:</u>							
American Agri-Business	24	9	7	7	10	16	10
Blakely Crop Hail	10	8	8	5	1	7	2
Country Insurance	4	0	0	1	2	3	3
Fireman's Fund	14	7	7	9	3	5	3
Great American	16	8	8	9	5	5	3
Heartland Crop Insurance	2	2	2	1	1	1	0
IGF Insurance	32	15	15	17	10	17	6
NAU Country Insurance	4	1	1	2	1	1	0
North Central Crop Ins.	11	8	8	10	6	10	0
Rain & Hail	47	30	30	30	15	24	13
Rural Community	37	22	21	21	11	22	7
The Hartford	1	1	1	0	1	1	0
Total	202	111	108	112	66	112	47

* = Data Acceptance System

EXHIBIT C - SUMMARY OF SAMPLE WRITTEN AGREEMENTS WITH POLICIES BY TYPE, REGIONAL OFFICE, AND INSURANCE PROVIDER

DESCRIPTION	NUMBER OF WAs	NUMBER OF WAs WITH POLICIES	LIABILITIES	PREMIUM	PRODUCER SHARE OF PREMIUM	INDEMNITY
<u>Type:</u>						
County With No Actuarial Documents	63	43	\$ 2,244,240	\$ 208,953	\$ 82,289	\$ 81,584
Dry Beans <u>1/</u>	8	2	9,358	1,068	481	7,287
High-Risk Land <u>2/</u>	78	40	1,487,939	179,702	97,711	371,318
New Breaking	3	2	25,921	2,778	1,139	1,055
Nonirrigated Corn	7	6	115,227	20,373	8,072	0
Nursery Plant List	1	1	107,029	5,458	2,238	0
Organic	4	4	60,358	5,201	2,132	3,724
Other	2	1	1,125	171	70	36
Peanut and Tobacco	7	4	87,348	6,021	2,664	1,574
Policy Amendment	3	2	269,206	12,418	5,588	0
Rotation Exception	1	0	0	0	0	0
Special Purpose Corn Undesignated Type/Practice	2	2	22,170	4,574	2,292	0
Unit Agreement	14	2	21,518	2,517	1,281	0
Unrated, Unclassified	1	1	486,856	82,976	34,020	0
	8	2	12,939	1,007	355	0
Total	202	112	\$ 4,951,234	\$ 533,217	\$ 240,332	\$ 466,578
<u>Regional Office:</u>						
Billings	56	22	\$ 336,560	\$ 42,854	\$ 17,431	\$ 11,926
Jackson <u>2/</u>	22	10	1,134,641	151,524	86,467	400,146
Oklahoma City	14	6	537,370	92,298	37,841	197
Raleigh	8	7	438,639	27,655	10,058	0
Spokane	5	3	24,865	1,314	485	0
Springfield	52	32	860,880	72,919	30,914	22,037
St. Paul	12	9	733,118	59,277	24,874	9,737
Topeka	23	17	189,622	26,400	10,206	11,177
Valdosta	9	6	695,539	58,976	22,056	11,358
Davis	1	0	0	0	0	0
Total	202	112	\$ 4,951,234	\$ 533,217	\$ 240,332	\$ 466,578

DESCRIPTION	NUMBER OF WAs	NUMBER OF WAs WITH POLICIES	LIABILITIES	PREMIUM	PRODUCER SHARE OF PREMIUM	INDEMNITY
<u>Insurance Provider:</u>						
American Agri-Business	24	16	\$ 423,650	\$ 34,870	\$ 14,982	\$ 731
Blakely Crop Hail	10	7	170,480	19,625	8,623	15,475
Country Insurance	4	3	35,210	1,505	626	0
Fireman's Fund	14	5	94,718	8,531	3,498	0
Great American	16	5	869,666	117,662	48,260	0
Heartland Crop Insurance	2	1	3,214	641	263	0
IGF Insurance	32	17	317,414	34,212	14,224	32,620
NAU Country Insurance	4	1	12,401	1,432	587	0
North Central Crop Ins.	11	10	215,970	21,212	8,926	10,898
Rain & Hail 2/	47	24	2,125,546	239,665	119,500	376,046
Rural Community	37	22	675,101	53,476	20,685	30,808
The Hartford	1	1	7,864	386	158	0
Total	202	112	\$ 4,951,234	\$ 533,217	\$ 240,332	\$ 466,578

1/ Only one written agreement for this type had a loss. This was a renewal request, and the producer did not have a loss in the previous year.

2/ The large indemnity loss ratio was related to a high-risk land written agreement for cotton. The insurance unit related to this written agreement had a liability of \$747,717 and an indemnity of \$365,207. The loss was not related to the high-risk land factor but was due to excess moisture/precipitation. The excess moisture caused high humidity in the Mississippi Delta Region when the cotton balls were opening. Gage data examined for the last 20 years indicated that a flood would not have damaged the crop.

