



United States  
Department of  
Agriculture

Risk  
Management  
Agency

# **Risk Management Agency Program Compliance and Integrity Annual Report to Congress**

June 2000 – December 2001

***Risk Management***

**IRMA**

***For The 21st Century***

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## Preface

The Federal Crop Insurance Program is the primary source of risk protection for our Nation's farmers. Based on the most recent data, the program provided about \$37 billion in protection on about 78 percent of the Nation's insurable acres in 2001. This protection cost taxpayers about \$2.8 billion. Producers paid about \$1.2 billion in premiums and received about \$3.1 billion in indemnity payments. However, to ensure that benefits are distributed equitably among producers and that the costs to taxpayers can continue to be justified, it is essential that there be adequate safeguards in place to avoid potential abuses.

The Agricultural Risk Protection Act of 2000, which enhanced the incentives for producers to buy higher levels of coverage, also provided the Department with new tools for monitoring and controlling program abuses. In particular, it required the Risk Management Agency, which administers the program, and the Farm Service Agency to work together to strengthen local level oversight, and to reconcile inconsistencies in their databases on crop production and yields. Further, the Act provided for the use of data mining as a new technology for targeting compliance reviews and investigations. It also increased the sanctions that can be imposed for program abuses.

Our first annual report under the new Act documents the Department's progress toward implementing these new tools. It provides background information on how the program is monitored for compliance and describes the initial steps that have been taken to change the way compliance activities will be conducted in the future. The report also contains an exten-

sive amount of information on the potential for data mining to target compliance reviews and investigations. The results show promise of being helpful in identifying areas of potential abuses. However, it should be noted that these results do not necessarily reflect the full extent of abuse that may be occurring in the crop insurance program.

As indicated in the report, there were over 12,000 reviews and investigations of potential abuses in 2001. These reviews reduced program costs by an estimated \$94 million by preventing payments on potential claims or deterring claims. An additional \$35 million has been recovered on claims that should not have been paid. Efforts are underway to achieve more refined targeting results.

The Department is fully committed to preserving the integrity of the Federal Crop Insurance Program and expects to be able to demonstrate continuing progress toward that goal in future reports.

Ann M. Veneman  
Secretary of Agriculture



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## Executive Summary

This is the first annual report on program compliance and integrity of the FCIC program as required by section 515 (i) of the Act as amended by ARPA. This annual report describes the implementation and operation of section 515 of the Act, Program Compliance and Integrity. This report includes the time period since the passage of ARPA in June 2000 through December 2001. Further, as required by section 515(i)(2) of the Act, the annual report identifies specific occurrences of waste, fraud, or abuse and contains an outline of actions that have been or are being taken to eliminate the identified waste, fraud, or abuse.

Since June 2000, the principal focus of RMA's Compliance function has been implementing section 515 of the Act. Section 515(d) of the Act required that RMA and FSA formalize their alliance and, along with the 17 approved insurance providers, work together to improve program compliance and integrity. Substantial RMA resources (\$7 million obligated for data mining/warehousing and training) were—and continue to be—devoted to this objective.

RMA efforts have been focused on:

- establishing the data reconciliation processes between FSA and RMA;
- developing procedures for referring potential crop insurance errors or abuse between FSA and RMA;
- establishing an FSA annual claims audit role as part of RMA's quality-control process;
- training FSA and RMA personnel on the new provisions of the Act and resulting procedures; and
- developing the FSA/FCIC program consultation process.

Additional efforts have been dedicated to:

- initiating the data warehousing and data mining project,
- increasing sanction efforts to facilitate the imposition of penalties (such as fines, debarments, and disqualifications), and
- establishing a Special Investigations Branch (SIB) to enable more focused and timely responses to high-profile and complex cases that would strain the capabilities and resources of existing RMA Regional Compliance Offices (RCO).

All of these efforts have been accomplished with encouraging, early success.

Prior to this year, the largest concentration of RMA Compliance resources were used for after-the-fact reviews focused on detecting errors, fraud, or abuse. These have continued but at a greatly reduced rate. The Act has resulted in RMA working more closely with FSA State and County Offices on identifying potential crop problems and establishing more timely oversight. The Act, with its inherent coordination components, has provided additional compliance resources for pre-emptive efforts. As a result, the new alliance has been able to pre-empt possible program abuse.

Pre-emptive efforts include:

- Early alerts from FSA facilitate RMA working with the approved insurance providers to investigate and, if applicable, stop improper or erroneous payments or make other appropriate corrections.
- Initial data mining results coupled with early investigative analysis are forwarded to approved insurance providers and FSA County Offices, which ensures the timely detection and documentation of uninsurable losses.
- USDA Office of the Inspector General (OIG) Hotline complaints can receive prompt field confirmation (or refutation).

This new emphasis on prevention has produced promising results. RMA has estimated cost savings of about \$94 million in the FCIC program during the period of October 2000 - December 2001, due to its compliance efforts.

Although prevention efforts and implementation of the Act have been major priorities for RMA, traditional investigation and criminal, civil, and administrative processes continue to be ongoing and have generated recoveries of about \$35 million. In FY 2001, RMA reviewed over 12,000 crop insurance policies (540-percent increase over the previous year) that represented \$1.5 billion in liability. The referrals (to and from FSA) that support prevention/deterrence efforts alone now encompass over 4,500 policies (a 700-percent increase over the previous year). RMA believes this trend will continue.

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For 2002, RMA will concentrate on the mission-critical tasks of evaluating and improving the new processes that have been established, as well as building and adapting the Agency's reporting, tracking, and feedback systems to complement and integrate the multiple components mandated in Section 515 of the Act. The balance of this report provides the results of the joint efforts of RMA and FSA in implementing Section 515 of the Act and combating waste, fraud, and abuse in the FCIC program.



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# Implementation Overview

## Background

Section 515(d) of the Federal Crop Insurance Act (7 U.S.C. §1515) (Act) required the development of a coordinated plan (implementation plan) for the Farm Service Agency (FSA) to assist the Risk Management Agency (RMA) in the ongoing monitoring of the Federal Crop Insurance Corporation (FCIC) crop insurance program (FCIC program). RMA and FSA worked together on phase I of the implementation plan to develop the prerequisite internal United States Department of Agriculture (USDA) procedures and guidance between RMA and FSA for improving the FCIC program compliance and integrity. Five implementation teams, established in July 2000, spearheaded the mission for initiatives established in section 515. These initiatives included: establishing the data reconciliation processes between FSA and RMA; developing procedures for referring potential crop insurance errors or abuse between FSA and RMA; establishing an FSA annual claims audit role as part of RMA's quality-control process; training FSA and RMA personnel on the new provisions of the Act and resulting procedures; and developing the FSA/FCIC program consultation process. Initially the teams were comprised of RMA and FSA personnel. The implementation plan was signed by the Secretary in January 2001 and presented to the approved insurance providers at that time, thus initiating phase II of the implementation plan.

In January 2001, phase II was begun and representatives of the 17 approved insurance providers involved in the FCIC program were sent a written request to nominate approved insurance provider representatives to join the five implementation teams. The teams were then composed of over 60 people—23 of whom were from the approved insurance providers.

The implementation teams were given a detailed briefing on the previous work from phase I in a 2-day meeting in late February 2001. They were also given opportunity to discuss their concerns and provide suggestions for the process. Implementation team leaders then briefed House and Senate Agricultural Committee staff on the implementation status of the Act in March 2001. Compliance and oversight training was also held in March 2001, during which FSA State personnel and approved

insurance providers were given an update on the status and were provided training on the Act implementation.

Based upon the implementation team efforts, RMA/FSA's 4-RM: FCIC Program Integrity Handbook (4-RM Handbook) was developed and then published in April 2001. This handbook can be found on the RMA website at <http://www.rma.usda.gov>. The 4-RM Handbook established the necessary procedures and provided guidance for FSA State and County Offices, RMA, and approved insurance providers to follow to ensure that program integrity is achieved. It covers the five implementation areas: data reconciliation, referrals and investigations, claims audit, training of FSA personnel, and consultation with FSA State Committees. Training on these procedures and crop loss adjustment was conducted April-June 2001 for approximately 2,500 FSA County personnel. The accomplishments and status of the five required implementation areas follow.

## Data Reconciliation of Producer Information

The Act requirement: "Sec. 515(c) Reconciling Producer Information.—The Secretary shall develop and implement a coordinated plan for the Corporation and the Farm Service Agency to reconcile all relevant information received by the Corporation or the Farm Service Agency from a producer who obtains crop insurance coverage under this title. Beginning with the 2001 crop year, the Secretary shall require that the Corporation and the Farm Service Agency reconcile such producer-derived information on at least an annual basis in order to identify and address any discrepancies."

## Background

The data reconciliation implementation team drafted its work plan in October 2000. The work plan laid out a process that would allow interim data reconciliation activities to be implemented while more in-depth data reconciliation activities were explored, developed, and implemented. The data reconciliation activities explored included expanding data elements, improving data sharing and data compatibility, and addressing regulatory/statutory constraints.

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In April 2001, the data reconciliation implementation team developed a data requirement proposal for data reconciliation. The data reconciliation implementation team included FSA and RMA personnel, and approved insurance provider representatives. This proposal further identified current data processing limitations, data compatibility and availability issues, as well as program differences and regulatory /statutory constraints affecting producer data reconciliation. This document was finalized among team members in October 2001, although changes may be made to the document as new requirements are identified.

The 2001 reconciliation process actually began in August when RMA provided acreage, share, and unit reporting information to FSA. Those data were compared to FSA acreage reporting data. FSA generated the acreage/share data reconciliation report comparing acreage, producer identification number (ID), and crop share at the producer level (county and crop) for the 17 Market Assistance Loan Program crops. In December 2001, FSA County Office personnel began the reconciliation process by

reviewing the data discrepancy report. Discrepancies exceeding established tolerances that cannot be reconciled by FSA County Offices would be forwarded to RMA for further resolution through an automated system. Those that require correction will be forwarded to the approved insurance provider and appropriate systems monitored to ensure corrections are made.

Production data will be added to subsequent data comparison. This will take place at the earliest in the fall of 2002. The same process will be used to compare and reconcile production data. It is anticipated that the data discrepancy report will continue to be processed quarterly to identify new discrepancies and determine the number of discrepancies that have been resolved.

### **Current Status**

FSA County Offices are currently reviewing the acreage/share data discrepancy reports to identify crop records that should be referred to RMA for review. This initial process is ongoing through May 2002. Results of

- Referrals to RMA for investigation have more than tripled (562 to 2,296) as a result of the Crop Year (CY) 2000 data reconciliation efforts mandated by the FY 2000 Disaster Assistance Program. This trend is expected to continue for the 2001 data reconciliation.
- Amendments to the 4-RM Handbook for the CY 2001 data reconciliation were issued in October 2001.
- Data requirements were drafted and approved by team members that define current and future data reconciliation activities.
- A test of the data comparison process was performed in August 2001. Four counties were selected from Texas and South Dakota to review the proposed report format and download process. (Prior to full implementation, the criteria to be used in identifying legitimate discrepancies were determined so that meaningful differences were selected for reconciliation.)
- FSA developed, tested, and released software to FSA State and County Offices to record and track data discrepancy determinations.
- RMA CY 2001 data files were provided to FSA in September. Files consisted of 1.8 million lines of data or 332 megabytes from the 17 crops. After the data were sorted and compiled, approximately 1.3 million lines of data or 240 megabytes of data were forwarded to the FSA to compare against FSA producer derived data to start the data reconciliation.
- On December 3, 2001, the acreage/share data reconciliation report was downloaded to affected FSA County Offices for review.
- FSA acreage reporting software has been programmed for CY 2002 to capture the RMA unit number. Other initiatives are being explored such as having the producer report acreage and other pertinent data to one source.

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the data reconciliation review were uploaded from FSA County Offices starting in December 2001. Data discrepancies will be forwarded to RMA for resolution beginning the third quarter of FY 2002. Data discrepancies will be forwarded for approved insurance provider review/correction beginning the third quarter of FY 2002 after an RMA Compliance review of discrepancies forwarded by FSA State and County Offices. RMA will monitor approved insurance provider actions to reconcile discrepancies in accordance to the 4-RM Handbook.

## Referrals to and from FSA

The Act requirement: "Sec. 515(d)(1)(A)) at the request of the Corporation or, subject to paragraph (2), on its own initiative if the Farm Service Agency has reason to suspect the existence of program fraud, waste, or abuse, conducting fact finding relative to allegations of program fraud, waste, or abuse; (B) reporting to the corporation, in writing in a timely manner, the results of any fact finding conducted pursuant to subparagraph (A), any allegation of fraud, waste, or abuse, and any identified program vulnerabilities."

### Background

FSA County Offices have the authority and responsibility to actively watch for potential fraud, waste, and abuse of FCIC programs. RMA also has the authority to request assistance from FSA in monitoring the FCIC program. FSA County Offices will document observations and gather the information/proof necessary to validate concerns in the FCIC program. The referral implementation team developed the following procedures for FSA, RMA, and approved insurance providers in handling referrals for allegations of fraud, waste, or abuse.

The 4-RM Handbook requires the FSA County Offices to:

- document any form of complaint from any complainant as accurately as possible;
- actively watch for potential fraud, waste, and abuse of the FCIC program;
- document observations and gather the evidence necessary to validate concerns;

- honor any request by the complainant with regard to confidentiality; and
- forward all referrals to FSA State Offices.

The 4-RM Handbook requires the FSA State Offices to:

- serve as the liaison between the FSA County Offices and RMA on all referrals;
- ensure that referrals from the FSA County Offices are complete and that all necessary documentation is provided;
- notify the appropriate FSA County Office when a referral is unwarranted and will not be forwarded to RMA; and
- make an initial determination for FSA to conduct its own investigation or refer the case to the Office of Inspector General (OIG) when RMA fails to respond in a timely manner to or declines to proceed with an investigation.

The 4-RM Handbook requires RMA to:

- review all referrals received from FSA State Offices and determine whether further investigation is warranted;
- forward the appropriate referrals to the approved insurance providers;
- evaluate the appropriateness of action taken by approved insurance providers relative to the referred case;
- forward all fraud referrals to OIG; and
- provide a written summary of the review results to the relevant FSA State Office upon conclusion of the review process.

The 4-RM Handbook requires the approved insurance providers to:

- perform a field review of producers identified in the referral;
- document reviews and take appropriate action;
- report results of reviews and actions to RMA; and
- request assistance from FSA County Offices when attempting to identify fraud, waste, and abuse.

In addition to referrals, RMA will develop and provide a spot-check list of insured producers to FSA County Offices and the approved insurance providers annually. The list will be developed using data mining technology and previous loss experience. FSA County Offices will perform

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a minimum of two documented growing season field inspections (GSI) for producers on the spot-check list—one within 30 days of the final planting date, and one prior to the general harvest of the crop. The purpose of the inspections is to determine the crop and surrounding area farms' conditions. FSA County Offices will refer to RMA any case where they have observed potential problems.

RMA may also request an FSA County Office's assistance in obtaining additional information to establish the credibility of a complaint or when an immediate presence is needed to document evidence before it is destroyed. RMA will transmit the FSA County Office referrals to the approved insurance provider of record to take the appropriate action on any case, provided that it does not appear to involve suspicious activity on the part of any approved insurance provider personnel, such as a loss adjuster or sales agent.

### **Current Status**

The referral implementation team met June 2001 to evaluate feedback from approved insurance providers and FSA County Office personnel. Several areas in the procedure that needed clarification were identified. The referral implementation team wrote an amendment to the 4-RM Handbook procedure, published August 23, 2001, to reflect the needed clarifications. The referral implementation team accomplished its objective of developing a plan and procedure for RMA and FSA to work together to improve program compliance and integrity. The procedures can be found in the 4-RM Handbook on the RMA website at: <http://www.rma.usda.gov>.

### **Claims Audit Procedures for FSA**

The Act requirement: "Sec. 515(d)(1) The Secretary shall develop and implement a coordinated plan for the Farm Service Agency to assist the Corporation in the ongoing monitoring of programs carried out under this title, including— ... (C) assisting the Corporation and approved insurance providers in auditing a statistically appropriate number of claims made under any policy or plan of insurance under this title."

### **Background**

The implementation plan approved by the Secretary in January 2001 outlined the process by which FSA would assist RMA in their ongoing monitoring of programs. The claims audit implementation team developed the procedures for FSA County Offices to provide assistance during the claims audit process. In contrast to the referral process that requires FSA involvement in monitoring current crop conditions, the claims audit process requires FSA County Offices to assist in detecting and correcting improperly paid claims. FSA County Office involvement in claim audits will provide third party verification of producer information that will assist approved insurance providers and RMA in validating that crop insurance indemnities are properly paid.

Manual 14 (The Guidelines and Expectations for Delivery of the Federal Crop Insurance Program), which is incorporated by reference in the Standard Reinsurance Agreement (SRA), requires the approved insurance provider to review statistically selected indemnified claims (claims). The SRA also requires that the approved insurance provider verify the accuracy of the information reported by the policyholder, the determinations of the agent and loss adjuster, and the processing of the documents. In addition, the approved insurance provider must verify the accuracy of the information reported to FCIC. Manual 14 requires approved insurance providers to conduct 50, 75, 100, 125, or 150 claim audits every year, depending on the total number of contracts in force for each approved insurance provider. Approved insurance providers must verify that all information provided by the policyholder, sales agent, and loss adjuster is true and accurate through whatever means is necessary. RMA is required to conduct periodic compliance evaluations of the approved insurance providers' claim audits to assess the accuracy of their audits. RMA anticipates that about 1,600 claim audits will have been conducted for CY 2001.

Approved insurance providers may request information from FSA County Offices via an FSA State Office. When requesting FSA producer information, approved insurance providers should reconcile claim data with FSA information and resolve the differences. FSA County Offices will

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provide producer information, maps, and other program information and documents and are encouraged to report concerns of suspected program abuse.

The claims audit for the CY 2000 data is underway. The statistically selected claims were provided to the approved insurance providers who conducted reviews and are now being checked by RMA Compliance with FSA's assistance.

### **Current Status**

An RMA data processing expert has been added to the claims audit implementation team. The claims audit implementation team met in August 2001 and considered but rejected as unworkable a system to automate FSA producer data transmissions to approved insurance providers via the approved insurance provider computer network server. Issues such as computer system compatibility, file formats, and Manual 14 could not be adequately resolved. Though the approved insurance providers are not required to access FSA data, FSA information technology personnel are working to develop a print option from the County Office computer system that will allow frequently requested documents to be reprinted and provided to approved insurance providers. Both RMA and FSA will place Form FSA-426A (Multiple Peril Crop Insurance/FCIC Information Request) on their web sites to allow approved insurance providers the convenience of downloading the forms as needed and e-mailing the completed forms to FSA.

### **Training for FSA Personnel**

The Act requirement: "Sec. 515(d)(3) Use of field infrastructure. The plan required by paragraph (1) shall provide for the use of the field infrastructure of the Farm Service Agency. The Secretary shall ensure that relevant FSA personnel are appropriately trained for any responsibilities assigned to the personnel under the plan. At a minimum, the personnel shall receive the same level of training and pass the same basic competency tests as required of loss adjusters of approved insurance providers."

