

**RISK MANAGEMENT AGENCY
CONTROLS OVER MONITORING OF PRIVATE
INSURANCE COMPANIES
WASHINGTON, D.C.**

AUDIT REPORT NO. 05005-0001-Ch

JANUARY 1999

**UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL - AUDIT
MIDWEST REGION
111 NORTH CANAL STREET - SUITE 1130
CHICAGO, IL 60606**



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: January 22, 1999

REPLY TO
ATTN OF: 05005-1-Ch

SUBJECT: Controls Over Monitoring Of
Private Insurance Companies

TO: Kenneth D. Ackerman
Administrator
Risk Management Agency

ATTN: Garland Westmoreland
Deputy Administrator
Risk Compliance

This report presents the results of our audit of the RMA Risk Compliance Division's controls over monitoring of private insurance companies. The response to the official draft report, dated December 23, 1998, is included as exhibit A, with excerpts and the Office of Inspector General's position incorporated into the Findings and Recommendations section of the report.

Based on the information contained within the response, management decisions have been reached on all recommendations, and no further response to us is necessary.

JAMES R. EBBITT
Assistant Inspector General
for Audit

EXECUTIVE SUMMARY

RISK MANAGEMENT AGENCY MONITORING OF PRIVATE INSURANCE COMPANIES WASHINGTON, D.C. AUDIT REPORT NO. 05005-0001-Ch

PURPOSE

This report represents the results of our audit of the Risk Management Agency's (RMA) monitoring of private insurance companies. The objective of our audit was to evaluate the effectiveness of RMA's compliance activities, especially its enforcement of compliance by producers and reinsured companies with crop insurance program requirements.

Reinsured companies are private insurance companies that market and provide all the services on crop insurance policies and bear some of the risk on these policies. RMA's Risk Compliance is responsible for program oversight and reviewing the performance of the delivery system as well as producer compliance with program rules.

RESULTS IN BRIEF

We determined that Risk Compliance had made a considerable effort to monitor reinsured company operations. Since the division was established, about 1,900 reviews have been performed of nearly \$424 million in indemnity payments. The division has found over \$50 million in indemnity overpayments, about a 12-percent error rate. The division has also found about \$10 million in excessive premiums collected by reinsured companies. As recommended in our previous audits, we continue to believe the compliance division is essential to ensure that proper controls exist over the crop insurance program.

Although Risk Compliance has provided favorable results, we determined that compliance activities could be enhanced through more effective use of the results of reviews and greater involvement by other RMA divisions in the reporting system. Risk Compliance should institute a system to analyze the results of its reviews in order to determine trends and vulnerable areas. It should also issue reports involving program improvement to program managers. Program managers are in a better position to ensure that corrective actions are taken. For cases that require a final administrative determination of noncompliance by the reinsured companies, the RMA Administrator is better situated than division personnel to act objectively and to decide the agency's policy on any issue.

Concerning tracking, we noted that Risk Compliance did not maintain a record of all complaints received of program abuse and did not enter all recommendations in its computer tracking system. Without some formal tracking, the division cannot know if unreviewed complaints were discarded for legitimate reasons or if all recommendations were resolved appropriately.

In addition, Risk Compliance had not finalized its internal compliance handbook. Field personnel were confused about which draft version of the handbook to use, or whether they should use the handbook at all. Field personnel also did not always develop written review plans, did not consistently prepare working papers that would without additional explanation lead an uninvolved person to the same conclusions as the investigator, and did not always provide evidence in the working papers of supervisory reviews.

We also suggested that RMA managers consider expanding the role of Risk Compliance to include reviews of other "key" RMA functions such as regional service offices. Providing oversight of operational activities would allow the division to act preemptively and identify potential compliance problems before they result in overpayments or appeals board actions.

KEY RECOMMENDATIONS

We recommended that RMA's Risk Compliance perform trend analyses, issue their reports involving program improvements directly to the program managers in the different RMA divisions,

and have the program managers work with the reinsured companies to implement corrective actions. We also recommended the division track all complaints they receive and the recommendations they make. In addition, we recommended that the Office of the Administrator make final administrative decisions. In addition, we recommended the division finalize the compliance handbook and issue it.