EXHIBIT D – LISTING OF EXCEPTIONS BY TYPE OF WRITTEN AGREEMENT

Type of Written Agreement:	Exceptions:								
	Incomplete WA Request Submitted	Missing Required Documentation						Inadequate Followup to Obtain Documentation	No Check Against Prior Claim History
		1	2	3	4	5	6		
WA No:									
County With No Actuarial Documents									
00104267	X		X	X	X	X		X	X
00104341	X	X	X	X	X	X		X	
00104460	X			X	X	X		X	X
00104561	X		X	X	X	X		X	
00104732	X	X	X	X	X	X		X	X
00104742	X			X	X		X	X	X
00204093	X			X	X	X	X	X	X
00204099	X	X		X	X			X	
00304135	X		X		X	X		X	
00304536	X		X		X		X	X	X
00304541	X	X	X		X		X	X	X
00304547	X		X	X	X	X		X	
00304596									X
00304712	X	X	X	X	X		X	X	X
00405237	X		X	X	X			X	
00405241	X			X		X			X
00503765									
00503825	X			X	X			X	X
00503911	X		X	X	X		X	X	X
00503957	X		X					X	X
00503984									
00504015	X		X	X	X	X	X	X	X
00504033	X		X	X	X		X	X	X
00504044	X		X	X	X			X	
00607019	X			X	X			X	X
00607459	X	X		X	X			X	
00607732	X			X				X	X
00607851	X		X	X	X			X	X
00607896	X	X	X	X	X	X		X	X
00608070	X			X			X	X	X
00608511	X		X	X	X			X	X
00608628	X	X	X	X	X	X		X	X

Type of Written Agreement:	Exceptions:								
	Incomplete WA Request Submitted	Missing Required Documentation						Inadequate Followup to Obtain Documentation	No Check Against Prior Claim History
		1	2	3	4	5	6		
WA No:									
00608654	X		X	X	X			X	X
00608696	X			X	X			X	
00608836	X			X	X			X	X
00609164	X		X	X	X	X		X	X
00704122	X			X	X		X	X	X
00704491	X		X	X				X	X
00704498	X		X	X	X		X	X	X
00704554	X	X	X	X	X		X	X	X
00704622	X	X	X	X	X	X	X	X	X
00704711	X		X	X	X			X	
00704736	X		X	X	X	X	X	X	X
00704763	X	X			X		X	X	X
00704802	X			X	X		X		
00704883	X		X	X	X	X	X	X	X
00704934	X		X	X		X	X	X	X
00705050	X		X	X	X		X	X	X
00705150	X			X	X		X	X	X
00705238	X		X	X	X	X	X	X	
00705568	X		X	X	X	X		X	
00804323	X			X	X		X	X	X
00804482	X		X	X	X	X		X	X
00804598	X			X	X		X	X	X
00804889	X		X	X	X	X		X	X
00804908	X			X	X			X	
00805315	X		X	X	X	X		X	X
00805445	X		X	X	X	X	X	X	
00805620	X		X	X	X		X	X	X
00805741	X	X	X	X	X			X	X
00805805	X		X					X	X
01003197	X		X	X	X			X	X
01003270	X		X	X	X		X	X	X
63 Reviewed WAs	60	12	41	54	53	23	26	58	46
Dry Beans									
00607437				N/A	N/A		N/A		X
00607698	X			N/A	N/A	X	N/A	X	X
00607701	X			N/A	N/A	X	N/A	X	X
00608104				N/A	N/A		N/A		
00608106				N/A	N/A		N/A		X
00608793	X		X	N/A	N/A		N/A	X	X
00608901				N/A	N/A		N/A		X

Type of Written Agreement:	Exceptions:								
	Incomplete WA Request Submitted	Missing Required Documentation						Inadequate Followup to Obtain Documentation	No Check Against Prior Claim History
		1	2	3	4	5	6		
WA No:									
00608979				N/A	N/A		N/A		X
8 Reviewed WAs	3	0	1	0	0	2	0	3	7
High-Risk Land									
00304197				N/A	N/A		N/A		
00304210				N/A	N/A		N/A		
00304229				N/A	N/A		N/A		
00304234	X	X		N/A	N/A	X	N/A	X	
00304293				N/A	N/A		N/A		
00304454				N/A	N/A		N/A		
00304458	X	X		N/A	N/A		N/A	X	X
00304577				N/A	N/A		N/A		X
00304589	X	X		N/A	N/A		N/A	X	
00304649				N/A	N/A		N/A		X
00304766				N/A	N/A		N/A		X
00304789	X	X		N/A	N/A		N/A	X	
00304865	X	X		N/A	N/A		N/A	X	X
00304925				N/A	N/A		N/A		X
00304941				N/A	N/A		N/A		X
00405205				N/A	N/A		N/A		
00405313	X	X		N/A	N/A		N/A	X	X
00405472				N/A	N/A		N/A		
00405475	X	X		N/A	N/A	X	N/A	X	
00405512				N/A	N/A		N/A		
00405533				N/A	N/A		N/A		
00405552				N/A	N/A		N/A		
00405568				N/A	N/A		N/A		
00405588				N/A	N/A		N/A		
00405613	X	X		N/A	N/A	X	N/A	X	X
00405713				N/A	N/A		N/A		
00405760				N/A	N/A		N/A		
00405777				N/A	N/A		N/A		X
00405819				N/A	N/A		N/A		
00405832				N/A	N/A		N/A		
00405918				N/A	N/A		N/A		X
00405960				N/A	N/A		N/A		X
00405996				N/A	N/A		N/A		
00406001				N/A	N/A		N/A		
00406003				N/A	N/A		N/A		