### **Background**

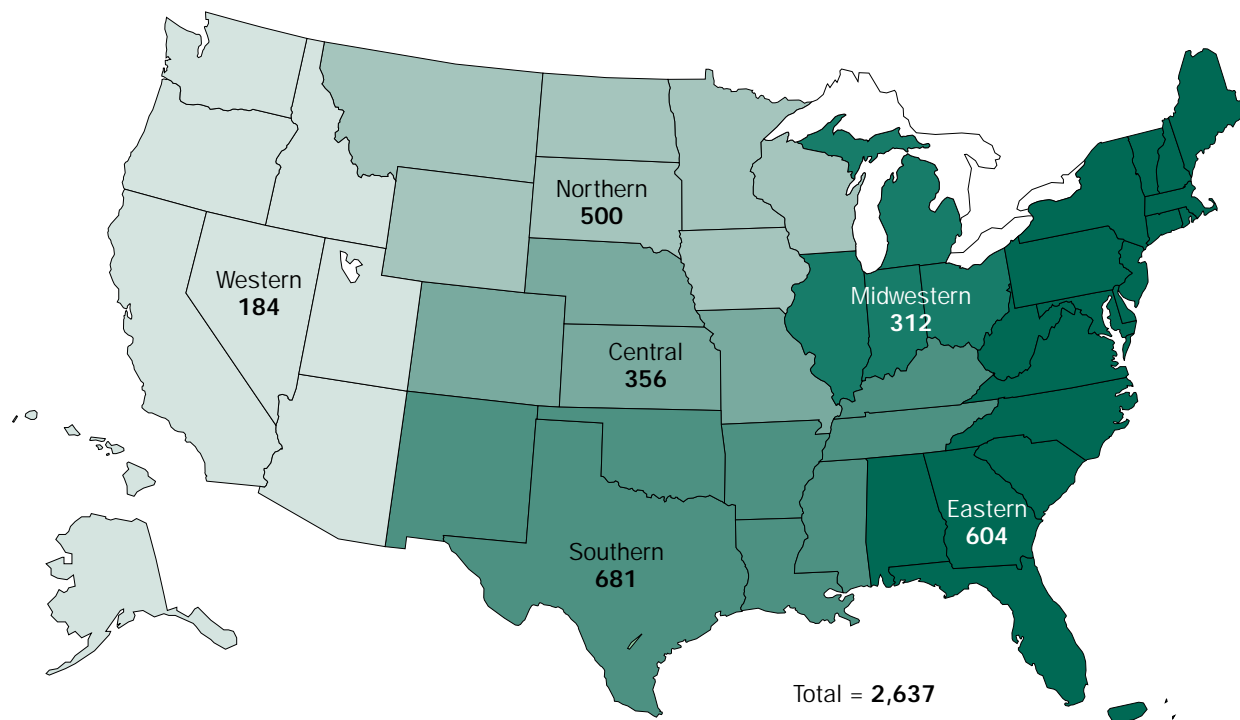
Manual 14 requires that the approved insurance providers' new loss adjusters receive 60 hours (including at least 24 hours of classroom training) of structured training specifically related to available risk management products the first year. The implementation team focused on the loss adjustment and compliance and oversight training. The training team identified the most effective methods of conducting the training sessions, the numbers of employees to be trained, and the curriculum to be included in each session. The team also oversaw the planning and delivery of the training sessions. A training plan was developed to provide instruction for documenting fraud, waste, and abuse in the FCIC program; knowledge of the FCIC program; and loss adjustment activities. This training approach uses the latest technology and techniques to provide instruction, maximize cost savings, and reach the targeted audiences.

Compliance and Oversight Training Session. Sixteen hours of training was provided to FSA State Office personnel from all 50 States during a 2-day training session in March 2001. This training was open to representatives of the 17 approved insurance providers, and to RMA and OIG personnel. A total of 280 personnel were trained. The objectives of the session were to teach FSA State Office employees about:

- the processes involved in the referral, consultation, training, data reconciliation, and claim audits sections of the implementation plan;
- the SRA, the Act, and the regulations that control the conduct of the approved insurance providers;
- RMA's administrative processes involved in compliance findings including monetary recoveries;
- criminal/civil processes carried out by U.S. Attorney Offices on crop insurance fraud; and
- rules of evidence and fraud indicators presented by the OIG.

FSA Classroom Loss Adjustment Training. The curriculum included 24 hours of classroom loss adjustment training as required in Manual 14, covering the crop insurance policy, Loss Adjustment Manual, actuarial documents, and determining production to count. More detailed crop-specific insurance and loss adjustment training was provided

**Figure 1. Loss Adjustment Classroom Training by Region**



Source: USDA/Risk Management Agency, 2001.

on crops predominant in the region where the training sessions were held. Also during these sessions, FSA County Office personnel received an additional 4 hours of training on FSA's role under section 515 of the Act and a summary of the Compliance and Oversight Training. Training was provided to 2,637 FSA County Office personnel at 28 regional locations throughout the United States (fig. 1). RMA Regional Offices, Compliance Offices, and FSA State Office personnel conducted the training. The sessions began in April 2001. All 28 sessions were completed by June 2001. In addition, 100 RMA Compliance investigators attended the training. All attendees passed a required 12-part competency test and received a total of 28 hours of training credited towards the 60-hour requirement.

### Current Status

Crop Field Monitoring and Fraud Training. RMA is developing two training sessions to meet the Act's provision:

- (1) Crop Field Monitoring Training. RMA will train FSA County Office personnel in crop field monitoring

through a distance learning training medium. The curriculum for the web-based training will be developed by RMA. The areas of training will include: Loss Adjustment Manual Provisions concerning growing season inspections; general information on appraisal methods, including demonstrations of appraisals; and other applicable instruction on crop field monitoring by FSA County Office personnel. This training, in conjunction with the Anti-Fraud training, will fulfill the 60-hour requisite of approved insurance provider loss adjusters under Manual 14.

- (2) Anti-Fraud Training. In September 2001, RMA contracted with a leading expert in the insurance industry experienced in developing anti-fraud training. The training will be tailored to crop insurance and will include the latest techniques such as CD-ROM/video to identify and document potential fraud. This will be included in the crop field monitoring training. In addition, RMA will provide the CD-ROM/video and the appropriate training materials to FSA State Offices. Also, RMA will provide the approved insurance

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providers with the material for assisting their compliance personnel in identifying potential fraud in the FCIC program.

## Consultation with State FSA Committees

The Act requirement: "Sec. 515(e) The Secretary shall establish procedures under which the Corporation shall consult with the State Committee of the Farm Service Agency for a State with respect to policies, plans of insurance, and material related to such policies or plans of insurance (including applicable sales closing dates, assigned yields, and transitional yields) offered in that State under this title."

### Background

The consultation process established by the above provision is a means for RMA to share program information with the State Committees of FSA. This process will allow the committees to make timely recommendations to RMA on policies and plans of insurance that may include final planting dates, assigned yields, and transitional yields (T-yields). These recommendations will help RMA identify program discrepancies and vulnerabilities. The consultation implementation team included in the 4-RM Handbook the following procedures for FSA State Committees and offices to follow.

The 4-RM Handbook requires the FSA State Committee to:

- consult the FSA County Committees for input regarding requests for review of FCIC program information;
- review compiled data gathered by FSA State Offices;
- make recommendations to RMA; and
- identify, review, and recommend appropriate action to RMA to change existing or proposed RMA T-yields, dates, practices, etc.

The 4-RM Handbook requires the FSA State Office to:

- maintain communications with RMA;
- coordinate scheduling of requests with RMA;
- conduct a preliminary review;
- complete fact finding;

- provide FSA State Committees and RMA with supporting documentation including any written justification as appropriate to address identified concerns;
- present the request and findings of fact to FSA State Committees;
- document and forward FSA State Committee recommendations to RMA;
- provide RMA with FSA State Committee written responses citing no concerns identified when appropriate; and
- assign a tracking number to the recommendation.

### Current Status

In June 2001, RMA established a working group to develop internal RMA communication procedures. This procedure is currently in the concurrence process. A 4-RM Handbook amendment was issued in August 2001 that included a provision to ensure that the privacy of the information provided by RMA is maintained during the consultation process with FSA. This information is for internal USDA use and is not considered public information until it is officially published by RMA.

## Data Warehousing and Data Mining

The Act requirement: "Sec. 515(j)(2) The Secretary shall use the information technologies known as data mining and data warehousing and other available information technologies to administer and enforce this title."

### Background

An agreement was signed on December 14, 2000, between Tarleton State University (university) and USDA/FCIC in order to fulfill the Act's requirement. The purpose of the agreement was to review existing data to detect fraud, waste, and abuse, and also to create a single warehouse of crop insurance data. Software that could be used for pattern recognition and data mining relating to a crop, locale, producer, agent, loss adjuster, or approved insurance provider will be developed to improve compliance and enhance the integrity of the FCIC program. This portion of the annual report covers a short 9-month period that began with the signing of

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the cooperative agreement. This project was successfully established and developed quickly.

### **Data Warehousing**

The first major task was the acquisition, development, and construction of an enormous data warehouse consisting of RMA data. Collaborative engineering and participant work plan coordination sessions between the university and RMA were conducted. The university completed the 10-year database warehouse a month ahead of schedule.

An initial planning meeting, collaborative engineering sessions, and several participant work plan coordination sessions between the university and RMA were conducted. A computing logistics plan was developed that studied the facilities to validate the ability to support the data warehouse. Deficiencies were documented, together with recommendations for bringing the facilities up to the required specifications provided by the computer vendor. Data capacity studies performed in earlier analysis were used as a basis for sizing the computer hardware necessary to support an efficient data warehouse. A logical model for the 10-year database was designed and tested before the final physical model was designed and data imported to that model.

### **The Data Warehouse Is Unique**

The single physical model design allows data mining tools to use specific data sets for a 10-year pattern of behavior. The data for the 10-year history exist in other databases but are maintained in several different physical models, limiting data mining tools and analysis. Incorporated in the database are the RMA Risk Rating Areas (area defined for crop insurance purposes according to level of peril) that allow the data mining tools to analyze crop data across county lines and provide reports based on an area rating.

The data warehouse maintains all RMA data records for RY (Reinsurance Year) 1991-2000. The data are in a single physical model with definition tables for each year's data. Ten years of RMA database history and 11 years of weather data comprised the initial data that was ware-

housed in September 2001. The transfer of RMA records began in February 2001 with RY 2000. The last of the records for RY 1991-95 were transferred in July 2001. By the end of FY 2001, the data warehouse contained 731 million records.

Databases currently in the model that have yet to receive further analysis are:

- RMA National Agricultural Statistics Service (NASS) data, and
- Compliance Tracking System data.

Before the end of calendar year 2002, RMA will have high-speed, broadband access portal to the data systems and data warehouse. This will enable RMA managers to access and query the data. It will also allow RMA investigators to access the data for investigative analysis and to support ongoing field investigations and reviews. As an interim measure, data is currently available to RMA on the Center for Agribusiness Excellence web site. Acceptance of the computing logistics will be the final phase of the deliverables for the first year.

### **Data Mining**

Data mining is a single step in a multi-step research process, although the term is often used to mean a variety of processes, such as statistical analysis, standard query language queries, and online analytical processing. Typically, the multi-step process includes determining objectives, preparing, selecting, preprocessing, and transforming data, in addition to mining and analyzing the data. Data mining has caused RMA to adjust its business practices, because the Agency uses data mining and analysis to identify crops, areas, or persons where the data is anomalous and to initiate investigations.

The goal of data mining is to improve compliance and integrity of the FCIC program. Objectives include:

- Conducting research to obtain new and useful information to help investigators detect and eliminate fraud, waste, and abuse;
- Obtaining and utilizing management and investigative tools to conduct data mining, pattern recognition, and online analytical processing of RMA;



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- Identifying potential fraud on the part of insurance agents, loss adjusters, or producers;
  - Identifying patterns of losses and analyzing the cause of loss for patterns that could be used to indicate fraud;
  - Identifying apparent collusion or anomalous behavior;
  - Measuring the industry's fraud problem and quantifying results; and
  - Integrating data warehousing and data mining systems with an enhanced management information system.

Before the data warehouse was completed, the university was asked to begin data mining operations. This step served to test the warehouse and provide an initial product to facilitate the procedures established for FSA to assist RMA in monitoring waste, fraud, and abuse by performing spot checks of identified producers at the local level. The results of these spot checks would then be forwarded to the approved insurance provider to enhance their role in the protection of the integrity of the FCIC program.

Consequently, a list of 600 producers identified as statistically anomalous within the CY 2000 database was delivered to RMA in April 2001. The producers were identified through data mining of two scenarios: loss to acreage (producers with the highest indemnity relative to acreage insured) and prevented planting (producers with prevented planting acreage when the majority of other producers in the area planted the crop). Of the 600 producers, 420 were forwarded to applicable FSA offices for spot checks and four to approved insurance providers after review by RMA (table 1).

### ***Cotton Data Mining***

Using yield-switching (a fraudulent scheme whereby a producer applies crop production to a different unit than the production came from for crop insurance purposes) methodology, the first nationwide data mining of cotton producers resulted in over 2,600 flagged files indicating potential yield switching issues. Further investigative analysis identified 82 producers who were tied to flagged policies (table 2). These names were distributed to RMA Compliance offices that then distributed them to FSA

and the approved insurance providers. The yield data were retrieved from the policy database and processed to prepare it for regression analysis. The data were sorted and rendered to depict the selected policies' units in an output chart that indicates yield activity.

The charts depict 10 years of unit and farm and county average yield data for policies that meet the screening criteria, culminating in CY 1999 (year 10). CY 2000 yield data were not complete at the time the process was run. CY 1996–2000 Policyholder Inquiry System data for each flagged actual production history (APH) cotton policy were included to assist with field analysis. This system, a web-based tool, reports specific policy information, including premium, indemnity, yield, acreage, policy type, and other data for a given policy or set of policies from the policy database. Policies were sent to the respective RMA Compliance offices in June for further analysis and investigation (table 2). Most of the flagged policies that warranted further action resulted in requests of FSA for a GSI and a review by the current approved insurance provider.

### ***Soybeans Data Mining***

Immediately after sending the flagged policies for cotton, work began on APH soybeans. This was the first attempt at conducting the operation in two parts. As before, the yield data was queried from the crop policy database. The yield data was screened with an improved version of the yield switching software, which permitted changing the screening criteria to optimize the process for different crops without editing and re-compiling the source code. All APH soybean policies from CY 2000 were screened, resulting in 93 flagged policies (table 3). Policy histories for 1996–2001 for the flagged policies were pulled to enable analysis. Additional searches were performed for policies that lacked a complete policy history for the period. Policy history was researched for policies with matching variables for the address, phone number, or name. Given that the soybean harvest would soon occur, RMA did not refer the flagged policies to FSA. Instead, RMA requested pre-harvest inspections by the respective approved insurance providers for those policies warranting further action.

**Table 1—Policies Flagged for Prevented Planting/Loss to Acreage, CY 2000**

	Flagged Policies sent to RCO	Referred to FSA	Referred to Insurance Providers	RCO Initiated Review/Action	Policies Examined But Not Referred
AL	3				3
AR	27	27			
AZ	31	31			
CA	37	37			
CO	20	8			12
GA	2				2
ID	20	20			
IL	27	9			18
IN	29	11			18
KS	46	36	1		10
KY	6	6			
MA	1				1
MD	3				3
MI	20	12	2		8
MN	14	14			
MO	17	17			
MS	4	4			
MT	1	1			
NC	2				2
ND	51	51			
NE	17	16			1
NH	2				2
NY	26				26
OH	24	11			13
OK	7	7			
OR	7	7	1	2	
PA	20				20
SC	33				33
SD	20	20			
TN	2	2			
TX	54	54			
VA	6				6
VT	2				2
WA	5	5			
WI	14	14			
Totals	600	420	4	2	180

**Table 2—Cotton Policies Flagged for Yield Switching, CY 2000**

	Flagged Policies sent to RCO	Referred to FSA	Referred to Insurance Providers	RCO Initiated Review/Action	Policies Examined But Not Referred
AL	10	10	10		
AR	2	2	2		
AZ	6	6			
CA	1	1			
GA	13	13	13		
LA	4	4	4		
MO	2		2		
MS	14	14	14		
NC	14	14	14		
OK	1	1	1		
SC	1	1	1		
TN	3	3	3		
TX	11	11	11		
Totals	82	80	75	0	0

Notes: List was based on States where cotton is reinsured by FCIC, so not all States are represented. Policies were only referred or reviewed if analysis determined that further action was warranted, so not all actions (columns) are represented. All policies with yield variances do not warrant reviews or referrals. No cases were opened on these policies. All policies were targeted for growing season inspection by the company and/or FSA; resultant indemnities paid declined sharply.

RCO: Regional Compliance Office.

Source: USDA/Risk Management Agency, 2001.

Notes: List was based on 100 most statistically anomalous producers in each of the six regions, so not all States are represented. Policies were only referred or reviewed if analysis determined that further action was warranted, so not all actions (columns) are represented. All statistically anomalous losses do not warrant reviews or referrals.

RCO: Regional Compliance Office.

Sources: Center for Agribusiness Excellence analysis of FCIC Policy Data, and USDA/Risk Management Agency, 2001.

### Winter Wheat Data Mining

Work on winter wheat is in progress. A list of producers identified for growing season inspections has been forwarded to the Regional Compliance Officers. As winter wheat comes out of dormancy, growing season inspections will take place.

### Yield Switching Process Improvement

As these reports were issued, the pattern recognition process continued to evolve and improvements were made. RMA directed that report delivery be synchronized with the growing season to maximize the utility of the information. Consequently, a comprehensive schedule tied to the growing season was developed. For the four priority crops with late summer/fall harvests (cotton, soybeans, corn, and wheat), the report will be delivered in February. For States where RMA reinsured winter wheat, the report will be delivered in November. This delivery schedule would permit ample time for RMA to analyze the flagged policies to determine if further action is warranted. It would also permit time to request additional input from FSA and the approved insurance providers during the growing season. Other crops are under consideration for screening and will be included in the future.

### Data Mining Summary

Some policies flagged by data mining runs were already under investigation. There have also been policies flagged for which RMA investigators determined that no further investigation was warranted. Tangible results from data mining efforts will take years to fully realize because the adjudication, administrative, sanction, and appellate processes often involve lengthy procedures taking years to complete.

An immediate benefit of RMA's data mining operation has been increased public awareness, resulting in a deterrent effect. As a group, the insureds consistently received large and increasing indemnities until they were informed that they were being included in the CY 2001 Spot Check List RMA provided to FSA (fig. 2). The group's projected indemnity would likely have been much greater

**Table 3—Soybean Policies Flagged for Yield Switching, CY 2000**

	Flagged Policies Sent to RCO	Referred to FSA	Referred to Insurance Providers	RCO Initiated Review/Action	Policies Examined But Not Referred
AL	1		1		
IA	7				7
IL	9		6		3
IN	12		10		2
KS	1		1		
LA	5		5		
MD	3		3		
MI	3		2		1
MN	6				6
MO	16		8		8
MS	21		21		
NC	3		3		
NE	1				1
OH	1				1
SD	3				3
TX	1		1		
Totals	93	0	61	0	32

Notes: List was based on States where soybeans are reinsured by FCIC, so not all States are represented. Policies were only referred or reviewed if analysis determined that further action was warranted, so not all actions (columns) are represented. All policies with yield variances do not warrant reviews or referrals.