AGENCY POSITION

In its response to the official draft report, dated December 23, 1998, RMA generally agreed with the findings and recommendations as presented. Portions of RMA's response, along with OIG's

position, are incorporated within the Findings and Recommendations section of the report. The full text of the response is included as exhibit A of the audit report.

TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
------------------------------------	---

INTRODUCTION	1
BACKGROUND	1
OBJECTIVES	2
SCOPE	2
METHODOLOGY	3

FINDINGS AND RECOMMENDATIONS

I. RISK COMPLIANCE HAS MADE CONTRIBUTIONS TO THE PREVENTION OF FRAUD, WASTE, AND ABUSE IN THE CROP INSURANCE PROGRAM	4
II. RISK COMPLIANCE ACTIVITIES COULD BE ENHANCED THROUGH A MORE EFFECTIVE REPORTING PROCESS	6
RISK COMPLIANCE SHOULD ANALYZE ITS REVIEWS TO IDENTIFY TRENDS	7
Recommendation No. 2a	8
Recommendation No. 2b	9
RISK COMPLIANCE SHOULD INVOLVE RMA PROGRAM MANAGERS IN THE ISSUANCE AND RESOLUTION OF PROGRAM ISSUES	9
Recommendation No. 3a	11
Recommendation No. 3b	11
Recommendation No. 3c	12

TABLE OF CONTENTS

FINAL ADMINISTRATIVE DETERMINATIONS SHOULD BE MOVED TO THE MANAGER'S OFFICE	12
Recommendation No. 4	13
III. RISK COMPLIANCE DID NOT TRACK ALL COMPLAINTS OF PROGRAM ABUSE DETERMINED TO BE INVALID	14
Recommendation No. 5	15
IV. PROCEDURES NEED TO PROVIDE FOR STANDARDIZED DIRECTION AND FORMAL QUALITY CONTROL	16
RISK COMPLIANCE NEEDS TO FINALIZE THE COMPLIANCE HANDBOOK	16
Recommendation No. 6	17
FIELD OFFICES DID NOT ALWAYS MAINTAIN DOCUMENTATION OF REVIEW PLANS, SUPPORT FOR CONCLUSIONS, AND EVIDENCE OF SUPERVISORY REVIEWS	17
Recommendation No. 7	20
V. MANAGERS MAY WANT TO GIVE RISK COMPLIANCE A ROLE IN OVERSEEING OTHER "KEY" RMA ACTIVITIES	21
Recommendation No. 8	22
GENERAL COMMENTS	23
<hr/>	
EXHIBITS	
A - RMA' RESPONSE TO THE DRAFT REPORT	24

INTRODUCTION

BACKGROUND

The purpose of the Federal Crop Insurance Corporation (FCIC) is to promote the national welfare by improving the economic stability of agriculture through a sound system of crop insurance. The Risk Management Agency (RMA) was established by the Federal Agriculture Improvement and Reform (FAIR) Act of 1996 to manage the FCIC. RMA is responsible for the administration and oversight of programs involving revenue insurance, risk management savings accounts, and other programs designed to manage risk and support income. RMA's headquarters is located in Washington, D.C., and its national operations center is in Kansas City, Missouri. The crop insurance program is administered in the field through 10 regional service offices.

RMA has four major activities: Research and Development, Insurance Services, Reinsured companies, and Risk Compliance. Research and Development is responsible for reviewing crop insurance programs and establishing and maintaining rates and coverage for each county. Insurance Services administers the reinsurance agreements with private insurance companies, and directs the regional offices to provide service to program participants. Reinsured Companies are private insurance companies that market and provide all the services on crop insurance policies and bear some of the risk on these policies.