Type of Written Agreement:	Exceptions:								
	Incomplete WA Request Submitted	Missing Required Documentation						Inadequate Followup to Obtain Documentation	No Check Against Prior Claim History
		1	2	3	4	5	6		
WA No:									
00406098			N/A	N/A		N/A		X	
00406100			N/A	N/A		N/A		X	
00406170			N/A	N/A		N/A			
00406199			N/A	N/A		N/A			
00406211			N/A	N/A		N/A			
00406220			N/A	N/A		N/A			
00406280			N/A	N/A		N/A			
00406285			N/A	N/A		N/A			
00406406			N/A	N/A		N/A			
00406413			N/A	N/A		N/A			
00406428			N/A	N/A		N/A			
00406490			N/A	N/A		N/A			
00406500			N/A	N/A		N/A		X	
00406501			N/A	N/A		N/A			
00406570			N/A	N/A		N/A			
00406585	X		N/A	N/A	X	N/A	X	X	
00406660			N/A	N/A		N/A			
00406662			N/A	N/A		N/A			
00406682			N/A	N/A		N/A			
00406761			N/A	N/A		N/A		X	
00503673			N/A	N/A		N/A		X	
00503849	X	X	N/A	N/A		N/A	X		
00503987			N/A	N/A		N/A			
00607383			N/A	N/A		N/A		X	
00607420			N/A	N/A		N/A			
00607707			N/A	N/A		N/A			
00607787			N/A	N/A		N/A			
00607790			N/A	N/A		N/A		X	
00608091			N/A	N/A		N/A			
00608091			N/A	N/A		N/A			
00608721			N/A	N/A		N/A		X	
00609193			N/A	N/A		N/A			
00609214			N/A	N/A		N/A		X	
00609221			N/A	N/A		N/A		X	
00609248			N/A	N/A		N/A		X	
00704293	X	X	N/A	N/A	X	N/A	X	X	
00704369			N/A	N/A		N/A			
00704385			N/A	N/A		N/A			
00704434			N/A	N/A		N/A			
00704504			N/A	N/A		N/A			
00705034			N/A	N/A		N/A			
00705529			N/A	N/A		N/A			

Type of Written Agreement:	Exceptions:								
	Incomplete WA Request Submitted	Missing Required Documentation						Inadequate Followup to Obtain Documentation	No Check Against Prior Claim History
		1	2	3	4	5	6		
WA No:									
00805676				N/A	N/A		N/A		
78 Reviewed WAs	11	10	0	0	0	5	0	11	25
New Breaking									
00608028				N/A	N/A		N/A		
00609194				N/A	N/A		N/A		X
00705614				N/A	N/A		N/A		X
3 Reviewed WAs	0	0	0	0	0	0	0	0	2
Nonirrigated Corn									
00607273	X		X	N/A	N/A		N/A	X	X
00607279	X	X	X	N/A	N/A	X	N/A	X	X
00607860	X			N/A	N/A	X	N/A	X	X
00607975	X		X	N/A	N/A	X	N/A	X	X
00608584	X		X	N/A	N/A	X	N/A	X	X
00608598	X		X	N/A	N/A		N/A	X	X
00608801	X		X	N/A	N/A		N/A	X	X
7 Reviewed WAs	7	1	6	0	0	4	0	7	7
Nursery Plant List									
00203825				N/A	N/A		N/A		
1 Reviewed WA	0	0	0	0	0	0	0	0	0
Organic									
00104748	X			N/A	N/A	X	N/A	X	X
00608523				N/A	N/A		N/A		
00609270	X			N/A	N/A	X	N/A	X	X
01003261	X	X	X	N/A	N/A	X	N/A	X	X
4 Reviewed WAs	3	1	1	0	0	3	0	3	3
Other									
00804508	X			N/A	N/A	X	N/A		
00903316				N/A	N/A		N/A		
2 Reviewed WAs	1	0	0	0	0	1	0	0	0
Peanut & Tobacco									
00104448	X	X	X	N/A	N/A	X	N/A	X	X