RCO: Regional Compliance Office.

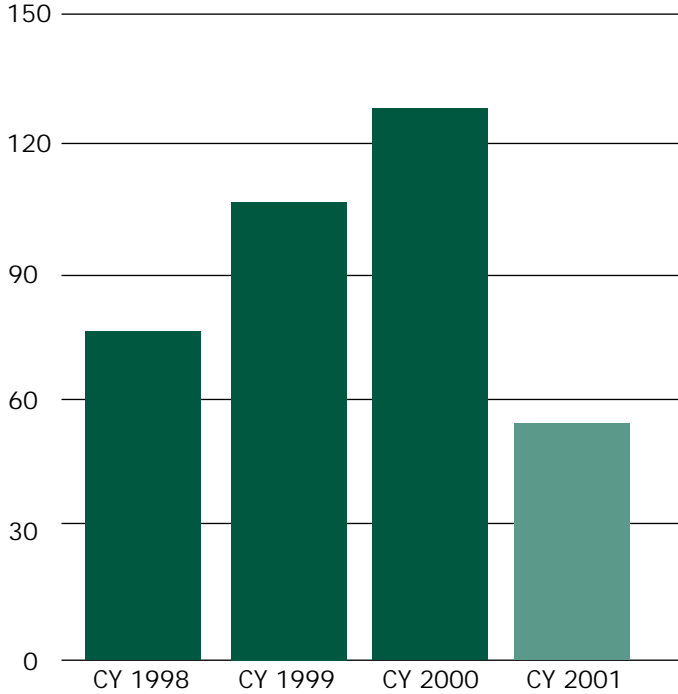
Source: USDA/Risk Management Agency, 2001.

absent the added scrutiny (fig. 3). The projected cost savings were over \$72 million as a result of all reviews.

Policies were flagged in CY 2001 for cotton and soybean yield switching because individual unit yield histories (1989-2000) were so diverse, compared with both the farm and county average yields for the same period. RMA Compliance flagged 82 cotton and 93 soybean policies for excessive yield variances. The impact among these cotton and soybean producers is similar to that of the producers on the Spot Check List. The actual indemnities received fell dramatically for both cotton and soybeans in CY 2001 (figs. 4 and 5).

**Figure 2. Spot Check Group Indemnity Cy 2001**

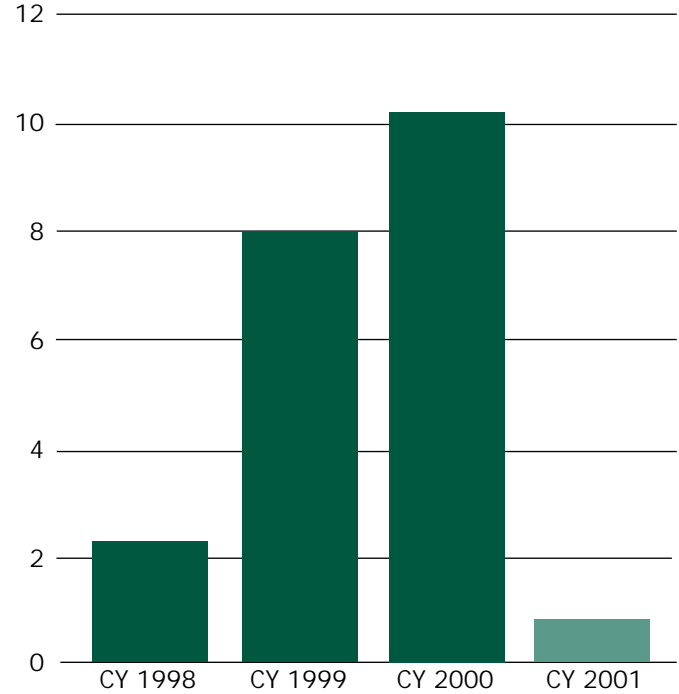
Million \$



Source: USDA/Risk Management Agency, 2001

**Figure 4. Cotton Yield Switching Group Indemnity CY 2001**

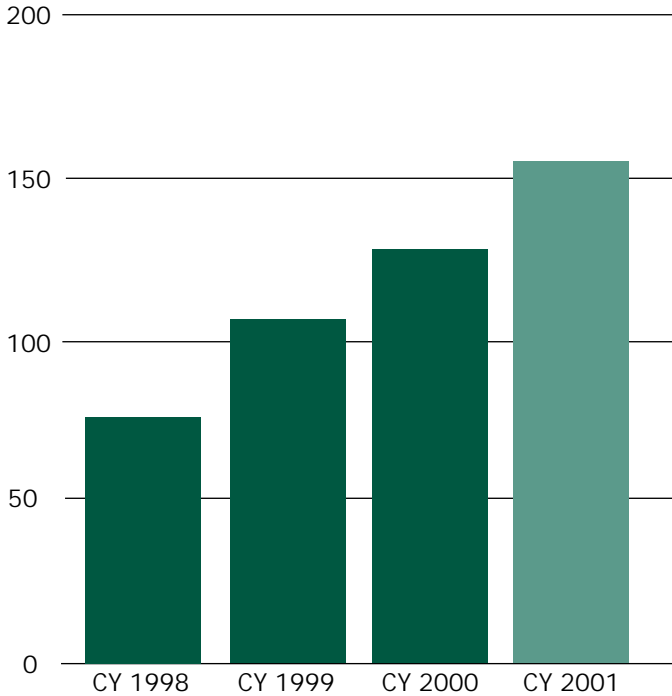
Million \$



Source: USDA/Risk Management Agency, 2001

**Figure 3. Spot Check Group Projected Indemnity CY 2001**

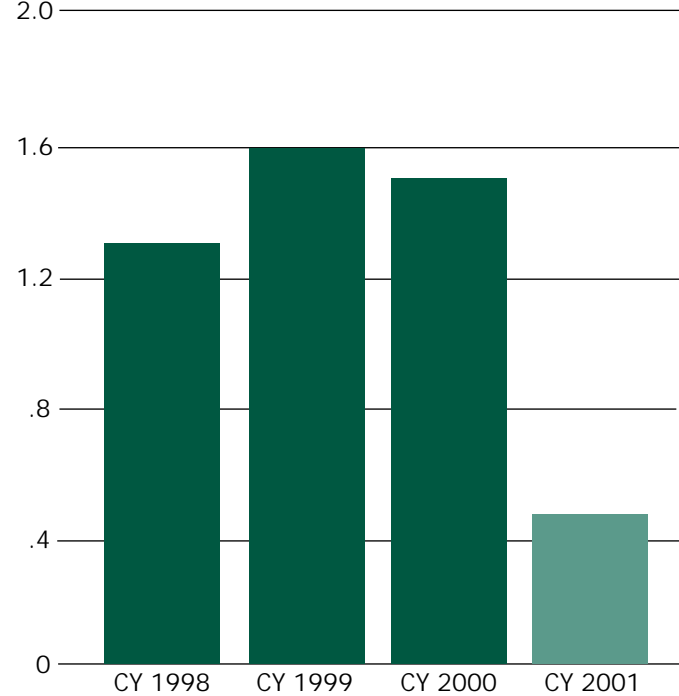
Million \$



Source: USDA/Risk Management Agency, 2001

**Figure 5. Soybean Yield Switching Group Indemnity CY 2001**

Million \$



Source: USDA/Risk Management Agency, 2001

The projected indemnities in the yield switching groups for CY 2001 cotton and soybeans would have increased if the trend of the preceding years continued (figs. 6 and 7). The resulting cost savings for the cotton yield switching group was over \$11 million and the soybean yield-switching group was over \$1 million due to the increased monitoring efforts of these policies.

Like most operations today, the anti-fraud business is an ever-changing one. As policy and programs evolve, those who seek to commit fraud will develop new techniques for committing acts of wrongdoing. These changes will require continued analysis and development of innovative methodology, tools, and compliance efforts to remain effective. Only through constant assessment and improvement of RMA's business practices, can they sustain the level of vigilance required to keep erroneous payments in check, improve program integrity, and protect the taxpayer's funds. Data mining is another tool used by RMA toward this end.

Data mining serves as a compliance multiplier that extends the capabilities of a limited investigative force. In the end, it is the field work of approximately 80 investigators covering 50 States and 1 territory who must inspect farms, conduct interviews, gather documentation, and collect physical evidence before they can conclude that fraud, waste, or abuse occurred.

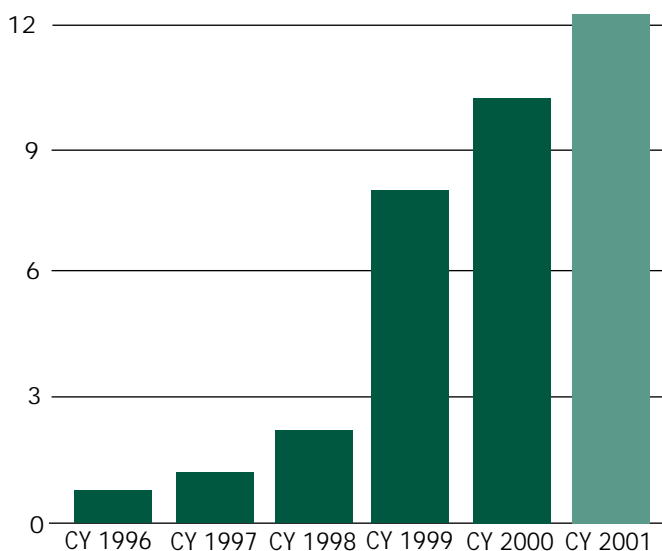
### Detection of Disparate Performance

The Act requirement: "Sec. 515(f)(1) Covered activities.— The Secretary shall establish procedures under which the Corporation will be able to identify the following:

- (A) Any agent engaged in the sale of coverage offered under this title where the loss claims associated with such sales by the agent are equal to or greater than 150 percent (or an appropriate percentage specified by the Corporation) of the mean for all loss claims associated with such sales by all other agents operating in the same area, as determined by the Corporation.
- (B) Any person

**Figure 6. Projected Indemnities for Cotton Yield Switching Group, CY 2001, Without Data Mining**

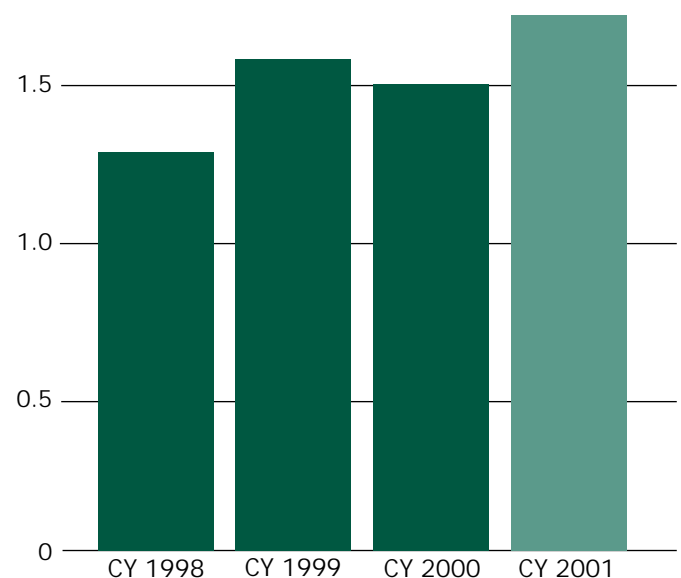
Million \$  
15



Source: USDA/Risk Management Agency, 2001

**Figure 7. Projected Indemnities for Soybean Yield Switching Group, CY 2001, Without Data Mining**

Million \$  
2.0



Source: USDA/Risk Management Agency, 2001

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performing loss adjustment services relative to coverage offered under this title where such loss adjustments performed by the person result in accepted or denied claims equal to or greater than 150 percent (or an appropriate percentage specified by the Corporation) of the mean for accepted or denied claims (as applicable) for all other persons performing loss adjustment services in the same area, as determined by the Corporation.”

Note: A report of agents and adjusters that met the Act provision of the “150 percent of the mean” was delivered by the university in September 2001, three months ahead of schedule.

### **Crop Insurance Agent Statistics**

For CY 2000, 14,547 agents wrote 1.3 million policies, and 23 percent had losses. The average agent operated in 5.2 counties, sold 90 policies with 20 losses, and used 1.4 reporting organization agent IDs. The maximum policies were 4,488 (2,684 loss policies) for an agent tax ID operating in 90 counties, using 39 different reporting organization agent IDs. (It would seem that these are sub-agents using the same agency tax ID and not their own personal tax ID). Further research is needed to separate these agents from their agencies. The minimum for an agent is one policy with no losses and operating in only one county. Only 3,914 policies (3 percent) had more than one agent on it. The average county has 25.7 agents and of the 2,784 distinct counties, 261 counties have only one or two agents writing in them.

Over 6,000 agents were flagged (loss ratio is greater than or equal to 150 percent of the county average) in at least one county, representing 41 percent of all agents, or 56 percent of all agents who had losses. The indemnity and premium totals of all agents are \$2.2 billion and \$2.4 billion, respectively. Ten percent of all agents, who each had

more than 50 losses, accounted for \$1.5 billion in indemnities, which is 68 percent of all indemnities and \$1.1 billion of premiums or 48 percent of all premiums. These agents wrote 66 percent of the loss policies. Eighty-five percent of these agents were flagged in at least one county.

Some 3,851 of the agents wrote policies that never had a loss in CY 2000 and booked only 12 percent of the total premiums. There were 2,554 agents who had only one or two losses in all counties, accounting for 1 percent of all indemnities; 34 percent of these agents were flagged. Seventy-eight percent of agents had fewer than 20 loss policies, accounting for 13 percent of indemnities and 32 percent of premiums. About 29 percent of these agents were flagged in at least one county. The indemnity per loss policy for all agents was fairly constant, but the ratio (of indemnity to premium) rises as the number (of loss policies) increases. The distribution of indemnities by agents is very skewed towards the high end because a few have many loss policies and pay very low premiums for them. In other words, the number of policies sold is directly related to the loss ratio; as one goes up, so does the other (table 4).

### **Crop Insurance Loss Adjuster Statistics**

For CY 2000, there were 3,256 distinct adjusters who adjusted 299,704 policies in the 50 States. The average number of policies adjusted was 92. The least policies worked by adjusters were one and the maximum was 1,257 policies. Ninety percent of adjusters worked 219 or fewer policies. Most of the adjusters worked a relatively small number of policies, as would be expected (table 5). The top 10 percent (adjusters with greater than 219 policies) accounted for 38 percent of the policies, 36 percent of the indemnity, and 37 percent of the risk premium, indicating that their loss ratio was similar to the lower 90 percent.

**Table 4--Agent Disparate Performance Summary, CY 2000**

State	Total Number of Agents	Agents Flagged (loss ratio > 150% of county average)	Agents with 1 or 2 Claims	Flagged As Outliers	Agent Flagged Agents With No Claims	in More Than 1 RCO's Area
AL	109	54	9	5	9	5
AK	2	0	1	0	42	0
AZ	64	13	11	7	61	2
AR	195	61	32	8	227	6
CA	489	126	116	40	73	2
CO	274	115	47	18	6	10
CT	12	4	2	1	15	0
DE	18	2	2	1	76	0
FL	168	62	36	23	57	3
GA	326	175	57	32	3	2
HI	5	0	1	0	83	0
ID	158	45	30	14	509	5
IL	1520	520	286	85	294	37
IN	671	221	138	50	746	12
IA	2269	814	473	152	139	39
KS	1078	537	166	57	126	31
KY	263	87	59	31	19	10
LA	91	46	10	5	12	2
ME	25	7	8	4	31	0
MD	62	20	10	4	9	0
MA	19	6	7	4	52	0
MI	184	93	30	13	418	5
MN	1254	420	265	95	21	11
MS	105	60	23	10	260	8
MO	643	200	123	50	45	29
MT	338	172	57	27	189	3
NE	1448	732	214	81	5	36
NV	5	0	4	2	6	0
NH	8	2	19	8	5	0
NJ	14	7	7	3	23	0
NM	61	18	115	44	9	1
NY	51	35	131	53	327	2
NC	594	139	39	15	120	7
ND	875	379	61	20	83	9
OH	266	121	31	8	56	7
OK	295	133	16	7	56	29
OR	116	21	23	8	41	2
PA	111	51	108	34	5	2

Table 4 continued page 16

**Table 4--Continued**

State	Total Number of Agents	Agents Flagged (loss ratio > 150% of county average)	Agents with 1 or 2 Claims	Flagged As Outliers	Agent Flagged Agents With No Claims	in More Than 1 RCO's Area
RI	6	1	32	15	27	0
SC	130	59	70	20	142	3
SD	677	274	4	1	71	22
TN	194	78	7	6	48	17
TX	600	331	41	22	3	6
UT	17	6	28	11	4	0
VT	16	11	8	5	94	0
VA	190	64	103	32	93	3
WA	185	52	15	8	9	2
WV	25	11	0	0	148	4
WI	441	157	0	0	15	16
WY	59	23	0	0	0	3
Total	16,726	6,565	3,075	1,139	4,912	393
National*	14,547	6,030	2,554	869	3,851	119

Note: Since some agents were flagged in multiple counties and States, "TOTAL" = total number of flags and "NATIONAL" = total number of individual agents flagged.

RCO: Regional Compliance Office.

Sources: Center for Agribusiness Excellence analysis of FCIC Policy Data; and USDA/Risk Management Agency, 2001.

**Table 5—Number of Policies per Adjuster Summary, CY 2000**

Policies Worked	Number of Adjusters	Policies Worked	Number of Adjusters
1,000 +	2	<10	581
400 +	90	<50	1,530
250 +	252	<100	2,235
100 +	1,036	<500	3,210
40 +	1,931	<1000	3,254

Source: USDA/Risk Management Agency, 2001.

Of the 3,256 adjusters, 2,594, or 80 percent, were flagged for a loss ratio of greater than or equal to 150 percent of the average for the county (table 6). The reason that a high percentage of the adjusters were flagged is because loss adjusters work loss claims in multiple counties. These flagged adjusters accounted for \$1.98 billion of indemnity out of the \$2.20 billion total indemnity, or 90 percent of all indemnity. Of the 2,594 flagged adjusters, 29 percent were flagged once, 21 percent were flagged twice, 16 percent were flagged three times, and single adjusters were flagged multiple times (table 7).



**Table 6—Loss Adjuster Disparate Performance Summary, CY 2000**

	<i>Total Number of Adjusters</i>	<i>Adjusters Flagged (loss ratio &gt; 150% of county acreage)</i>	<i>Adjusters Flagged in More than 1 RCO</i>		<i>Total Number of Adjusters</i>	<i>Adjusters Flagged (loss ratio &gt; 150% of county acreage)</i>	<i>Adjusters Flagged in More than 1 RCO</i>
AL	89	52	16	MT	145	85	16
AK	2	0	0	NE	371	239	55
AZ	14	5	1	NH	7	3	1
AR	120	78	31	NJ	8	6	0
CA	92	68	2	NM	47	19	4
CO	163	73	22	NY	23	16	1
CT	8	2	0	NC	119	74	3
DE	4	1	0	ND	454	257	27
FL	71	38	3	OH	129	86	33
GA	118	77	3	OK	159	76	28
HI	3	1	0	OR	37	16	6
ID	49	28	6	PA	44	31	6
IL	281	210	34	RI	3	1	0
IN	185	127	40	SC	57	33	2
IA	360	258	63	SD	301	176	32
KS	423	251	63	TN	85	49	25
KY	69	48	23	TX	318	243	32
LA	58	37	4	UT	12	4	2
ME	6	4	1	VT	10	5	1
MD	25	14	0	VA	55	32	2
MA	10	6	0	WA	58	38	6
MI	81	64	13	WV	8	3	1
MN	339	198	25	WI	126	80	15
MS	68	49	15	WY	39	16	11
MO	181	115	50	Total	5,434	3,392	724
				National*	3,256	2,594	207

Note: Since some adjusters were flagged in multiple counties and States, "TOTAL" = the total number of flags, and "NATIONAL" = the total number of individual adjusters flagged.

RCO: Regional Compliance Office

Source: Center for Agribusiness Excellence analysis of FCIC Policy Data, USDA/Risk Management Agency, 2001.

## More Analysis Underway

The plan for FY 2002 includes various investigative scenarios and parameters, such as:

Insurance Agent, Loss Adjuster, Producer, and Insurance Provider. RMA will identify insurance agents, loss adjusters, producers, approved insurance providers, crops, and county/adjacent county areas where the data demonstrate deviation from the norms established by RMA/FCIC. Examples include:

- Identifying those insurance agents and loss adjusters who have loss claims that are in excess of 150 percent of the mean for that area (State and county).
- Identifying loss adjusters who have loss claims equal to or greater than 150 percent of the:
  - (1) Risk Rating Region – (by crop, type, and practice) by filtering on the threshold and providing analysis of the 150 percent based on the indemnity being greater than or equal to \$20,000, liability being greater than or equal to \$20,000, loss ratio being greater than 1, lost cost being greater than 1, or number of policies being greater than 1;
  - (2) Risk Rating Region (by crop, type, and practice) after removing CAT policies; and
  - (3) County and Risk Rating Region means (by crop).
- Identifying insurance agents who have loss claims equal to or greater than 150 percent of the:
  - (1) Risk Rating Region (by crop, type, and practice) by filtering on the threshold and providing analysis of the 150 percent, based on the indemnity being greater than or equal to \$20,000, liability being greater than or equal to \$20,000, loss ratio being greater than 1, lost cost being greater than 1, or number of policies being greater than 1;
  - (2) Risk Rating Region (by crop, type, and practice) after removing CAT policies; and
  - (3) County and Risk Rating Region means (by crop, type, and practice).

Insurance Agent, Loss Adjuster, and Producer. RMA will analyze indicators of collusion among insurance agents, loss adjusters, and producer indemnity behavior in the FCIC program. For CY 2000 data, this will involve analyzing 24 million records, excluding CAT policies.

Entities to be analyzed will include those that equal or exceed 150 percent of the county mean of all entity-relevant indicators flagged as “exceptions.” The six indicator variables computed are the:

- (1) indemnity divided by the premium;
- (2) indemnity divided by the liability;
- (3) number of loss policies divided by the total number sold;
- (4) number of loss units divided by the number of units insured;
- (5) indemnity for loss adjuster claims divided by the total county claims; and
- (6) number of claims for each loss adjuster divided by the total number of claims for the county.

Insurance Agent and Loss Adjuster. RMA will identify insurance agents and loss adjusters who have:

- different loss ratios while working for different approved insurance providers;
- patterns of losses (by agent and loss adjuster) according to the insurance fund to which the policies are designated; and
- claim losses that appear inconsistent with other insurance agents and loss adjusters within the same county and/or adjacent counties.

Producer. Through data mining and research (if applicable), RMA will determine producers who:

- have a policy indemnity for more acreage than the acreage carried to harvest over a multi-year frame (to identify producers whose determined acreage consistently exceeds the reported acreage for several consecutive years);
- flip acreage on an alternating basis, such as every other year, and carry their approved yields for insurance purposes from one land unit to another;
- receive indemnities when the crop planted is not suitable for the soil and other conditions of the land;

- have prevented planting when other producers planted a crop;
- use varying names, business entities, and social security/employer identification numbers; and
- have a policy indemnity for more acreage than was reported.

Insurance Provider. Data mining scenarios include researching the approved insurance providers that do a majority of business in a certain area and a majority of business by fund designation code. Concentration of claims and any other anomalous data will also be determined.

Crop. Crops will be identified where there are significant changes in the number of:

- policies, types of policies, and/or coverage level of policies issued in the county or State;
- acres insured in the county or State; and
- claims, types of claims, and/or coverage level of claims issued in the county or State.

Other. Analysis will also be conducted to:

- compare Added Land Reference Units with units where yield history was proven;
- identify new producers for misuse of new producer status to counteract adverse yield histories or commit other fraudulent acts;
- identify landowners and their crop-share tenants whose indemnity or production history display inconsistencies on the same tract of land;
- identify policies that exceed production history (the approved APH yield does not match RMA's actual production history);
- compare NASS county yields, actual yields, and actual losses over a 4-year cycle for agents and loss adjusters; and
- identify adjusters with excessive case-loads based on the number of counties and States served relative to RMA standards.

Further research of the data within the data warehouse includes analyzing data that connects producers, agents, and adjusters to specific policies and claims, added land policies in relation to actual yield policies, and new producer policies in relation to policies established with actual production history. These scenarios, and many more, are in the development phase and are being further refined.

**Table 7—Flagged Adjuster Summary, CY 2000**

Number of Adjusters Flagged	Number of Times Flagged
762	1
540	2
407	3
8	13
5	14
1	16
1	20
1	24

Source: USDA/Risk Management Agency, 2001.

### **Data Mining and Automated Data Analysis Are Only the Beginning**

The data mining methodology identifies the agents and adjusters with “disparate performance” as specified in the Act. However, the results are simply statistics indicating potential improper payments may have been made. Much investigative and analytical work and further analysis must still be completed to determine the likelihood that these were truly improper payments. That investigative process is accomplished through both automated and manual means. Data mining and automated data analysis were performed along with manual investigative analysis. Field reviews and investigations follow to further identify significant outliers/flags, eliminate legitimate claims, and prioritize investigative leads. Investigative analysis of these recently received data mining results is ongoing in RMA. The agent and adjuster lists will be prioritized and refined for subsequent investigation and referrals to determine if fraud, waste, or abuse did in fact occur.

The ongoing investigative analysis in RMA includes a determination of whether the 150 percent loss ratio threshold is the best measure to use or if other procedures should be proposed. The agents and adjusters flagged under the current procedures are being further analyzed using other data mining research criteria and scenarios. RMA continues to conduct its data mining research to refine the list of flagged agents and adjusters and provide worthwhile leads to its field investigators, FSA, and reinsured companies. The long-term goal is to establish and institutionalize a data mining methodology for determining, with a high degree of confidence, potentially fraudulent agents and adjusters.

RMA has expanded its investigative efforts to not only meet the intent of the Act but to exceed the minimum requirements. For example, RMA is not limiting its efforts to agents and adjusters when determining disparate performance because agent/adjuster fraud is usually committed with at least the tacit, if not full, cooperation of the producer. Moreover, to properly data mine the hundreds of millions of records in the data warehouse, anomalous and/or illegal activity should be investigated comprehensively with a total review that might reveal trends, relationships, behaviors, and probabilities when researched together. Ideally, this view should not only be limited to producers who purchased crop insurance, but broadened to encompass producers who do not purchase crop insurance. Although no authority exists to expand the database to such a degree, such an effort would require involvement beyond RMA. Only then can millions of bytes of data be translated into information, and, ultimately, useful knowledge for the investigator.

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## Oversight of Agents and Loss Adjusters

The Act requirement: "Sec. 515(f)(3) The Corporation shall develop procedures to require an annual review by an approved insurance provider of the performance of each agent and loss adjuster used by the approved insurance provider. The Corporation shall oversee the conduct of annual reviews and may consult with an approved insurance provider regarding any remedial action that is determined to be necessary as a result of the annual review of an agent or loss adjuster."

The Standard Reinsurance Agreement (SRA) requires an approved insurance provider to conduct an annual evaluation and assessment of the new agent's proficiency. For all other agents, the approved insurance provider is not required to conduct an annual review but must ensure the sales agent possesses the skills necessary to properly sell and service crop insurance business. For loss adjusters, the approved insurance provider must conduct a minimum of two proficiency evaluations of all loss adjusters on an annual basis.

The Act requires FCIC to develop procedures to require an annual review by the approved insurance provider of the performance of each agent and loss adjuster used. The approved insurance provider's annual review of each agent's and loss adjuster's performance will be implemented when the SRA is renegotiated. RMA may renegotiate the SRA once during 2001-05.

## Sanctions for Program Noncompliance and Fraud

The Act requirement: "Sec 515(h)(1)...A producer, agent, loss adjuster, approved insurance provider, or other person that willfully and intentionally provides any false or inaccurate information to the Corporation or to an approved insurance provider with respect to a policy or plan of insurance under this title may, after notice and an opportunity for a hearing on the record, be subject to 1 or more of the sanctions..."

## Administrative Sanctions

Congress expanded the RMA administrative sanctions authority under the Act and expressed a clear concern about its application as a vehicle for improving FCIC program integrity. The application of administrative sanctions under the Act and predecessor statutory authorities provided for a sanctions process encompassing two closely related but distinct functions.

Congress expanded the RMA administrative sanctions authority under the Act to make the sanctions more meaningful. Previously, RMA's authority was limited to disqualification of producers from participating in the crop insurance program. Many producers would not find such sanctions a deterrent because they were still eligible for other farm program benefits. Now RMA has the authority to not only disqualify producers, but agents, loss adjusters, and approved insurance providers as well. Further, producers may be disqualified from most other farm programs. Monetary sanctions have also been enhanced.

With enhanced tools in place to protect program integrity, RMA has moved forward with improvements in the administrative sanction process. RMA created a new position of Sanctions Officer within the agency. A Sanctions Officer was selected in August 2001 to: work with the USDA Office of General Counsel (OGC) in the development of evidence and documentation standards for activities that can be sanctioned; work with the RMA Administrator to determine policy applications to those legal standards; and facilitate processes in the field offices to produce sanction referrals that meet legal and policy standards. The Sanction Officer's work with the RMA Administrator will focus on the drafting of regulations for the implementation of the new sanction authorities, especially as they relate to agents, loss adjusters, and approved insurance providers. The Sanctions Officer in conjunction with the Directors of the RCOs and Special Investigations Branch (SIB) have already scheduled two sanctions training sessions for a number of the field investigators.

The second function is the processing of administrative sanctions referrals. That process and procedure are directed at meeting legal due process protection requirements of persons named in sanctions referrals by RMA's Appeals and Litigation Staff (A&L). A&L processes sections 508(n) and 515(h) of the Act, depending on the year in which the alleged wrongful conduct took place, and agents, loss adjusters, and approved insurance providers under section 515(h) of the Act.

Disqualification or other administrative actions may also be included in criminal and/or civil verdicts or plea agreements entered in U.S. District Courts. A&L also processes referrals for disqualification and debarment actions under 7 C.F.R. § 3017 (table 8).

**Table 8—Administrative Sanctions, Oct. 2000 - Dec. 2001**

	Disqualification	Debarment
Referred (open)	14	4
Completed (sanction imposed)	9	1
Declined (lack of legal sufficiency)	2	4
Appealed/withdrawn	2	3
Pending	14	5

Source: USDA/Risk Management Agency, 2001.

### Kickback Scheme Sanctions Imposed

A scheme was uncovered involving producers buying crop insurance through an insurance broker in which the broker received kickbacks from fraudulent claims. RMA filed disqualification complaints against six of those involved. The producers either neglected to plant crops or planted a few seeds to give the appearance of a crop and proceeded to claim that they had a loss.

Disqualification actions have been imposed against three of the producers for a period of 5 years for each individual. Disqualification actions filed against one other producer and a loss adjuster involved in the scheme are pending. One complaint was dismissed due to the producer's death.

### Witness Requests for Staff Increase Drastically

A&L responds to requests for RMA employees to appear as witnesses in cases where RMA is not a party to the lawsuit. A&L also responds to subpoenas for the production of documents in accordance with 7 C.F.R. part 1 subpart K. Disputes between the producers and approved insurance providers involve the denial of claims and the amount of indemnity payable. The appearance of an RMA employee at a judicial proceeding provides significant support to the approved insurance providers in their efforts to uphold the integrity of the FCIC program. Sixteen witness requests were received from 1992-99, and 12 witness requests in FY 2000. That number has almost quintupled to 57 during the period of October 2000 through December 2001.

### Special Investigation Branch (SIB)

RMA's SIB was established in 2001 and operates within Compliance. The SIB currently has eight staff members headquartered in Washington, D.C., with offices in North Carolina, Georgia, Virginia, Minnesota, Texas, and California. SIB's goal is to investigate alleged fraud, waste, and abuse in programs authorized by the Act and to help RMA identify reasons the abuse occurred. The programs overseen by the SIB include the Multiple Peril Crop Insurance (MPCI), Revenue Insurance, Crop Revenue Coverage, Adjusted Gross Revenue, Group Risk Income Protection, and innovative risk management programs such as the Dairy Options Pilot Program. The SIB works proactively with the RMA's managers and other Federal, State, and public agencies such as the FSA and OIG investigators and auditors, State insurance department and law enforcement agencies, and approved insurance provider special investigative units and claims personnel.

The SIB is structured to conduct investigations involving high-profile, highly complex cases involving multiple subjects spread over wide geographic areas. These cases involve allegations of major program abuse and/or program vulnerabilities requiring a rapid, highly skilled investigative response to obtain and preserve crucial evidence. In many cases, SIB investigators coordinate and lead rapid-response investigative teams composed of both

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investigators permanently assigned to the unit and investigators from the RCOs.

RMA Compliance efforts can result in criminal, civil, or administrative actions. The SIB, along with the RCO, refers all cases of substantiated fraud to the OIG as required by the Inspector General Act (Public Law 95-452). The SIB provides direct assistance to OIG, at their request, with criminal investigations, including technical support with program regulations, field investigations, courtroom testimony, and any other assistance requested. OIG is responsible for referring cases to the U.S. Department of Justice, U.S. Attorney's Office. In some instances, RMA Compliance may make referrals to State or local prosecutors for insurance fraud prosecutions.

RMA Compliance can make Affirmative Civil Enforcement (ACE) referrals to the U.S. Attorney's Office through OIG or OGC. ACE is a civil action by the United States to recover damages for fraud and other misconduct; impose civil penalties for violations of the Nation's health, safety, and economic welfare laws; and use the Fraud Injunction Statute to enjoin ongoing mail, wire, or bank frauds and freeze ill-gotten gains derived from those frauds.

The SIB and RCOs can initiate administrative actions authorized by the Act. These include disqualification of producers, insurance agents, loss adjusters, approved insurance providers, and other persons who violate program rules. Administrative actions are administered by RMA's Sanctions Officer. Disqualification or other administrative actions may also be included in criminal and/or civil verdicts or plea agreements entered in U.S. District Courts.

### **Submission of Information to FCIC To Support Compliance Efforts**

The Act requirement: "Sec. 515 (g)(1)... The Secretary shall establish procedures under which approved insurance providers shall submit to the Corporation the following information with respect to each policy or plan of insurance offered under this title.

(A) The name and identification number of the insured.

(B) The agricultural commodity to be insured

(C) The elected coverage level, including the price election, of the insured.

(2) Time for submission.—The information required by paragraph (1) with respect to a policy or plan of insurance shall be submitted so as to ensure receipt by the Corporation not later than the Saturday of the week containing the calendar day that is 30 days after the applicable sales closing date for the crop to be insured."

### **Late Sales Reduction**

RMA issued Manager's Bulletin MGR-00-017.1, dated June 30, 2000, to amend the Standard Reinsurance Agreement (SRA) effective for RY 2001. This amendment included the requirement to submit certain sales information not later than the Saturday of the week containing the thirtieth calendar day after the applicable sales closing date. After this deadline, an approved insurance provider's failure to timely submit accurate information or company revision to the elected level of coverage or price election results in a reduction of the approved insurance provider's administrative and operating expense (A&O) subsidy for any eligible crop insurance contract. As a result, fewer than 1 percent of the policies were assessed a reduction in A&O subsidy due to being processed or changed after the applicable cut-off dates. Detailed reports containing late reported policies are available for compliance review and are also being provided to the approved insurance providers on a monthly basis.

### **Funding**

Section 515 of the Act established \$23 million in funding for fiscal years 2001-05, of which \$7.3 million was obligated for 2001 (table 9). The Managers of the Committee of Conference directed FCIC to make full use of the capabilities of information management systems in order to fulfill the requirements of Section 515. The majority of the funding was used to accomplish this goal.

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**Table 9—Money Spent by RMA on ARPA Projects, FY 2001**

ARPA Projects	Dollar Amount
Tarleton State University Cooperative Agreement for data warehousing and data mining project	\$4,998,000
Agreement w/FSA for administrative and travel costs (Stage I and Stage II training)	\$1,988,337
Business Television Services (BTS) Anti-Fraud training for FSA and insurance providers	\$161,500
RMA's travel costs for Compliance Oversight Training (Stage I and II)	\$120,264
FSA/RMA video conference and CD-ROM (Stage I)	\$23,250
Interagency agreement between FCIC and Agricultural Marketing Service (R&D contract)	\$21,500
<b>Total</b>	<b>\$7,312,851</b>

Source: USDA/Risk Management Agency, 2001.



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# Waste, Fraud, and Abuse: 2001 Accomplishments

**R**MA has had a series of successes in the past year working with USDA's Offices of the Inspector General (OIG) and the General Counsel (OGC), FSA State and County Offices, U.S. Attorneys Offices, State Attorneys General, approved insurance providers, producers, and other interested parties. RMA recovered \$35 million in funds that should not have been paid and identified \$94 million in cost savings.

## Highlights

Highlights of the results of some criminal and civil cases and RMA administrative efforts follow.

### Cases: Criminal and Civil

#### ***Insurance Provider Pays \$10 Million to Settle California Raisin Fraud Suit***

The Federal Government alleged that in 1994 an approved insurance provider represented that raisins in the Fresno, CA, area were unable to be reconditioned because of rain damage, causing FCIC to reinsure the claims paid. Those raisins were then reconditioned and sold at full market value. The case also alleged the duplication, falsification, and fabrication of documents by the approved insurance provider. The approved insurance provider denied that it submitted false or fraudulent claims to FCIC. This case was a result of an investigation by RMA Compliance, OIG, and OGC into raisin loss adjustment practices. The U.S. Attorney's Office entered settlement discussions and RMA notified the approved insurance provider that it would not be renewing its SRA. The approved insurance provider paid \$10 million to settle the case and retained its SRA for reinsured year (RY) 2002. This \$10 million settlement was the largest recovery under the False Claims Act, 31 U.S.C. Sec. 3729, by FCIC in its history.

#### ***Three Texas Producers and an Adjuster Convicted for Filing False Claims; Pay \$685,720 in Restitution***

A discrepancy on a of Crop Disaster Program (CDP) payment led the local FSA County Office in Texas to refer a case to RMA. Three producers were convicted for filing insurance claims for crops that were never planted.

Other producers are still being investigated. Including the additional producers, the indemnities for these claims total \$1.1 million. The adjuster in the case was convicted, sentenced to 24 months in prison, and ordered to pay restitution of \$685,720 with an additional 3 years of supervised probation.