Type of Written Agreement:	Exceptions:								
	Incomplete WA Request Submitted	Missing Required Documentation						Inadequate Followup to Obtain Documentation	No Check Against Prior Claim History
		1	2	3	4	5	6		
WA No:									
00203873	X		X	N/A	N/A	X	N/A	X	
00203927	X			N/A	N/A	X	N/A	X	
00203980	X			N/A	N/A	X	N/A	X	
00204120	X		X	N/A	N/A	X	N/A	X	
00204132	X			N/A	N/A	X	N/A	X	
00204151	X			N/A	N/A	X	N/A	X	X
7 Reviewed WAs	7	1	3	0	0	7	0	7	2
Policy Amendment									
00405973	X	X	X	N/A	N/A	X	N/A	X	X
00406312	X	X	X	N/A	N/A	X	N/A	X	X
00406724	X	X	X	N/A	N/A	X	N/A	X	X
3 Reviewed WAs	3	3	3	0	0	3	0	3	3
Rotation Exception									
01003319	X		X	N/A	N/A	X	N/A	X	X
1 Reviewed WA	1	0	1	0	0	1	0	1	1
Spec Purpose Corn									
00405461	X	X	X	N/A	N/A	X	N/A	X	X
00805433				N/A	N/A		N/A		X
2 Reviewed WAs	1	1	1	0	0	1	0	1	2
Undesig Type/Prac									
00405811				N/A	N/A		N/A		
00504069				N/A	N/A		N/A		
00606711				N/A	N/A		N/A		X
00606893	X	X	X	N/A	N/A	X	N/A	X	X
00606950	X	X	X	N/A	N/A	X	N/A	X	X
00606991	X	X	X	N/A	N/A	X	N/A	X	X
00606995	X	X	X	N/A	N/A	X	N/A	X	X
00607038	X		X	N/A	N/A	X	N/A	X	X
00607071	X	X	X	N/A	N/A	X	N/A	X	X
00607207	X		X	N/A	N/A	X	N/A	X	X
00607235	X	X	X	N/A	N/A	X	N/A	X	X
00607334	X	X	X	N/A	N/A	X	N/A	X	X
00608356	X		X	N/A	N/A	X	N/A	X	X

Type of Written Agreement:	Exceptions:								
	Incomplete WA Request Submitted	Missing Required Documentation						Inadequate Followup to Obtain Documentation	No Check Against Prior Claim History
		1	2	3	4	5	6		
WA No:									
01003240	X		X	N/A	N/A	X	N/A	X	
14 Reviewed WAs	11	7	11	0	0	11	0	11	11
Unit Agreement									
00805244				N/A	N/A		N/A		
1 Reviewed WA	0	0	0	0	0	0	0	0	0
Unrate, Unclass									
00304845	X	X		N/A	N/A		N/A	X	X
00606739	X	X	X	N/A	N/A	X	N/A	X	X
00405117	X		X	N/A	N/A	X	N/A	X	X
00405046				N/A	N/A		N/A		
00405030				N/A	N/A		N/A		
00405096				N/A	N/A		N/A		
00405291				N/A	N/A		N/A		
00606713				N/A	N/A		N/A		
8 Reviewed WAs	3	2	2	0	0	2	0	3	3
202 Reviewed WAs									
GRAND TOTALS	111	38	70	54	53	63	26	108	112

Column Footnotes:

- 1 – A completed APH form based on verifiable records of actual yields for the crop.
- 2 – Evidence of adaptability, documentation from the local agricultural offices that the crop can be grown in the county.
- 3 – Dates the applicant and other growers in the area normally plant and harvest the crop.
- 4 – Name, location of, and approximate distance to the location at which the crop will be sold or used by the applicant.
- 5 – A legal description of the land, FSA farm serial number including tract number, and an FSA aerial photograph or legible maps delineating field boundaries where the applicant intends to plant the crop for which insurance is requested.
- 6 – The irrigated water source, method of irrigation, and the amount of water for irrigated coverage.

EXHIBIT E – SUMMARY OF LOSS RATIOS BY CROP

NUM.	CROP	ALL WAs FOR CY 2001			ALL CROP POLICIES		
		PREMIUM	INDEMNITY	2/ LOSS RATIO	PREMIUM	INDEMNITY	2/ LOSS RATIO
1	Apples <u>3/ 4/</u>	\$ 140,890	\$ 337,434	2.40	\$ 23,925,421	\$ 28,294,107	1.18
2	Barley	88,626	106,719	1.20	20,950,518	40,271,781	1.92
3	Burley tobacco <u>3/ 4/</u>	3,005	6,986	2.32	14,937,421	15,539,918	1.04
4	Canola	83,824	64,916	0.77	15,260,259	17,068,442	1.12
5	Cigar binder tobacco	1,543	0	0.00	1,084,933	1,356,229	1.25
6	Corn <u>4/ 5/</u>	3,284,624	2,473,766	0.75	864,892,608	549,059,441	0.63
7	Cotton <u>4/ 5/</u>	971,458	1,528,774	1.57	444,598,981	544,848,121	1.23
8	Cotton ex long staple	767	0	0.00	6,107,866	8,790,096	1.44
9	Crambe <u>4/</u>	21,348	8,999	0.42	105,256	35,465	0.34
10	Cranberries <u>4/</u>	338	169	0.50	1,036,791	447,265	0.43
11	Dark air tobacco	192	0	0.00	204,550	71,837	0.35
12	Dry beans <u>4/ 5/</u>	1,125,100	2,440,707	2.17	28,684,221	56,531,661	1.97
13	Dry peas <u>3/ 4/</u>	31,107	39,924	1.28	1,669,742	744,600	0.45
14	Figs	1,187	0	0.00	293,657	347,955	1.18
15	Fire cured tobacco	281	0	0.00	1,174,257	915,868	0.78
16	Flax <u>4/</u>	26,684	24,310	0.91	3,304,813	2,108,746	0.64
17	Flue cured tobacco <u>3/ 4/</u>	46,570	234,434	5.03	22,840,341	21,631,053	0.95
18	Forage production	282,550	161,438	0.57	17,134,333	27,181,595	1.59
19	Forage seeding <u>4/</u>	131,461	72,298	0.55	1,106,110	461,675	0.42
20	Fresh freestone peaches <u>3/4/</u>	29,107	95,147	3.27	908,943	303,574	0.33
21	Fresh market sweet corn <u>4/5/</u>	323,764	564,759	1.74	3,298,865	3,909,429	1.19
22	Fresh market tomatoes <u>4/ 5/</u>	3,699,804	3,837,836	1.04	13,299,958	9,360,055	0.70
23	Fresh nectarines <u>4/</u>	12,900	18,360	1.42	1,422,392	1,154,195	0.81
24	Grain sorghum	66,468	76,654	1.15	75,889,050	109,909,682	1.45
25	Grapefruit	70,817	0	0.00	324,369	52,164	0.16
26	Grapes <u>4/</u>	171,589	120,103	0.70	33,221,245	17,777,693	0.54
27	Green peas	46,848	7,432	0.16	2,728,702	2,202,724	0.81
28	Hybrid grain sorghum	45,156	14,752	0.33	1,364,196	936,776	0.69
29	Hybrid corn seed <u>4/</u>	37,222	19,043	0.51	11,541,986	1,969,489	0.17
30	Macadamia trees	561,264	0	0.00	839,245	0	0.00
31	Mandarins	3,514	0	0.00	120818	24212	0.20
32	Maryland tobacco <u>4/</u>	3,619	3,574	0.99	9,914	3,574	0.36
33	Minneola tangelos	5,210	0	0.00	365,748	387,576	1.06
34	Mustard	6,445	368	0.06	136,901	48,173	0.35
35	Navel oranges	32,985	0	0.00	6,303,445	654,743	0.10

NUM.	CROP	ALL WAs FOR CY 2001			ALL CROP POLICIES		
		PREMIUM	INDEMNITY	2/ LOSS RATIO	PREMIUM	INDEMNITY	2/ LOSS RATIO
36	Nursery (fg&c)	0	0	0.00	47,190,199	38,781,390	0.82
37	Oats <u>3/ 4/</u>	9,035	15,665	1.73	3,413,786	2,938,420	0.86
38	Onions	630,677	391,022	0.62	10,591,648	10,815,009	1.02
39	Peaches	383,017	317,604	0.83	7,297,992	7,823,478	1.07
40	Peanuts	365,990	219,814	0.60	54,702,691	61,258,933	1.12
41	Pears <u>4/</u>	16,472	14,590	0.89	1,651,060	1,131,983	0.69
42	Peppers <u>3/ 4/ 5/</u>	788,495	1,971,094	2.50	6,177,255	3,872,302	0.63
43	Plums <u>3/ 4/</u>	14,441	70,644	4.89	1,723,663	1,525,127	0.88
44	Popcorn <u>4/</u>	319,977	108,557	0.34	3,223,394	816,532	0.25
45	Potatoes <u>4/ 5/</u>	2,197,057	3,152,785	1.44	57,727,283	52,953,076	0.92
46	Processing beans	168,246	164,488	0.98	1,658,150	1,760,571	1.06
47	Processed peaches	6,250	2,163	0.35	207,600	114,609	0.55
48	Rice	21,693	8,877	0.41	19,853,144	12,177,973	0.61
49	Rye	18,273	7,416	0.41	106,871	82,441	0.77
50	Safflower	5,523	95	0.02	595,543	1,054,596	1.77
51	Soybeans <u>4/ 5/</u>	835,925	693,352	0.83	509,367,939	300,309,304	0.59
52	Sugarbeets	134,477	39,399	0.29	31,042,193	44,671,913	1.44
53	Sugarcane	902	0	0.00	8,846,828	313,970	0.04
54	Sunflowers	330,347	310,614	0.94	28,742,236	51,418,772	1.79
55	Sweet corn	32,809	0	0.00	3,270,625	1,324,848	0.41
56	Tomatoes	68,134	0	0.00	10,414,553	5,135,511	0.49
57	Valencia oranges	8,698	0	0.00	3,993,669	1,200,696	0.30
58	Walnuts	621	0	0.00	2,129,845	977,189	0.46
59	Wheat <u>4/ 5/</u>	467,278	774,800	1.66	408,909,459	596,417,289	1.46
	TOTALS	\$18,182,604	\$20,521,881	1.13	\$2,843,925,481	\$2,663,275,846	0.94

1/ The comparison of the loss ratios for all written agreements recorded in the system are limited as a result of all written agreements not identified in the RMA Data Acceptance System (Finding No. 4).