#### ***Oklahoma Agent and Producer Convicted; Pay \$630,680 in Restitution***

A crop insurance agent in Oklahoma was convicted for insuring a personal farming operation in other peoples' names in order to avoid paying higher premiums. Hotline complaints and referrals from FSA and other sources led to the investigation. The agent was debarred for 6 years, sentenced to 33 months in prison, and ordered to pay \$591,000 in restitution. The agent's husband was indicted on one count of conspiracy, 14 counts of false statements, nine counts of false claims, and three counts of interstate property obtained by fraud. His trial is currently pending. A rice producer was also convicted in the case for false claims involving hidden rice production. The producer pled guilty and was sentenced to 9 months of home confinement and 6 months probation, and was ordered to pay \$39,680 in restitution.

#### ***Ineligible Florida Producer Collected \$500,000 in Claims***

A referral from an FSA County Office in Florida resulted in an RMA Compliance investigation of a producer who is ineligible for insurance because of nonpayment of premium. The grower enlisted a driver from his produce trucking company to apply for crop insurance on his tomatoes, corn, and beans. The producer then allegedly received \$500,000 for losses on his crops through the truck driver. The case is being presented to a District Attorney's office in Florida.

#### ***North Dakota Elevator Operator Sentenced for Inflating Damages on Durum Wheat***

Multiple complaints about North Dakota durum wheat producers led RMA investigators to uncover a scheme in which an elevator manager in North Dakota in conjunction with area policyholders was inflating crop damages so they could buy the wheat at heavily discounted prices with policyholders benefiting from higher indemnities

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under the quality adjustment provisions in the policy. Had the scheme not been uncovered, the cost to RMA in excess indemnities at the elevator would have been \$775,000. The manager of the elevator was sentenced in U.S. District Court for conspiracy to defraud the United States. He lost his bond as an elevator operator, was fined, and given 2 years probation in exchange for agreeing to cooperate in the investigations of other elevators. Criminal action is pending against another elevator manager involving approximately \$1.3 million in excess indemnities paid.

### **Deterrence**

#### ***Two Anonymous Complaints Lead to \$300,000 in Claims Denied in California Cotton***

An anonymous complaint alleged that sales agents may have sold cotton policies for the sole purpose of paying ineligible prevented planting losses (after it was announced that producers would only receive 45 percent of their contracted water allotment). This prompted the RCO to issue a letter to all approved insurance providers to consider conducting a field review of policyholders to determine that they adhered to the requirements of the FCIC program policy. For new policies, the cotton crop insurance policy precludes insuring causes of loss that occur before the insurance period begins.

A second anonymous complaint led to an investigation of a group of individuals who allegedly applied for insurance coverage on Extra Long Staple cotton in order to receive prevented planting payments. It was alleged that the land was leased to these individuals after it was generally known that significant cutbacks to water allotments would occur.

RMA Compliance determined that the individuals might not qualify for a prevented planting payment if the failure of the irrigation water supply occurred prior to the sales closing date. This information was furnished to the approved insurance provider and a claim was not paid. If the approved insurance provider had not denied these prevented planting claims, the overpayments to these individuals would have totaled about \$300,000.

#### ***Early Detection in North Carolina Avoids Potential Abuse in Sweet Potato Program***

An FSA County Office in North Carolina referred a complaint to the RCO that several producers who had purchased crop insurance for their sweet potato crops had scheduled delivery of sweet potato slips (seedlings) after June 30. The sweet potato crop insurance policy requires planting by June 30 to minimize risk. FSA County Office personnel documented several hundred acres of prepared, unplanted acreage in addition to 4,000-5,000 acres already under cultivation. Subsequent inspections by the approved insurance providers ended late planting in mid-row, thereby reducing potential liability for late-planted sweet potatoes by approximately \$346,000.

#### ***Joint RMA/FSA Crop Monitoring Program in Tennessee and Kentucky Serves as Model for the Act Procedure***

RMA and FSA County Offices worked together on a crop monitoring program for CY 2000 (first in Tennessee and later in Kentucky) that served as the model for the Act monitoring program currently in place in the 4-RM Handbook. In 2002, the program is concentrating on Burley Tobacco. The program has resulted in a cost avoidance of \$149,377.

#### ***Hidden and Destroyed Production in California Prunes May Have Been Prevented***

An anonymous complaint alleged that some local prune processors would limit the amount of prunes they would accept because of a market oversupply from previous years' production. The low market demand for prunes reflected the oversupply situation and could have led to poor farming practices or destroyed production without an appraisal in CY 2001. RMA Compliance confirmed that volume controls were imposed on growers and worked with the FSA County Offices and the approved insurance providers to alert all parties involved in the insurance process. Timely information was disseminated through inserts into FSA County Office newsletters about possible effects on insurance and policy requirements. As a result of the oversupply situation, the RCO issued a recommendation that RMA's Prune Handbook

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be changed to address concerns about inconsistent appraisal procedures being applied by approved insurance providers.

## Reviews

RMA Compliance is delegated the authority and responsibility to develop and administer a sound system of oversight to assure that RMA mandates, policies, and procedures are effective and that FCIC programs are operated in compliance with laws, rules, regulations, policies, procedures and agreements to achieve intended purposes. RMA Compliance accomplishes this mission by conducting reviews.

### Overview

During October 2000 - December 2001, RMA reviewed 12,024 policies representing \$1.5 billion of crop insurance liability. RMA Compliance initiates reviews through program reviews and data mining efforts, and receives referrals from FSA, OIG (hotline, audits, and investigations), approved insurance providers and other sources (table 10).

The following sections report on actions being taken to eliminate specific occurrences of waste, fraud, and abuse by source category. The number of referrals to and from FSA has ballooned 700 percent to 4,670 new referrals either to or from FSA while working to close the remaining 20 percent of CDP referrals from CY 1999 (figs. 8 and 9).

From October 2000 to December 2001, RMA (through efforts with FSA, OIG, and approved insurance providers) identified nearly \$94 million in cost avoidance on FCIC funds (fig. 10). These were dollars that were not paid on potential claims or claims that were deterred from being made.

RMA also recovered over \$35 million of FCIC funds that should not have been paid (fig. 11). This recovery came from administrative actions against approved insurance

providers, which includes issuing findings, Board of Contract Appeals (BCA) decisions and settlements or criminal and civil action by the Department of Justice. The following paragraphs group the reviews by the source category of the review: spot-check referrals, FSA, 4-RM, AD-2007 referrals, CY 1999 and 2000 CDPs; OIG hotline complaints, audits, and investigations; approved insurance provider referrals; program vulnerabilities and other reviews. Some examples of spot-check referrals received follow.

### Spot-Check Referrals

RMA developed and provided to FSA County Offices a spot-check list of producers that have exhibited high loss ratios, high frequency of losses, and severe losses. The spot-check list was based on data mining technology, analysis, and previous loss experience. RMA has also been given the authority, through the Act, to request assistance from FSA County Offices in conducting reviews relative to allegations of program fraud, waste, or abuse. FSA County Office personnel perform and document field inspections in order to determine crop and surrounding farming conditions. The results of the spot-checks by FSA County Offices are referred back to RMA. RMA then provides these results to the approved insurance providers. RMA issues a spot-check list to FSA every April, including further data mining initiatives and analysis of spot-checks from the previous year.

In 2001, there were 1,772 producers identified for spot-checks. This list was sent to FSA State Offices that forwarded them to the appropriate FSA County Offices. RMA notified producers by letter, indicating that they were a part of the spot-check list and explaining what this entailed.

An excerpt from a producer letter follows:

“One of your policy crops has been chosen for a spot check. RMA has requested FSA to perform a minimum of two documented field inspections: one within 30 calendar days of the final planting date and one before harvest becomes general in the area for those producers on the

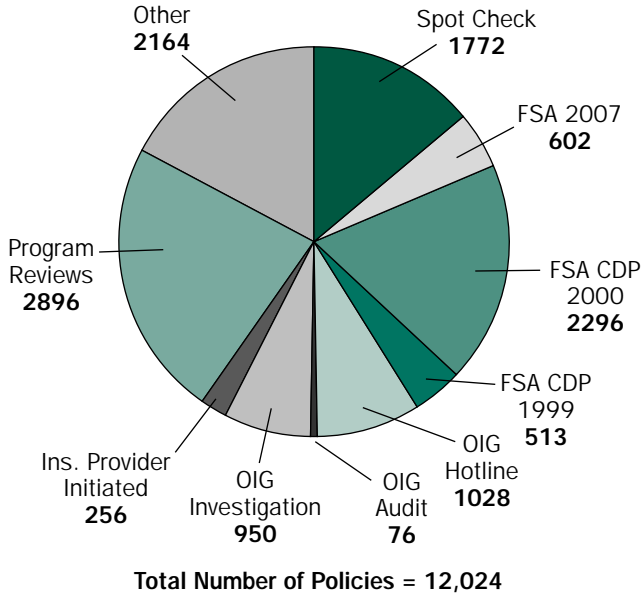
**Table 10—Compliance Case Sources, October 2000-December 2001**

Total	Case Source				
	Spot Check	FSA 4-RM AD-2007	FSA CDP 2000	FSA CDP 1999	OIG Hotline
Number of Policies	1,772	602	2,296	513	1,028
Total Premium	\$42,590,772	\$8,434,187	\$12,898,432	\$5,497,478	\$25,250,286
Total Indemnity	\$54,211,519	\$18,754,060	\$37,221,078	\$15,719,166	\$44,923,253
Total Liability	\$304,281,354	\$58,257,345	\$138,790,248	\$48,996,037	\$135,296,170
Number of Initial Findings	1	2	26	50	10
Premium Discrepancy	\$626	\$0	\$5,403	\$113,513	\$104,997
Indemnity Discrepancy	\$12,134	\$49,467	\$470,196	\$1,381,828	\$741,307
Number of Final Findings	1	2	78	36	9
Premium Discrepancy	\$1,428	\$0	\$45,241	\$91,372	\$84,485
Indemnity Discrepancy	\$0	\$39,501	\$551,346	\$815,280	\$600,302
BCA Decisions	\$0	\$0	\$0	\$0	\$0
BCA Settlements	\$0	\$0	\$0	\$0	\$0
Number of Operation Reviews	1,772	601	2,304	502	1,070
<b>Cost Avoidance</b>	<b>\$72,236,739</b>	<b>\$2,375,750</b>	<b>\$1,670,498</b>	<b>\$700,477</b>	<b>\$4,824,304</b>
Questioned Costs	\$116,825	\$24,264	\$0	\$0	\$56,923
Number of Program Findings	0	0	0	1	0
Number of Program Recommendation	0	0	0	2	0
Questioned Costs	\$0	\$0	\$0	\$0	\$699,578
Number of Settlements	0	0	0	0	5
Criminal Case Convictions	0	0	0	0	0
Criminal Case Restitution	\$0	\$0	\$0	\$0	\$0
Civil Case Settlement	\$0	\$0	\$0	\$0	\$0

Case Source					
OIG Audit	OIG Investigation	Insurance Provider Initiated	Program Reviews	Other	Total
76	950	256	2,896	2,164	12,024
\$12,269,070	\$21,001,117	\$2,553,179	\$36,260,072	\$27,089,617	\$193,844,210
\$58,536,668	\$51,753,609	\$6,802,281	\$110,434,847	\$74,808,068	\$473,164,549
\$116,311,044	\$122,208,266	\$35,828,378	\$282,212,636	\$239,142,567	\$1,481,324,045
10	5	3	15	53	161
\$23,164	\$0	\$2,494	\$77,355	\$353,559	\$655,589
\$619,303	\$4,130,573	\$31,080	\$1,438,649	\$1,531,370	\$9,474,627
3	0	3	26	31	179
\$2,637	\$0	\$641	\$18,287	\$62,991	\$297,734
\$49,722	\$0	\$27,363	\$304,356	\$1,871,568	\$3,869,989
\$0	\$0	\$0	\$0	\$2,311,341	\$2,311,341
\$0	\$81,540	\$0	\$893,414	\$259,714	\$1,234,668
76	441	253	0	2,015	8,505
\$0	\$1,408,375	\$345,596	\$5,169,250	\$5,256,985	\$93,987,974
\$0	\$6,817,141	\$1,263,450	\$0	\$6,045,600	\$14,324,203
0	0	0	12	0	13
0	0	0	12	0	14
\$0	\$0	\$0	\$7,416,006	\$0	\$8,115,584
1	16	0	2	0	18
0	3	0	0	0	3
\$0	\$2,586,023	\$0	\$0	\$0	\$2,586,023
\$0	\$4,672,731	\$0	\$10,087,500	\$0	\$14,760,231

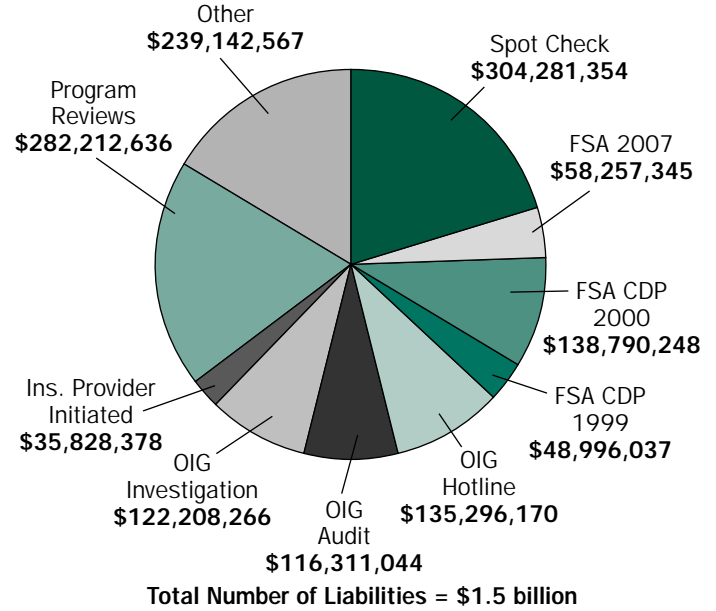
4-RM AD-2007 = FSA/RMA 4-RM Handbook Referral Form. CDP = Crop Disaster Program.  
 OIG = Office of the Inspector General.  
 Source: USDA/Risk Management Agency, 2001.

**Figure 8. Policies Under Review by Category, Oct.2000 - Dec. 2001**



4-RM AD-2001 FSA/RMA 4-RM Handbook Referral Form  
 CDP: Crop Disaster Program  
 OIG: Office of the Inspector General  
 Source: USDA/Risk Management Agency, 2001

**Figure 9. Crop Insurance Liability Under Review by Category Oct.2000 - Dec. 2001**

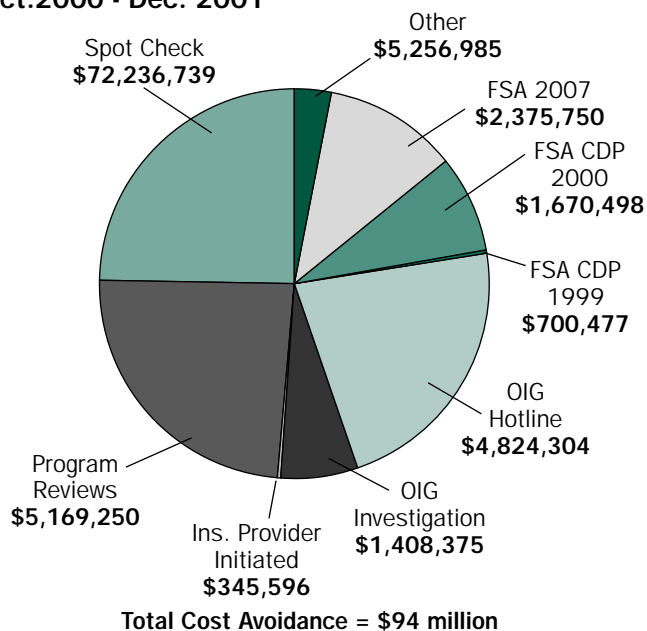


4-RM AD-2001 FSA/RMA 4-RM Handbook Referral Form  
 CDP: Crop Disaster Program  
 OIG: Office of the Inspector General  
 Source: USDA/Risk Management Agency, 2001

list. These inspections will be documented. This documented information will be reported to the appropriate Regional Compliance Office (RCO) and made available to the FSA County Office for your insurance company's use during loss adjustment activities.

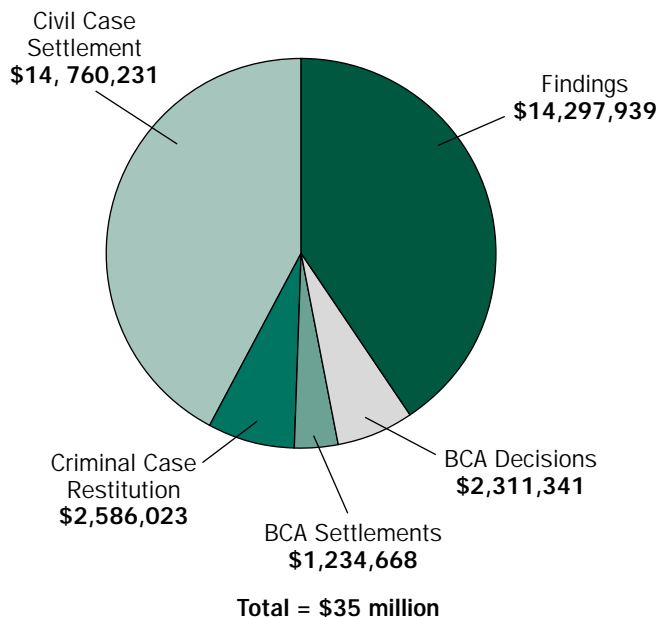
"A policy crop that has been chosen does not mean that it is a crop insurance compliance issue. It does mean that it represents one that is not typical for your area. We do realize that there are many areas in the Nation that have suffered severe crop losses. We are asking FSA County personnel to assist us in determining the causes for atypical policy history."

**Figure 10. Cost Avoidance by Category  
Oct.2000 - Dec. 2001**



4-RM AD-2001 FSA/RMA 4-RM Handbook Referral Form  
 CDP: Crop Disaster Program  
 OIG: Office of the Inspector General  
 Source: USDA/Risk Management Agency, 2001

**Figure 11. Findings and Recoveries by Category  
Oct.2000 - Dec. 2001**



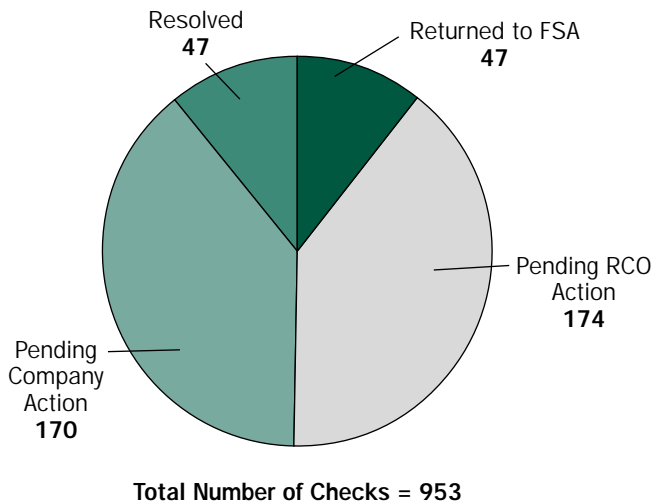
BCA Board of Contract Appeals  
 Source: USDA/Risk Management Agency, 2001

As of December 2001, RMA has received back from FSA the results of 953 spot-checks (fig. 12). RMA Compliance will track claims filed on indicated marginal crops and also track loss history compared with 2001. Cost savings are reported on pages 11-13.