2/ The loss ratio is computed by dividing the indemnity by the premium.

3/ The loss ratio for all written agreements recorded in the RMA data acceptance system for these eight crops was more than 2 times higher than the loss ratio for all crop policies of these crops and exceeded the RMA goal of 1.07.

4/ The loss ratio for these 26 crops insured through written agreements exceeded the loss ratio for all crop policies of these same crops.

5/ The loss ratio for these nine crops insured through written agreements exceeded the loss ratio for all crop policies of these same crops and had indemnities greater than \$500,000.

EXHIBIT F – STATISTICAL SAMPLE DESIGN

STATISTICAL SAMPLE DESIGN WRITTEN AGREEMENTS AUDIT

The general statistical sample design for this audit was a simple random sampling scheme where written agreements were selected from a universe supplied by the RMA. A 95-percent, two-sided confidence level was used for all the statistical estimates in this review.

Sample Design

A universe of 9,266 written agreements was identified for this simple random sample design. There was no stratification of these 9,266 agreements. A sample size of 202 agreements was selected. All agreements were selected with equal probability without replacement. The sample unit was a written agreement.

Statistical Analysis

The statistical sample design, selection, and statistical estimation were accomplished on a DELL Pentium Personal Computer using SAS and SUDAAN. The statistical estimates used for projections along with their standard errors were produced using the SAS-callable version of SUDAAN, a software system that analyzes sample survey data gathered from complex multistage sample designs. SUDAAN was written by B.V. Shah of Research Triangle Institute, Research Triangle Park, North Carolina.

The term sample precision (sp), as used in the report for estimating totals, averages, and number of occurrences, is defined as:

$$sp = \frac{t * STDERR}{PTEST}$$

where

t - t factor for a 95-percent, two-sided confidence level
PTEST - point estimate (total, average, percentage, or number of occurrences)
STDERR - standard error of the point estimate

The sample precision for estimating percentage values is defined as

$$sp = t * STDERR$$

where

t - t factor for a 95-percent, two-sided confidence level
STDERR - standard error of the point estimate (percentage value)

EXHIBIT G – SUMMARY OF STATISTICAL ESTIMATES

VARIABLE DESCRIPTION	EXPLANATION	STATISTICAL ESTIMATE	LOWER 95% CONFIDENCE LIMIT	UPPER 95% CONFIDENCE LIMIT	SAMPLE PRECISION
Totals:					
Liability	Dollars	\$ 227,119,476.46	\$ 121,540,116.51	\$ 332,698,836.40	0.465
Premium	Dollars	\$ 24,459,350.11	\$ 10,970,962.86	\$ 37,947,737.36	0.551
Producer Premium	Dollars	\$ 11,024,338.18	\$ 3,847,312.30	\$ 18,201,364.05	0.651
Subsidized Premium	Dollars	\$ 13,435,011.93	\$ 6,792,927.46	\$ 20,077,096.41	0.494
Liability <u>1/</u>	Dollars	\$ 138,768,762.78	\$ 67,060,143.15	\$ 210,477,382.42	0.517
Subsidized Premium <u>1/</u>	Dollars	\$ 7,641,835.34	\$ 4,150,587.42	\$ 11,133,083.25	0.457
Percentages:					
	Missing Documentation	54.95	48.11	61.79	6.844
	No Second-Party Review	32.67	26.22	39.13	6.452
	No Previous Claim Review	55.45	48.61	62.28	6.837
Occurrences:					
	Missing Documentation	5,091.71	4,457.54	5,725.89	0.125
	No Second-Party Review	3,027.50	2,429.69	3,625.32	0.197
	No Previous Claim Review	5,137.58	4,504.07	5,771.10	0.123
	Not Recorded in Database	2,155.95	1,617.38	2,694.52	0.250

1/ The statistical estimates, along with the lower and upper 95-percent confidence limits for this variable description, were for missing documentation.