Some examples of resolved and open spot-check referrals follow.

**Table Grape Fields Photographed in California**  
 FSA personnel conducted a growing season inspection (GSI) of a ranch on the RMA spot-check list. FSA County Office personnel took pictures to document their observation that the "grape vines have a light crop and an older, weaker vineyard" than the surrounding grape fields. They also noted that "grapes need better weed control for healthy and quality grapes." RMA requested the approved insurance provider perform a field review

**Figure 12. Status of Spot Checks FY 2001**



OIG: Office of the Inspector General  
 RCO: RMA Regional Compliance Office  
 SIB: RMA Special Investigative Branch  
 USDA/Risk Management Agency, 2001

for CY 2001. The approved insurance provider was to determine if good farming practices were followed and to provide RMA a report detailing the results of its review and action taken. The review is pending. RMA also requested that the approved insurance provider forward copies of the policy and claim files if a claim was paid.

**FSA, RMA, and Insurance Provider Work Together on Poor Farming Practices Case in Kansas**

A policy selected for a spot check was referred to RMA for investigation by FSA's Montgomery County Office in Kansas because it appeared the policyholder never used fertilizer and/or herbicides on his grain sorghum and soybeans. The policyholder was also a loss adjuster for a crop-approved insurance provider. The referral questioned the producer's farming practices, as well as whether all of the acreage the producer reported as planted was actually planted. The liability for the policy was \$51,100.

The referral and photos were provided to the approved insurance provider who conducted a GSI. RMA worked with the approved insurance provider on the GSI and verified FSA's allegations of poor farming practices. RMA is working with the approved insurance provider to review all the policyholder's documentation to support the policyholder's claim that he is following good farming practices. In addition, there appeared to be questions on prior crop year losses (prevented planting paid on acreage that was not planted and harvested within 1 of the last 3 years). A pre-harvest inspection will be performed.

**Poor Farming Practices in Georgia**

FSA was denied access to a producer's property to make requested field inspections. Visual inspections by FSA County Office personnel from the road and neighboring farms revealed fields that were infested with weeds and indications that the land had not been tilled. RMA has referred the case to the approved insurance provider and requested they conduct growing season inspections. No claim has been filed at this time.

**More Weeds Controlled and Acres Recertified in Alabama**

An initial spot check of acreage showed multiple concerns with weeds and certification of acres. After the inspection, the producer began aggressively spraying fields of cotton and peanuts and recertified acreage. The final inspection indicated good stands and conditions comparable to other farms in the county.

**FSA 4-RM AD-2007 Referrals to RMA**

In accordance with section 515 of the Act, FSA County Office personnel are actively watching for fraud, waste, and abuse in the crop insurance program outside of the spot check process. Whenever problems are observed, the personnel document their observations and refer this information to RMA Compliance. Specific procedures, the FSA/RMA 4-RM Handbook, were developed between RMA and FSA to facilitate this referral process and such referrals are transmitted through the FSA State



Office on the AD-2007 referral form. In 2001, more than 2,500 FSA State and County personnel were trained by RMA on this referral process.

RMA received 602 referrals from FSA County Offices from 28 States as of December 2001. Ten States accounted for 81 percent of the referrals (fig. 13). RMA has resolved 118 (32 of which were determined to be valid complaints), and the remainder of the referrals are being reviewed either by RMA,

OIG, or the approved insurance providers (fig. 14). These efforts to date have shown that \$2,375,741 of cost avoidance has occurred because the approved insurance providers have not paid these potential indemnities. Since

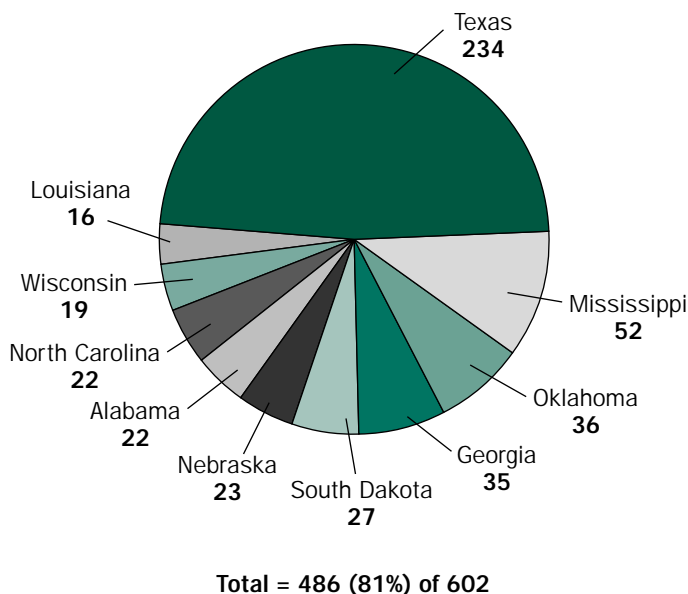
the majority of the open referrals were received in August and September 2001, additional investigation time will be required to resolve them.

Some examples of resolved and open referrals RMA has received from FSA County Offices follow.

**Cotton Crop Abandoned in Mississippi**

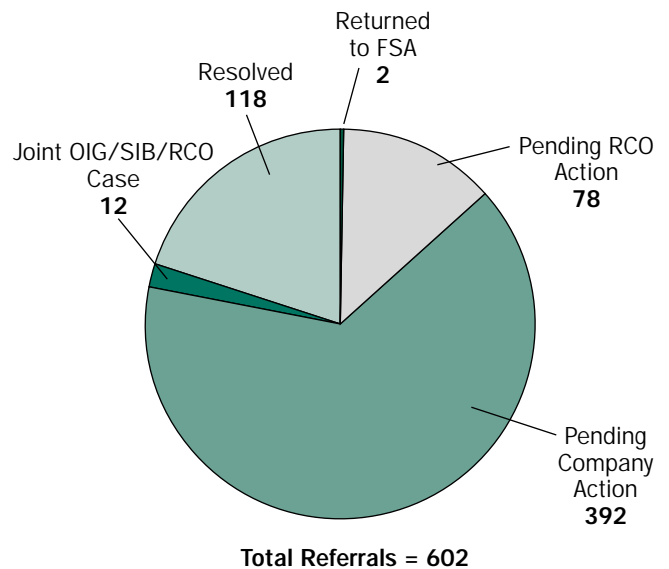
A referral from the Washington FSA County Office regarding poor farming practices and crop abandonment resulted in a GSI of a cotton field by the approved insurance provider. The approved insurance provider determined that the cotton field had not been properly managed. The crop insurance claim was denied resulting in \$449,847 in cost avoidance.

**Figure 13. 4-RM AD-2007 Referrals from FSA to RMA, Top Ten States, FY 2001**



4-RM AD-2001 FSA/RMA 4-RM Handbook Referral Form  
 Source: USDA/Risk Management Agency, 2001

**Figure 14. Status of 4-RM AD-2007 Referrals from FSA to RMA, FY 2001**



OIG: Office of the Inspector General  
 RCO: RMA Regional Compliance Office  
 SIB: RMA Special Investigative Branch  
 Source: USDA/Risk Management Agency, 2001

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### ***Farm Name Not Reported To Hide Production in Ohio***

RMA received a referral from the Ohio FSA State Office concerning an allegation that an Ohio producer was selling corn and/or soybean production using an unreported farm name to hide crop production. This results in lower reported production on his insured acres and creates or increases the indemnity payment. RMA is currently investigating this allegation involving about \$250,000 of liability for CY 2001.

### ***Peanuts Planted Late in Oklahoma***

Two referrals received from the Oklahoma FSA State Office alleging poor farming practices and late planting were forwarded to the approved insurance provider. A GSI of the fields revealed that the peanuts were planted after the final planting date and were therefore uninsurable. The company denied coverage on 1,135 acres of peanuts planted in four counties resulting in a reduced liability of \$234,615.

### ***“Stripper” Cotton Abandoned in California***

FSA reported that a producer allegedly abandoned 430 acres of “stripper” cotton out of the 4,500 acres seeded. The producer claimed that high winds damaged the acreage. FSA personnel reviewed the weather data available through the University of California, Davis. They found no indication of winds at the time of loss. RMA is currently conducting a review to determine if the allegations can be substantiated. The indemnity being reviewed is approximately \$200,000.

### ***Poor Farming Practices in Mississippi Cotton***

RMA received a referral from the FSA Sunflower County Office in Mississippi that alleged a producer was using poor farming practices by not properly preparing the seed bed and planting his cotton after the last late planting date (established under the terms of his policy). The referral was sent to the approved insurance provider and a GSI was performed. The provider determined that the allegations were valid and applied uninsured causes to the full policy liability of \$123,000.

### ***Prevented Planting Abuse Alleged in North Dakota***

RMA received a referral from the FSA Steele County Office in North Dakota alleging that an absentee operator claimed prevented planting on two large cropland tracts in two different counties to avoid moving his equipment over 150 miles to farm. RMA Compliance investigators observed the unplanted tracts and obtained information from the producer, neighbors, and FSA. It was determined that on one tract prevented planting was general to the area. However, that was not true in the case of the second tract. Conditions were such that the producer could have planted the acreage. This information was provided to the approved insurance provider who determined that the second tract could have been seeded to the intended soybean crop. This proactive intervention prevented the payment of a claim in excess of \$90,000, according to the approved insurance provider.

### ***Poor Farming Practices Under a New Entity Name in Georgia Cotton***

RMA received a referral from the FSA Toombs County Office in Georgia alleging that a producer was using poor farming practices on his cotton crop. RMA conducted a field review and determined that the producer was not following good farming practices. Also, RMA determined that the producer was farming as a “new producer” with crop insurance even though the land had been farmed and insured in the past by the producer’s spouse. The referral was sent to the approved insurance provider for review. The policy under review has a liability of \$74,000.

### ***Insufficient Panels in Cattle Grazed Wheat in Texas***

RMA received a referral from the FSA Baylor County Office in Texas alleging that a producer did not put enough cattle panels in his wheat fields to protect the acreage from grazing and provide a representative strip from the acreage as required by the policy to permit loss adjustment of the acreage. Additionally, the cattle grazing in the wheat fields destroyed some of the panels. The referral was sent to the approved insurance provider and a claim review was performed. The approved insurance provider applied uninsured causes of loss on 416 acres. This resulted in a reduction of \$31,100 in the indemnity.

**Poor Farming Practices in Texas Cotton**

RMA received a referral from the FSA Mitchell County Office in Texas alleging that a producer was using poor farming practices by not controlling weeds in his cotton crop. The referral was sent to the approved insurance provider and a GSI was performed. They determined that the allegation was valid. The approved insurance provider applied uninsured causes of loss on 373 acres of the producer's cotton crop and reduced the indemnity payment by \$21,000.

**Cotton Planted After the Final Plant Date in Mississippi**

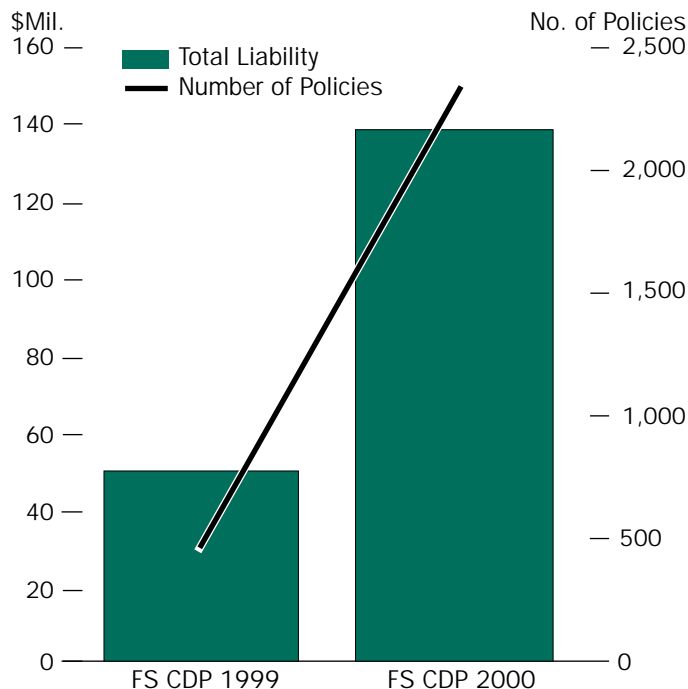
RMA received a referral from the FSA Holmes County Office in Mississippi alleging that a producer planted his cotton crop after the final planting date. The referral was sent to the approved insurance provider and a GSI was performed. The approved insurance provider determined that the FSA referral was valid and zeroed out the cotton acreage for the policy resulting in a \$10,409 reduction in liability.

**CDP Referrals from FSA to RMA**

The CDP referrals are disaster payment applications processed by FSA County Offices that indicate either a data discrepancy (for example, acreage or APH) from RMA data or potential fraud by a producer involving the FCIC program. The CDP referrals are forwarded to RMA for investigation. The number of CDP referrals has more than tripled from 562 referrals with crop insurance liability of \$55.9 million in CY 1999 to 2,296 referrals with crop insurance liability of \$139 million in CY 2000 (fig. 15).

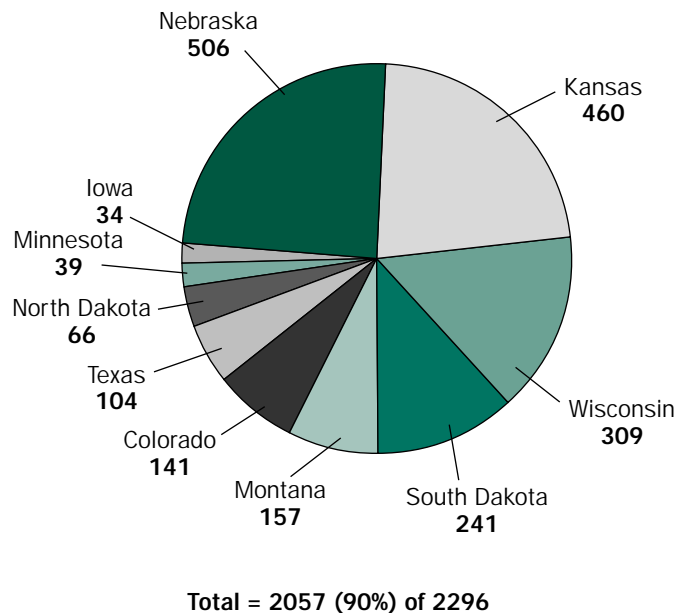
As RMA and FSA work to reconcile producer CDPs, lessons are learned and procedures are fine-tuned. As RMA and FSA get better at referring and resolving CDPs, the number in a given State drops which may even represent a deterrence element (figs. 16 and 17). RMA has received 90 percent (2,057) of the CY 2000 CDP referrals from 10 States; 88 percent (493) of the CY 1999 CDP referrals were received from 10 States.

**Figure 15. Total Policies and Liability for Crop Disaster Payment Referrals**



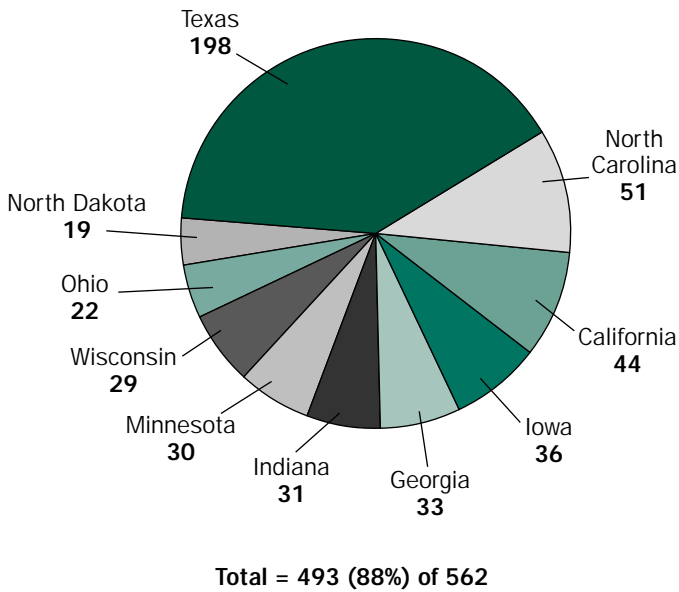
Source: USDA/Risk Management Agency, 2001

**Figure 16. FSA Crop Disaster Program Referrals to RMA, Top Ten States, CY 2000**



CY: Crop Year  
Source: USDA/Risk Management Agency, 2001

**Figure 17. FSA Crop Disaster Program Referrals to RMA, Top Ten States, CY 1999**

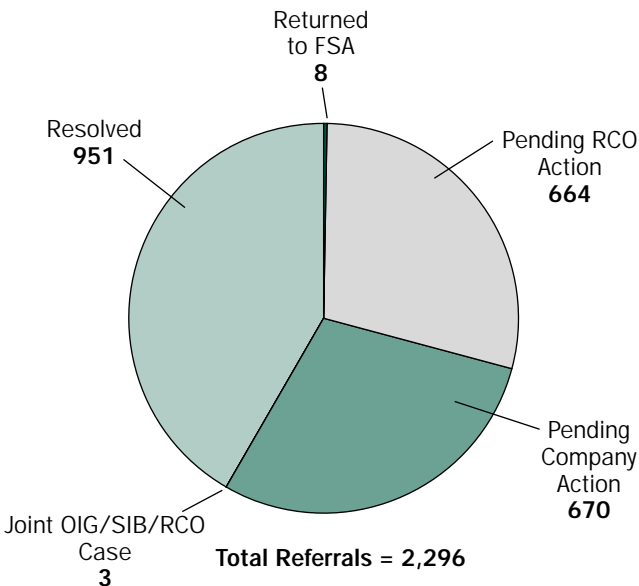


CY: Crop Year  
Source: USDA/Risk Management Agency, 2001

As of December 2001, RMA has resolved 951 (42 percent) of the CY 2000 referrals (fig. 18). RMA has resolved 449 (80 percent) of CY 1999 referrals (fig. 19). For CY 1999, the 449 referrals that were resolved resulted in total dollar savings to the FCIC program of \$700,477 (fig. 20). The 952 referrals that were resolved for CY 2000 resulted in a total dollar savings to the FCIC program of \$1,670,498.

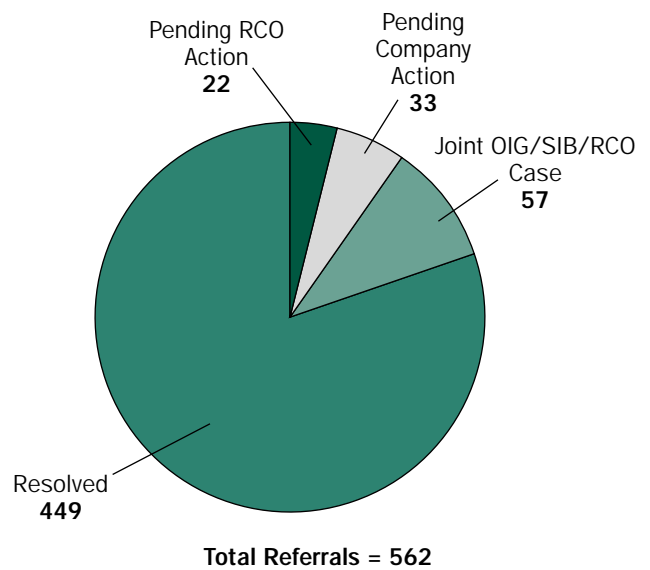
The following provides examples of some resolved and open CDP referrals RMA has received from FSA County Offices.