EXHIBIT H – BILLINGS RO'S RESPONSE TO EXCEPTIONS



United States Department of Agriculture
Farm and Foreign Agricultural Services
Risk Management Agency

October 9, 2002

Robert E. Gray, Regional Inspector General for Audit
USDA, Office of Inspector General
101 South Main Street, Suite 309
Temple, Texas 76501

RE: RISK MANAGEMENT AGENCY (RMA) – REVIEW OF WRITTEN AGREEMENTS

Dear Mr. Gray:

Thank you for sharing the findings regarding the review of Requests for Actuarial Change (Written Agreements) received and processed by the Billings Regional Office. The Billings Regional Office is committed to processing these requests in accordance with approved policy and procedure by requiring only the necessary information from the agents, companies, and producers involved so that we can accurately assess the underwriting risk.

In review of the attached matrix, it is obvious in reviewing these requests that we are not following all the requirements of our procedure to the letter. Both the Crop Insurance Handbook and Written Agreement Handbook have a column that states "Minimum Supporting Documentation" some of which we do not routinely require. There are a number of reasons why we do not routinely require this information, but if I had to summarize, it is based on the knowledge and expertise of our staff and their knowledge of agronomics and the land in the region. Quite simply the knowledge and experience of our reviewers often obviates the need for the "minimum supporting documentation". With this knowledge each reviewer makes the decision when more information is needed to make an actuarially sound determination.

It is our opinion that in order to be fully compliant with the letter of our procedure, the procedure will need to be changed giving regional offices the discretion to require more information if necessary. Attached is additional information on each written agreement that was sampled for review that we hope further explains our review process of these requests.

Thank you for sharing the preliminary results of your audit. If you have any further questions, please don't hesitate to call Gayle Wentling or myself.

Sincerely,

A handwritten signature in black ink, appearing to read "David Nickless".

David Nickless
Deputy Director



Regional Office • 2110 Overland Ave., Suite 106 • Billings, Montana 59102
Phone (406) 657-6447 • Fax (406) 657-6573

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EXHIBIT I – JACKSON RO'S RESPONSE TO EXCEPTIONS



United States Department of Agriculture
Farm and Foreign Agricultural Services
Risk Management Agency



Risk Management Regional Office
8 River Bend Place
Jackson, MS 39232

(601) 965-4771
(601) 965-4517 FAX

September 27, 2002

MEMORANDUM

TO: Robert E. Grey
Regional Inspector General for Audit
Office of Inspector General, Southwest Region

FROM: Rock W. Davis 
Director

SUBJECT: Review of Written Agreements

As requested in your memo dated September 3, 2002, attached is a copy of page 1 of your spreadsheet with Column R completed. The discrepancies you noted for each sampled agreement are addressed on a separate page with supporting documentation attached to the page. Also included is a copy of the Written Agreement Section from the 2001 Crop Insurance Handbook labeled as Exhibit 1 and a copy of page 1 of the 2001 Written Agreement Handbook (Exhibit 2) with the note under the purpose section highlighted. This note states that the language in the Crop Insurance Handbook takes precedence over the Written Agreement Handbook whenever there is a conflict between the two. The language in Exhibit 1 is cited in our response several times.

Although each sampled agreement had several columns marked as having a discrepancy, in many instances one discrepancy created the discrepancies in the remaining columns.

Missing APH document was the most frequent discrepancy of this type noted. This form is required for new requests and is needed in many instances to make a determination for a request. In some instances, producers have submitted their production history with a request although it was not on the APH form. We have accepted this information as a substitute for the APH form and processed the request. Other times, we have processed a request that did not include the APH form because having the form would not have changed our determination. We require that producers submit the APH form because it is needed in many instances to make a determination and there is no way to specify which requests would not require the form until after a review of the request is completed.

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Page 2
Memorandum
September 27, 2002

Missing land description and/or aerial photos was the next most frequent discrepancy noted. This information is needed and required only for first time requests or when requesting a review of additional land not on a previous request. Renewal agreements do not require the land description except as shown on the previous request.

Missing information on crop adaptability, dates and markets was also noted as a discrepancy for several requests. This information is required for initial requests for crops in counties without actuarial programs. It is not required for renewal of a request previously issued. It also becomes less important or not important at all after several requests have been approved for the crop in the county or if the crop has an insurance program in an adjoining or nearby county.

We believe we have individually addressed the discrepancies you noted in our reply to each individual agreement in your sample. However, in an effort to improve the timeliness of our response and to insure that we receive all required information with each request, we have developed a checklist to be used by the person who enters the agreement in the log when it is first received. This person will review each request as it is received and logged. If any required information is missing, processing on the agreement will be suspended and a written request for the missing information will be sent. The request will not be processed until the missing information is received and the request will be rejected if the information is not timely received. A copy of the checklist is attached and labeled exhibit 3.

If you have any questions or need additional information, you may contact me at (601) 965-4771.

Attachment(s)

cc: Marian Jenkins

EXHIBIT J – RMA’S RESPONSE

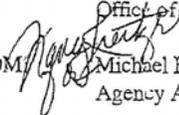


United States Department of Agriculture

Farm and Foreign Agricultural Services
Risk Management Agency

NOV 20 2003

TO: Richard D. Long
Assistant Inspector General for Audit
Office of Inspector General

FROM:  Michael Hand
Agency Audit Liaison Official

SUBJECT: OIG Official Draft Audit Report 05601-11-TE, Review of Written Agreements

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

RECOMMENDATION NO. 1

Establish procedures for RMA National Office oversight of RO activities related to the written agreements program.