**Figure 18. Status of FSA Crop Disaster Program Referrals to RMA, CY 2000**



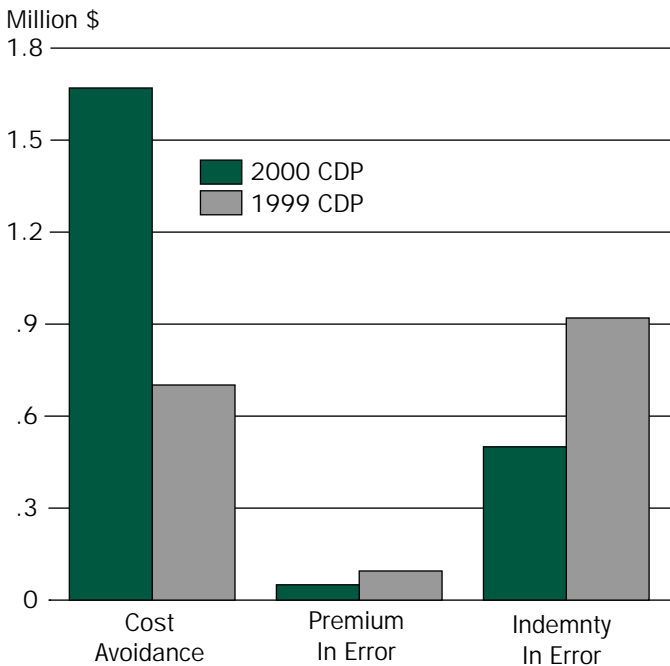
OIG: Office of the Inspector General  
RCO: RMA Regional Compliance Office  
SIB: RMA Special Investigative Branch  
Source: USDA/Risk Management Agency, 2001

**Figure 19. Status of FSA Crop Disaster Program Referrals to RMA, CY 1999**



OIG: Office of the Inspector General  
RCO: RMA Regional Compliance Office  
SIB: RMA Special Investigative Branch  
Source: USDA/Risk Management Agency, 2001

**Figure 20. Monetary Results for FSA Crop Disaster Program Referrals**



CDP: Crop Disaster Program  
Source: USDA/Risk Management Agency, 2001

## CY 2000 CDP Referrals from FSA to RMA

### **Questionable Yields on Non-Loss Units Compared to Loss Units in Indiana**

RMA received a CDP referral from the Indiana FSA State Office identifying excessively high yields on non-loss units compared to excessively low yields for loss units on popcorn and soybeans. This insured producer owns three different corporate entities and operates in four Indiana counties. These policies have a liability of \$796,700 and indemnities of \$186,200. RMA also received a 1999 CDP on this farming operation.

### **Questionable Reporting for Insurance and FSA Purposes in Ohio**

RMA received a CY 2000 CDP referral on an insured producer who operates in six different counties. The referral alleges this producer is reporting, for insurance purposes, three farms he is not associated with and does not have an interest in the crops. Also, FSA identified a

farm that was reported neither to the approved insurance provider nor to FSA. The referral alleges false statements by this producer in order to obtain crop insurance indemnity payments and FSA CDP and Loan Deficiency Payments. The liability associated with this case is \$260,000.

### **Questionable Yields in North Carolina**

RMA received a referral from the FSA Cumberland County Committee questioning the yields given to a producer for his CY 2000 soybean crop. RMA database records indicate that a yield was established on a referenced unit. Other farms were then added using the referenced yield. The yields on the reference unit are also in question because they are two and three times the county T-yield. The case has been referred to the approved insurance provider. This policy has a liability of \$57,000.

### **Poor Farming Practices Investigated in Iowa**

RMA received a CDP referral from the FSA Franklin County Office alleging that a producer did not use good farming practices by not fertilizing his corn crop. RMA conducted a field review and determined that the producer did not fertilize his corn. Based on the results of an Iowa State University study showing yield reductions when no fertilizer is used, RMA assessed a 34-percent reduction in yield as production to count for FCIC program purposes due to the uninsured cause of loss. This resulted in an indemnity overpayment in CY 2000 of \$24,893.

### **FSA/RMA Shared Information Leads to Poor Farming Practices Investigation in Four States**

As a result of shared information (during the Act loss adjustment training in Washington and California) on denied CDP payments, four FSA State Offices (California, Washington, Oregon, and Arizona) provided names and ID numbers of 46 producers whose 2000 CDP benefits were reduced or denied for suspected poor farming or management practices. RMA initiated a review to evaluate the appropriateness of indemnities paid to the 46 policyholders. The indemnities associated with the policyholders amount to \$4.7 million.

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## **CY 1999 CDP Referrals from FSA to RMA**

### ***Questionable Causes of Loss, Payments, and Claims Discovered in Iowa***

An investigation of 13 producers farming land within the Red Rock Reservoir boundary for the 1999 and prior crop years was initiated by RMA Compliance after a review of the evidence provided from FSA. The CDP referrals and other program abuse complaint referrals were determined to have merit. The investigation discovered questionable causes of loss (excessive moisture/precipitation), prevented planting payments, and planted acreage claims. RMA determined that program weakness and vulnerability were the primary causes for questionable claims being paid.

Corrective measures were recommended by RMA Compliance and subsequently adopted that included providing clarification and guidance via RMA Manager's Bulletin (MGR-00-008) to the approved insurance providers so that loss adjusters would correctly determine if contained water (reservoir), an uninsurable cause of loss, was a factor during 1999 claims adjustment. Further, an actuarial change was put in place for the 2001 crop year on all counties within the Red Rock Reservoir boundary, which, in effect, removes excessive moisture and precipitation as insurable causes of loss. The actuarial change extends coverage only by written agreement. As a result, a conservative cost-avoidance savings, based on a percentage of loss directly associated with the causes of loss excluded by the actuarial change, eliminated \$599,587 per year in potential indemnities.

### ***Forage Production Abuse in Western Pennsylvania***

RMA received a CDP referral from FSA Mercer, Venango, Butler, and Lawrence County Offices in Pennsylvania of possible abuse in a producer's forage production. An RMA investigation revealed that the approved insurance provider insured the forage crop without a proper pre-acceptance inspection. In addition, the forage crop did not meet FCIC requirements for insurability. Neither the approved insurance provider's loss adjuster nor quality control reviews identified the problem. An initial finding

was issued to the approved insurance provider identifying an indemnity overpayment of \$516,090.

### ***Corn Released After Appraised as Zero Yield, Then Harvested in Georgia***

RMA determined through a referral from a Georgia FSA County Office that a producer was harvesting corn on acreage that had been appraised and released as zero yield. RMA issued findings to the approved insurance provider who made the financial corrections of an indemnity overpayment of \$36,836.

### ***Complaint on South Dakota Forage Actual Production History (APH)***

RMA received a CDP referral from the FSA South Dakota State Office alleging that three South Dakota producers had unrealistic APHs on their first year of insuring their forage crops. The complaint also alleged that their high APH resulted in high indemnity payments on their forage CY 1999 production.

RMA determined the records established from estimated cattle consumption of forage rations and reconstructed records were not sufficient documentation to support the APH database yields reported by the producers for 1995-98. This resulted in an indemnity correction in CY 1999 of \$72,343. RMA also identified similar high yields on many self-certified APH histories submitted by several new insureds. In order to prevent the problem from expanding into subsequent crop years, the RMA Compliance spearheaded an initiative to require systematic APH evaluations by the approved insurance providers for new insureds exceeding the county averages by 50 percent.

In addition, RMA became aware of gaps in the APH edit process that enabled questionable APH to be recorded without question. As a result, the APH edit process has been reassessed and improved. RMA expects the improved edits to generate substantial recurring savings on a national basis.

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## **Office of Inspector General (OIG) Hotline Complaints**

After an initial screening to determine whether OIG should open a criminal investigation, complaints to the OIG hotline that allege administrative or civil program issues are referred to RMA Compliance for review and resolution. The results of RMA reviews are then reported back to OIG.

During the reporting period, RMA received 178 OIG Hotline referrals and closed 127 OIG Hotline referrals. Including carryover cases from previous fiscal years, RMA Compliance worked on a total of 295 Hotline referrals. Ninety-nine closed referrals were unsubstantiated. Eleven referrals were returned to OIG because no RMA violations were alleged or for criminal investigation.

Hotline cases resulted in 10 initial findings being issued with findings of \$104,997 in premium discrepancies and \$741,307 in indemnity discrepancies, and 9 final determinations being issued with findings of \$84,485 in premium discrepancies and \$662,302 in indemnity discrepancies. Additionally, Hotline cases resulted in \$756,501 in questioned costs and cost avoidance of \$4,824,304. Hotline cases also resulted in findings that program or policy violations had occurred but the reinsured companies had already taken corrective or remedial action with no loss being incurred.

OIG Hotline referrals typically involve allegations of poor farming practices, shifting/hidden production, collusion between producers/agents/adjusters, and abuse of specific policy provisions such as prevented planting.

### ***Agent and Son Indicted for \$3.5 Million Fraud in North Dakota***

A joint investigation into crop insurance fraud by the OIG, SIB, and a RCO resulted in a crop insurance agent and his son being indicted. The two are accused of conspiring with five other individuals to establish sham-farming operations that were ineligible for crop insurance benefits. Production was shifted among the sham farming operations in order to receive crop insurance indemnities. Crop insurance indemnity overpayments were

approximately \$3.5 million during CY 1994-99. The case was referred to the U.S. Attorneys office and the defendants are charged with making false statements to RMA, FSA, and IRS and committing mail fraud, wire fraud, and conspiring to commit money laundering. The indictment also includes an asset forfeiture count. The trial is pending.

### ***Insurance Provider Officials Settle False Claim Processing for \$324,000 in Minnesota***

A joint OIG, SIB, and RCO investigation resulted from a hotline complaint alleging that a claims supervisor of an approved insurance provider provided false and incomplete production information in order to secure a dry bean claim payment for an insured. Other officials were accused of approving the false claim for payment and withholding information from the quality assurance claim review. The officials were accused of failing to notify RMA of the fraud when they became aware that the claim was false. The false documents and misrepresentations caused indemnity overpayments of \$87,870. In a settlement agreement, the approved insurance provider agreed to pay damages and penalties of \$323,600 and also agreed to a Corporate Compliance Plan that RMA will use to monitor and evaluate the provider's internal control system.

### ***New Producer Yields Assigned Incorrectly on Cotton in Georgia***

CY 1999 and 2000 policies were reviewed after RMA received an OIG Hotline complaint alleging cotton producers at a certain cotton gin were filing fraudulent crop insurance claims. RMA concluded that the producer did not qualify for "New Producer" status and improperly reported production to count. RMA also found that the approved insurance provider failed to identify these errors during a mandatory crop claim review. RMA requested that the approved insurance provider conduct GSIs of 10 additional cases for similar occurrences. The approved insurance provider agreed to correct the indemnity overpayment of \$102,000 for the CY 1999 policy and \$184,000 for the CY 2000 policy.

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***Dry Bean Processor Indicted, Settles; Additional Settlements Being Pursued with Ten Dry Bean Insureds in Wisconsin***

An OIG, SIB, and RCO joint investigation led to a civil penalty being levied against a dry bean processing company in Wisconsin because the company president provided false production and price information used to compute indemnity payments. The processing company entered into a settlement agreement for \$139,320. The president of the processing company agreed to cooperate with the investigation and provide testimony at the criminal trial of the insureds in the case above. Seven policyholders have settled with State authorities that pursued recovery of \$109,450 for the dry bean indemnities involved in the scheme.

***Dry Bean Producer Fraud Leads to Guilty Plea in Minnesota***

A married couple was indicted and pled guilty to submitting fraudulent crop insurance claims by concealing the actual amount of dry edible bean production and understating the price that they received. The husband also submitted false information on his father's dry bean claim and misrepresented the price his father was paid. The false reporting caused indemnity overpayments of \$100,330. They also admitted to related mail fraud charges.

Both defendants signed plea agreements, one of which carried an incarceration period of 10-21 months. Both agreed to jointly pay restitution of \$100,330. Civil action is pending.

***North Carolina Producer Ineligible for Coverage***

An SIB and RCO review of an OIG hotline complaint concluded that a producer did not qualify for strawberry coverage. The approved insurance provider agreed with RMA's conclusion after reviewing the producer's records and subsequently denied the producer's claim for \$8,500 and refunded the premium.

***Office of Inspector General (OIG) Audits***

OIG conducts audits of the FCIC program each year. During these audits, the auditors may identify where a producer receives an incorrect crop insurance payment. If this occurs, auditors will recommend that RMA correct the payment. RMA will conduct a review of the producer's claim records and develop an initial finding to the approved insurance provider to correct the claim and collect any overpayments. Also, RMA may conduct joint audits with the OIG. During FY 2001, RMA collected \$221,103 from the approved insurance providers on indemnity overpayments. The following paragraphs provide examples of some resolved OIG audits.

***South Dakota Audit Leads to Settlement for False Claims on Prevented Planting and Replanting Payments***

RMA assisted OIG auditors and the South Dakota U.S. Attorney's Office in this audit. A South Dakota crop insurance agent and a producer, who was a close relative, agreed to settle U.S. civil claims filed against them for filing false claims for prevented planting and replanting payments in 1996 and 1997. In return for a \$260,000 cash payment, the Federal Government settled the outstanding issues without any admission of wrongdoing.

***Incorrect Potato Master Yields Calculated in North Dakota***

In 1999, RMA, in conjunction with OIG, performed an audit on specialty crops including potato crop policies. The review found that in this case the approved insurance provider incorrectly calculated master yields for potatoes in Walsh and Pembina Counties, North Dakota. This resulted in an indemnity overpayment of \$40,390 to the insured. RMA issued findings to the approved insurance provider and verified that this amount was correct.



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### ***Minnesota Audit Finds Requirements Not Met on Dry Bean Acreage***

RMA completed a review on a policy that was included in an OIG audit survey of RMA's Crop Rotation Requirements. The audit found that this insured had not met crop rotation requirements for 40 acres of dry beans in CY 1999. This error resulted in an indemnity overpayment of \$7,190 and a premium overstatement of \$2,640. RMA issued findings to the approved insurance provider and verified that this amount was collected.

### **Office of Inspector General (OIG) Investigations**

RMA Compliance has long cultivated a close working relationship with OIG investigators. That working relationship predates the FCIC/OIG Memorandum of Understanding that was signed by RMA's Administrator on January 19, 2001, and by OIG's Assistant Inspector General for Investigations on March 6, 2001. RMA and OIG cooperation builds on the guidelines found in Departmental Regulation (DR) 1700-2. During FY 2001, joint efforts by OIG and RMA resulted in \$5.7 million being collected on criminal investigations. The following paragraphs provide examples of some resolved criminal cases.

### ***Satellite Imagery Evidence Results in \$291,000 Jury Award in Crittenden County, Arkansas***

A producer filed a complaint with RMA alleging that another producer and two co-conspirators reported cotton acreage as planted that was not planted. RMA's investigation determined that the acreage was not planted. The Federal Government used satellite imagery for the first time in a crop insurance case. The jury and judge found for the Federal Government and awarded \$291,000. RMA assisted the U.S. Attorney for the Eastern District of Arkansas, the OIG, and the FBI in the successful conclusion of this case. The indemnity was \$244,930, and the premium was \$61,500.

### **Open Criminal/Civil Cases**

- CDP referral results in Texas agent and adjuster implicated in \$3.7 million in false claims;
- Producer investigated for obtaining insurance on acreage in which there was no insurable interest; loss adjuster failed to detect problem;
- Civil prosecution sought for hidden soybean and dry bean production over 4 years;
- Banker identifies crop production in a fictitious entity name indictment being prepared;
- Long-suspected MPC I agent is under investigation for insurance fraud with help from witness;
- Arkansas producer fraud being investigated;
- Investigation into prevented planting fraud in soybeans involves 4,000 acres;
- Agent in Louisiana under investigation with help from former employee;
- Investigation of \$2.2 million case involving potato grower in Michigan;
- Conspiracy investigation of two sales agencies and 14 insureds in Ohio and Indiana;
- False claims investigation of Michigan insureds with multiple entities;
- CDP referrals lead to investigation of shifting production of three corporations in Indiana;
- Approved insurance provider special investigative unit and RMA Compliance work together to present \$400,000 Illinois Case to OIG.

### ***Minnesota Producers Plead Guilty***

An OIG and SIB investigation resulted in two producers, a mother and son, pleading guilty to submitting fraudulent crop insurance claims. The producers entered into a plea agreement that requires they pay restitution of \$100,330. The son is still awaiting sentencing. The Federal Government also plans to pursue civil action against the pair.

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### ***Falsified Cotton and Soybean APH Leads to Settlement Agreement in Arkansas***

OIG identified a producer in St. Francis County, Arkansas, who had falsified his cotton and soybean APH resulting in large indemnity overpayments. RMA assisted the OIG in pursuing this investigation. A settlement agreement was entered into between the producer and the U.S.

Attorney's Office for the Eastern District of Arkansas in June 2000 for \$16,078.

### ***Criminal Trial in Michigan Potato Case***

The Michigan U.S. Attorney's Office (AUSA) filed an indictment against individuals associated with an operation in Saginaw and Bay Counties, Michigan, for obtaining and aiding in obtaining the payment of false, fictitious, and fraudulent claims for disaster loans and crop insurance. Potato crop insurance claims were submitted for multiple crop years. Attempts by the AUSA to plea-bargain the case have not resulted in any agreements. Trial was scheduled for October 2001. Parallel civil proceedings have also been initiated by the AUSA under the Affirmed Civil Enforcement Program. RMA contributed considerable resources to the investigation and related AUSA actions. The indemnity in this case is \$3.0 million, and the premium is \$1.7 million.

### ***OIG Payment Limitation and MPCl Program Eligibility Review in Minnesota***

The OIG initiated an investigation of three farming operations for FSA payment limitation violations. Based on the evidence presented in OIG's investigative report, RMA concluded that these entities did not actually receive a share of the crop produced or share in the proceeds from grain sales and therefore did not meet FCIC program eligibility requirements. Members of these partnerships did not exercise managerial control relating to producing and marketing the crop (such as deciding what to plant and when to plant, till, cultivate, irrigate, spray, harvest, and market). All crops reported on the MPCl policy forms actually belonged to only one entity. This was the only eligible entity to insure these crops for MPCl purposes. RMA calculated the CY 1999 soybean indemnity as a single producer and on a whole-farm basis. The misrepresentation of the producer information caused an indemnity overpayment of

\$399,500. The Minnesota U.S. Attorney's Office is considering this case for civil prosecution for FSA payment limitations and crop insurance fraud.