RMA response:

Concur. The Assistant Deputy Administrator for Insurance Services who directs and supervises the RMA Regional Offices (RO) will conduct reviews of written agreements in each RO. These reviews will be analysis of data in the RO written agreement system and on actual on-site visits and records reviews in each RO. Reports will be issued after each review. Procedures for conducting reviews will be issued within 90 days from the date of this memorandum. RMA requests management decision be reached for this recommendation.

RECOMMENDATION NO. 2

Develop a review form and guidance to include a checklist to ensure that all needed and required documentation has been obtained and reviewed to ensure that actuarial changes made by issued written agreements are justified. A copy of the signed, completed review form should be maintained as part of the written agreement file documentation.



1400 Independence Ave., SW * Stop 0806 * Washington, DC 20250-0806

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RMA response:

Concur. The Assistant Deputy Administrator for Insurance Services, who directs and supervises the RMA ROs, will issue a review form and guidance to include a checklist within 90 days from the date of this memorandum. This form will be part of the written agreement file and subject to review by the Assistant Deputy Administrator. However, while current procedure does generally require that all "required information" be sent to the RO, the actual use of or need for information to issue a written agreement is highly variable depending on the crop and type of actuarial request being made. In many instances certain "required information" would be inconsequential in the review of a particular written agreement request. The RO will document the receipt of required information and any "required information" it determines is not applicable for the type of agreement being requested. RMA requests management decision be reached for this recommendation.

RECOMMENDATION NO. 3

Include a step in the review form referred to in Recommendation No. 2 to check the previous claims histories of the insureds before issuing the written agreements.

RMA Response:

Concur. Recommendation will be incorporated into the form described in Recommendation No.2. RMA requests management decision be reached for this recommendation.

RECOMMENDATION NO. 4

Include a step in the review form referred to in Recommendation No. 2 to document the analysis and determination performed by the staff risk management specialist as well as any review and approval performed by the senior risk management specialist or other designee as assigned by the regional manager. Any deviation from procedure based on the knowledge and expertise of field staff must be properly authorized and fully documented and justified in the applicable written agreement request file.

RMA Response:

Concur. RMA agrees, as a standard office practice, that a manager or designee review both the written agreement and the file folder at the same time. Current procedure requires the written agreement to be worked and initialed for completeness and recommended for approval by the risk management specialist. It also requires the supervisor to review the agreement and sign for approval. RMA believes this process is sufficient to address the concern raised by OIG and believes no further action is required to resolve this issue. RMA requests management decision be reached for this recommendation.

RECOMMENDATION NO. 5:

Establish a procedure to ensure that units insured under written agreements are properly entered into the data acceptance system or are reconciled to the written agreements issued by the ROs. Provide guidance to the insurance providers explaining the process and requirements to input written agreement identification numbers into RMA databases for units insured under the applicable written agreements.

RMA Response:

Concur. RMA has enhanced the written agreement process to support the data acceptance system since 2001. Beginning with the 2003 reinsurance year, written agreements submitted to DAS are verified with the regional office databases to ensure a written agreement was issued to the insurance provider, producer crop and county.

Each night, the databases of the ROs are accessed and written agreement data is retrieved and used to update the written agreement table in the database. After the database has been updated, a process runs that creates a flat data file for DAS edits for the following processing day. This data is then used to create an ISAM for the DAS Written Agreement edits. RMA requests management decision be reached for this recommendation.

RECOMMENDATION NO. 6:

Establish a procedure to ensure that providers correctly apply the terms of the written agreements to the applicable units and provide guidance to the providers on these procedures.

RMA Response:

Concur. We believe the issue as to whether the "terms of the written agreements" have been correctly applied to the applicable unit(s) has been addressed in recommendation number 5. Recommendation 5 outlines a process for verifying the terms of the written agreement issued by the RO. This process is the same as those accepted by RMA for reinsurance.

In addition, RMA will assure that when the insured requests the written agreement to be reissued for the succeeding crop year, as part of the experience review the risk management specialist will review and document (through the checklist discussed in recommendation 2), to the extent possible, that the correct terms of the agreement were applied. When errors are discovered, the risk management specialist forwards the matter to the applicable Compliance Office for follow up. RMA requests management decision be reached for this recommendation.

RECOMMENDATION NO. 7:

Establish the actions that will be taken against insurance providers who repeatedly fail to identify the units associated with written agreements or repeatedly misapply the terms of the agreements after having received guidance from RMA on the program requirements.

RMA Response:

Concur. This recommendation has been previously incorporated into overall company performance assessments under the negotiated Standard Reinsurance Agreement. RMA requests management decision be reached for this recommendation.

Risk Management Agency