### ***Crop Insurance Agent Indicted in Kentucky***

An OIG and SIB investigation resulted in a crop insurance agent being indicted for filing a false crop insurance claim on his tobacco crop and assisting other producers to file false tobacco crop insurance claims. The investigation involved multiple co-conspirators. One producer has already pled guilty and was ordered to pay restitution of \$15,880.

### ***Insurance Provider Referrals***

RMA receives referrals from approved insurance providers, which represent a proactive approach in RMA's effort to combat potential fraud. The majority of the instances of suspected fraud are investigated before the approved insurance providers pay claims to the producers. To date, the referrals have generated 263 reviews by RMA. The following are examples of these referrals.

### ***Partnership Investigation of Producer Misrepresenting Planting Dates and Acreage in Iowa***

An investigation by RMA and an approved insurance provider stemming from a complaint resulted in the approved insurance provider voiding three CY 1998 policies totaling \$3.5 million in liability due to the producer's misrepresentation of reported planting dates and insurable acreage. The case was referred for criminal/civil prosecution and declined. Administrative sanctions and disqualification are being pursued.

### ***Partnership Investigation with Insurance Provider into Poor Farming Practices in Nebraska***

An investigation by RMA and an approved insurance provider stemming from a complaint resulted in two approved insurance providers denying CY 1998 indemnity claims on two separate policies totaling \$233,000 due to poor farming practices on sugar beets, corn, and dry beans. The affected producer filed for arbitration. Approved insurance providers servicing these policies have requested investigators' testimony during the arbitration hearing.

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### ***Insurance Provider and RMA Investigate Farming Practices, Dates, and Acreage in Kansas***

An investigation by RMA and an approved insurance provider resulted in a CY 1999 indemnity claim totaling \$117,600 being denied by the approved insurance provider due to producer misrepresentation. The investigation found evidence that supports the allegation that the producer misrepresented his farming practices, planting dates, and insurable acreage. The case was referred for criminal/civil prosecution and was declined because the approved insurance provider denied the claim for indemnity.

### ***RMA, Insurance Provider, and OIG Investigate Irrigation Practices in Nebraska***

RMA investigated a complaint received from an approved insurance provider that resulted in a \$102,500 reduction in the indemnity payment. The approved insurance provider and investigator documented irrigation practices and other farming practices during several farm inspections. The approved insurance provider used this evidence in support of their decision to reduce the coverage from irrigated to a non-irrigated practice. The producer filed for arbitration. The investigator gave testimony during the arbitration proceedings. The arbiter ruled in favor of the approved insurance provider.

### **Program Vulnerabilities**

A program vulnerability is a fundamental flaw in a policy, product, structure or agency procedure or system that results in an unintended consequence that requires corrective action through administrative, regulatory, legislative, or policy changes. A program vulnerability occurs whenever a policy, procedure, or system's process fails to prevent, detect, or control losses due to fraud, waste, abuse, or mismanagement in the FCIC program. Compliance findings report program vulnerabilities that are discovered during the course of the investigation or review of programs, participants, or insurers.

Program vulnerabilities identified through this process are prioritized for changes to RMA programs to ensure to the extent possible that structured solutions to fraud, waste, and abuse are implemented. The revision of the basic provisions for policies covering insured crops has

taken into account and addressed a number of these vulnerabilities.

As part of the Act process, RMA Compliance carried out a comprehensive review and update of all program vulnerability findings for 1996-2001. In cooperation with other key operative elements of RMA Divisions (Insurance Services and Research and Development), 329 vulnerabilities were identified, of which 227 were corrected, 8 were corrected in part, and 94 were not corrected. Of those not corrected, 55 of the identified vulnerabilities are scheduled for correction by an appropriate future action during the applicable crop year cycle or SRA negotiation and the remaining 39 vulnerabilities are under consideration. The following paragraphs are examples of program reviews.

### ***Widespread Abuse of Prevented Planting Provisions Suggested in Colorado, Kansas, Missouri, and Nebraska***

A review of all 2000 crop year prevented planting claims paid in Colorado, Kansas, Missouri, and Nebraska was initiated this year because of numerous allegations of program abuse from congressional inquiries, the general public, policyholders, crop insurance industry representatives, and other Federal government agencies. Evidence suggested that no policyholders appeared eligible for prevented planting claims in the referenced States for the 2000 crop year, as weather conditions did not warrant prevented planting claims due to weather-related causes of loss, including drought. A discussion report was sent to the 11 approved insurance providers who paid the prevented planting claims asking them to explain the rationale for payment. The monetary amounts in question are \$3.8 million in indemnity payments and \$994,000 in premiums.

### ***Program Abuse Allegations Surface in Nebraska Forage APH***

Allegations of program abuse led RMA Compliance to investigate APH certification on 2001 forage policies in Nebraska. All CY 2001 forage policies (81), written agreements establishing coverage, and production records in support of the coverage offered were reviewed. The review disclosed that production records were incomplete, missing, or inconsistent with what was

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certified on their APH and/or as required by approved policy and procedures. Further, both an assessment of the legal ramifications of amending or withdrawing the coverage offered and its effect on potential forage claims are planned. The total premium of \$260,490 and liability of \$2.3 million is questioned.

#### ***Premiums Calculated Too Low Due to Incorrect Citrus Map Area Designations in California***

Concerns that proper rate map areas were not applied to CY 2000 California citrus policies led to an RMA review that affirmed incorrect rate map areas were assigned to all 1,965 acres reviewed. As a result, the premiums were calculated improperly using incorrect rate-map area adjustment factors causing a \$23,590 understatement by four approved insurance providers. RMA recommended that all the map areas in the counties affected be reviewed and corrected. RMA also recommended an assessment of approved insurance provider internal procedures and controls over map rate designations be conducted.

#### ***Dry Land Wheat Loss Adjustment and Yields in California and Oregon Reviewed***

Allegations of program abuse led RMA to initiate a review of \$30 million in CY 2000 wheat claims in California and Oregon. RMA is offering wheat growers a non-irrigated practice in California counties having desert-like growing conditions. The allegations indicate T-yields are not commensurate with those conditions.

The review is ongoing and will determine the extent of program vulnerabilities and whether RMA and approved insurance providers are adequately preventing further waste or abuse. The review will also evaluate whether approved insurance providers provided adequate loss adjustment service.

#### ***Good Farming Practices Assessed, Recommendations Made***

RMA initiated a review of current good farming practices criteria and procedures and recommended several changes. These include requiring that producers document changes in practices used to establish the APH. RMA also recommended more specific language in the special provisions pertaining to seeding rate, germination

rates, seedbed preparation, weed control, fertilizer requirements, and harvest requirements. Draft language has been included in the Basic Provisions that will address concern regarding APH yields derived from small acreage that should be in effect in CY 2003 or CY 2004.

#### ***Prevented Planting Vulnerabilities Identified***

RMA's review of the prevented planting program resulted in recommendations to strengthen Eligibility and Notice of Loss procedures. RMA recommended that: (1) a threshold be established before prevented planting becomes eligible for payment based on FSA county planting data; (2) prevented planting notices of loss be filed within 72 hours of the final plant date or when planting stops if in the late planting period; and (3) insurers adjust the claim within 30 days of the notice of loss. Changes have been made to the Basic Provisions that are expected to be in effect for the CY 2003 or CY 2004.

#### ***"Wash" Type Transactions in Dairy Options Trading Identified as Vulnerable to Abuse***

Allegations of questionable dairy options trading transactions led to a review by RMA. Working with program managers and subject-matter experts in other agencies, RMA determined that no specific rules were violated and no monetary findings were applicable. However, RMA did determine that improved rules are needed to control certain "wash" type transactions. Without improved rules limiting wash transactions, there could be an incentive for brokers and participants "to harvest the subsidy." This involves cashing out the subsidy for immediate gain shared among the brokers and participants instead of the participants benefiting from the intended market price protection. RMA recommended the clarification and improvement of existing rules and an informational dissemination program to prevent or discourage a recurrence. To date, RMA has paid \$1.7 million of the \$1.8 million in transaction fees.

#### ***Small Acreage Units Can Inflate APHs***

RMA reviewed the effect of extremely small acreage units on APHs in northern States because producers have been planting a small number of acres of their normal crop and providing unusual care to increase the yields on these acres beyond what is common to the local area. These increased yields are then used to estab-

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lish the yields for much larger units. However, these increased yields are not representative of the producer's past farming history and the land's sustainable production capability.

RMA maintains an APH database that uses a current simple average for yield calculation. Producers are using the inflated APH from these unrepresentative small acres to greatly increase their APH and thus negate the effect of a loss on their APH from a previous or future year loss. This situation allows producers to increase their liabilities and exposes RMA to the risk of inflated indemnities.

Based on the review, RMA recommended the use of a weighted average to establish an APH database rather than the simple average that is currently being used. This technique can take into consideration size as well as production.

## Manual 14 Reviews

### *Quality Control Reviews*

Guidelines and Expectations for the Delivery of the Federal Crop Insurance Program (Manual 14) establishes the minimum training and quality-control review procedures and performance standards required of all approved insurance providers in the delivery of any policy insured or reinsured under the Act. Manual 14 is incorporated by reference in the SRA. The SRA is the agreement governing the contractual relationship between FCIC and the approved insurance providers delivering crop insurance to the Nation's producers.

One key component of the quality control system required by Manual 14 is the Compliance Crop Insurance Contract Review, which requires the following:

- The approved insurance provider must conduct compliance reviews of a selected number of policies to determine whether all FCIC procedures were followed by the sales agents and loss adjusters in the sales and service of these policies. FCIC will furnish each approved insurance provider by February 1<sup>st</sup> after each crop year with a list of not less than 50

indemnified crop insurance contracts for review under this category.

- FCIC will spot-check the completed reviews to determine the accuracy of the approved insurance provider's conclusions and respond to the approved insurance provider as to the appropriateness of its corrective actions.

The Act, Subtitle B, Section 515, (c) Reconciling Producer Information, requires FCIC and FSA to reconcile producer-derived information on an annual basis (starting with the 2001 crop year) in order to identify and address any discrepancies. RMA is planning to conduct the Manual 14 spot checks to include a pilot program that compares approved insurance provider reviews and FSA reviews of the same records.

For CY 2000, there were 1,625 compliance crop insurance contract reviews completed nationwide by all approved insurance providers. The 4-RM Handbook that implements the Act's guidelines establishes procedures where FSA County Offices are to corroborate RMA claim reviews. This year, RMA is conducting a pilot review of all the compliance contract reviews that were conducted by the approved insurance providers in Indiana. For this pilot, FSA County Offices will compare their records with what the approved insurance providers found. Any differences found by FSA County Offices will be reviewed further by RMA Compliance. After RMA completes the pilot program, the agency will determine the effectiveness of a nationwide comparison of all 1,625 compliance crop contract reviews conducted during this year's spot check.

### **Self-Audit Review**

Manual 14 outlines the minimum guidelines approved insurance providers must employ to assure an effective self-audit program and the program performance standards used to measure the compliance and effectiveness of contract fulfillment. Currently, RMA is reviewing two approved insurance providers' quality-control operations and their 2000 Annual Summary Reports. The review will determine if the quality controls outlined in Manual 14 are effective. To accomplish this objective, RMA will (1)

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determine if the selected approved insurance providers have implemented the quality-control systems required in Manual 14; (2) measure whether their quality-control systems have identified problems accurately; and (3) determine how approved insurance providers have responded to program vulnerabilities (such as fraud, errors, and internal procedural deficiencies).

To meet the objectives, RMA is interviewing selected approved insurance provider managers and appropriate staff about their processes and procedures for performing Manual 14 reviews, as well as examining and analyzing pertinent approved insurance provider files. RMA is spot-checking reviews performed by approved insurance providers and the results they reported in their Annual Summary Report. The Agency is also confirming the number of required reviews using RMA databases. The purpose of the CY 2001 spot-checks is to determine if the approved insurance providers' quality-control review files adequately support that the reviews were conducted according to requirements and whether the resulting review conclusions were adequately supported.

### **Other Reviews**

This category includes a variety of sources of complaints or referrals, including RMA initiated, anonymous, or concerned citizen complaints to RMA and CY 1998 crop loss disaster payment referrals. The following paragraphs illustrate examples of these cases.

#### ***Lack of Quality Control Leads to \$1 Million Questionable Claim in California Almonds***

An anonymous referral led to RMA's review of two almond policies with indemnity overpayments totaling nearly \$1 million. RMA determined that the approved insurance provider did not adequately perform its farm visit requirements, conduct adequate mandatory-review procedures designed for high-dollar claims, or perform required loss adjustment activities. The policyholders applied for and were denied 1999 FSA disaster benefits totaling over \$500,000.

#### ***Controversial Cherries Claim in California Leads to \$145,000 Returned to RMA***

An anonymous complaint identified loss adjustment violations in a \$145,000 cherry claim that led to the approved insurance provider paying the money back to RMA.

#### ***Ineligible Producers Received Prevented Planting Payments***

RMA conducted a review of an allegation that several policyholders were not eligible for prevented planting (PP) payments in 1998 due to the reported acreage not being planted and harvested within 1 of the 3 prior crop years. The review discovered that 4 of the 5 policies reviewed did not qualify for PP payments in 1998, resulting in a premium overstatement of \$45,136 and indemnity overpayments of \$156,919. One of the 5 policies was referred to the Civil Division of the U.S. Attorney's Office for consideration of civil prosecution. The AUSA declined prosecution; appropriate administrative remedies are currently being pursued.

#### ***Complaint Case Involving Uninsurable Crop Revenue Coverage in Illinois***

RMA conducted a review of an allegation that an Illinois insured had Crop Revenue Coverage (CRC) for high-amylose corn acreage, which is uninsurable under a CRC policy, in addition to other discrepancies. An initial finding has been issued to the approved insurance provider for overpaid indemnities of \$95,000.

#### ***Complaint Received Concerning Loss Adjustment Errors on Onions in Colorado***

A complaint to RMA resulted in an investigation in which initial findings (preliminary determination) were issued to an approved insurance provider because their loss adjuster improperly established the cause and severity of damage after onions were placed in storage. The investigation also discovered that the loss adjuster was not using approved procedures to establish the production to count (harvested or appraised quantities of a crop produced from a unit which are subtracted from the unit's production guarantee in computing an indemnity). Initial findings in the amount of \$52,860 were provided to the approved insurance provider.

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### ***Loss Adjustment Errors in California Cotton***

A CDP referral from an FSA County Office in California led to findings that a loss adjuster failed to verify the insured's share of the cotton crop. The quality-control reviewer did not conduct adequate mandatory review procedures designed for high-dollar claims, and the approved insurance provider did not assign the correct yields. The indemnity overpayment was \$33,620.

### ***Arbitrary Application Deadline Leads to Coverage Error in California***

A wheat producer in California complained to an RCO that an approved insurance provider improperly reduced his insurance coverage from 65 percent of the approved yield and 100 percent of the price election (65/100) to 50 percent of the approved yield and 55 of the price election (50/55), despite the policyholder's timely filed application. It was discovered that the approved insurance provider imposed an additional timing requirement on the sales agent for transmitting the application to the approved insurance provider that led to the coverage error. Over \$7,000 in indemnities in error were issued as initial findings to the approved insurance provider.

## **Outcomes**

### **Board of Contract Appeals**

Approved insurance providers are afforded the opportunity to dispute RMA findings in accordance with 7 C.F.R. 400.169(b). The Deputy Administrator for Compliance makes a final administrative determination. That determination may be appealed to USDA's Board of Contract Appeals (BCA) in accordance with 7 C.F.R. part 24. BCA decisions are final within USDA and approved insurance providers must appeal to the BCA before they can sue FCIC in the district court for any matter arising from the SRA.

During FY 2001, 11 RMA cases, representing \$3.5 million in discrepancies and interest, were either decided or settled. Six cases were decided in favor of FCIC for \$2.5 million, and five cases were settled for \$992,860.

### **BCA Cases Settled in 2001**

BCA settlements occur when both parties consent and agree. Both parties then request that the BCA appeal be dismissed.

#### ***Reconditioned California Raisins***

An approved insurance provider did not use proper procedures for determining if raisins were reconditioned. Production-to-count raisins were rejected by packers and then sold "as is" to reconditioners, who eventually reconditioned the raisins and then sold them back to packers for a profit. The approved insurance provider failed to verify and correct the insured's share of the raisins when completing the claim. The case was settled for \$600,000.

#### ***Indiana Corn/Soybean Hidden Production***

An Indiana producer hid his 1991 corn and soybean production from the loss adjuster. The approved insurance provider requested relief under MGR-001, which allows relief to the approved insurance provider because of fraud and other conditions. In this case the request for relief under MGR-001 was denied because it was filed late. The approved insurance provider appealed to BCA. RMA settled the BCA case by granting relief under MGR-001 in the amount of \$57,446.

#### ***Michigan Corn/Soybean Hidden Production***

A Michigan producer hid his 1994 corn and soybean production from the loss adjuster. The approved insurance provider requested relief under MGR-001. In this case the request for relief under MGR-001 was denied because it was filed late. The approved insurance provider appealed to BCA. RMA settled the BCA case by granting relief under MGR-001 in the amount of \$24,094.

#### ***South Carolina Tobacco Hidden Production***

A South Carolina tobacco producer misrepresented his 1992 tobacco production to a loss adjuster. The loss adjuster would have discovered the misrepresentation if he had followed proper procedures. The case was settled for \$18,000.

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### ***BCA Cases Decided in 2001***

BCA decisions are made in writing, and authenticated copies of the decisions are forwarded to both parties. Case decisions are made solely upon the record presented to the BCA.

### ***Texas Coastal Bend Multiple Indemnities***

Certain producers in the Coastal Bend area of Texas were receiving two or more indemnities for crop losses on the same acreage during the 1996 growing season. The crops involved were cotton, grain sorghum, and corn that failed to emerge because of drought. RMA argued that it was a poor farming practice to plant in a drought and issued findings against the approved insurance provider. The BCA issued a decision that denied the approved insurance provider's appeal and required the approved insurance provider to repay \$1,511,607 plus over \$700,000 in interest.

### ***Improper Grape Procedures***

RMA determined that an approved insurance provider did not use proper procedures on CY 1995 grapes and table grapes for late-filed and invalid applications. The company sales agent did not obtain the required producer certificates (pre-acceptance worksheets and pre-acceptance inspections or a statement certifying that linkage applied) from the insured or by the approved insurance provider. Findings were issued and appealed. The BCA issued a decision dismissing the appeal and the approved insurance provider was required to repay \$241,714.

### ***Louisiana Corn Producer Errors***

A producer from Louisiana committed errors during the processing of a 1995 corn prevented-planting claim, resulting in both indemnity and premium overpayment. RMA issued findings and the approved insurance provider appealed. The BCA issued a decision dismissing the appeal with prejudice and required the approved insurance provider repay \$77,443.

## **Conclusion**

RMA has been very busy in the last 15 months implementing the provisions of Section 515, Program Compliance and Integrity, of the Act. This effort has resulted in early and promising results as delineated in this report. As RMA works toward full implementation of the Act, it must be constantly vigilant over the ever-changing environment of the FCIC program. In conjunction with our partners, the approved insurance providers, and ally, FSA, lessons learned regarding crop insurance will assist RMA in refining the FCIC program for producers and taxpayers alike. The accomplishments of the past 15 months are only a first step in the continuous process of evaluating and improving the prevention and deterrence of waste, fraud, and abuse in the FCIC program.