The Deputy Administrator for Risk Compliance (Risk Compliance) is responsible for program oversight and for reviewing the performance of the delivery system and producer compliance with program rules. Risk Compliance works closely with other Government oversight agencies, such as the Office of Inspector General and the General Accounting Office, to investigate program abuse. Risk Compliance functions out of its headquarters unit in Washington, D.C., and its six compliance field offices.

The crop insurance program is a joint effort by the private sector (reinsured companies) and the Federal Government (RMA) in the delivery of insurance to producers. RMA through its Handbook FCIC 14010, "Guidelines and Expectations for Delivery of Multiperil Crop Insurance (MPCI)," conveys the minimum performance standards that FCIC expects to be used in the delivery of MPCI policies to the public.

The objectives of this handbook are to: (1) Convey the minimum training guidelines and expectations for sales agents and loss adjusters; (2) outline minimum guidelines companies shall employ to ensure an effective quality control (self-audit) program; (3) outline guidelines for actual production history review; (4) communicate responsibilities regarding assurance of civil rights of all persons involved with MPCI; and (5) convey program performance standards used by the FCIC to measure the compliance of reinsured companies with their contractual obligations to the FCIC.

In addition, Risk Compliance, through its Compliance Handbook, "Information, Guidelines, and Instructions for Performing Compliance Reviews," establishes procedures to assist compliance field offices in performing compliance reviews.

As of July 14, 1997, the total amount of crop insurance indemnities paid for crop year 1996 losses nationwide, was approximately \$1.49 billion dollars.

OBJECTIVES

The overall objective of the audit was to evaluate controls by RMA's Risk Compliance over the crop insurance program. Specifically, the objectives were (1) to analyze RMA's compliance staff procedures used to monitor reinsured companies by evaluating the objectives, scope, approach, reporting and corrective actions taken based on reviews performed, and (2) to determine if Risk Compliance was performing all the functions outlined in the compliance handbook.

SCOPE

We performed audit work at Risk Compliance's National Office in Washington, D.C. and the compliance field offices in St. Paul, Minnesota; Indianapolis, Indiana; and Raleigh, North Carolina. At the St. Paul field office, we reviewed a sample of 30 of 212 (about 14 percent) cases closed during the period fiscal year 1995 through 1997. Of these 30 cases, 10 cases were closed in each of the fiscal years 1995, 1996, and 1997. At the Raleigh field office, we reviewed a sample of 20 of 92 cases closed in fiscal years 1996 and 1997 (about 22 percent of the total). We also selected one review closed in fiscal year 1998, bringing the total sample in Raleigh to 21 cases.

At the Indianapolis field office, we reviewed a sample of 20 of 54 (about 37 percent) of the cases closed during fiscal years 1996 and 1997. We reviewed 10 cases closed in each fiscal year. We later determined one complainant withdrew the complaint before any fieldwork was initiated. We did not include this case when we drew our conclusions about the performance of the field office. Consequently, the sample from Indianapolis was 19 cases.

The 70 cases we reviewed were selected based on the size of the indemnity payments made and the staff assistants and compliance investigators assigned.

We conducted the audit in accordance with Government Auditing Standards.

METHODOLOGY

To accomplish our audit objectives, we performed the following steps:

- We reviewed the crop insurance handbooks, the Standard Reinsurance Agreement, and RMA regulations, policies, and procedures related to the compliance function.
- We interviewed Risk Compliance Headquarters officials, compliance field office personnel, officials of other RMA divisions, Office of Inspector General investigators, and other individuals as deemed necessary.
- We examined casefiles, compliance review reports, and documents generated from RMA's Compliance Office Tracking System.

FINDINGS AND RECOMMENDATIONS

I. RISK COMPLIANCE HAS MADE CONTRIBUTIONS TO THE PREVENTION OF FRAUD, WASTE, AND ABUSE IN THE CROP INSURANCE PROGRAM

FINDING NO. 1

Prior reviews by the Government Accounting Office and the Office of Inspector General identified high error rates in the crop insurance program. These reviews identified error rates of 31 percent of indemnities paid. As a

result of these audits the Risk Management Agency established Risk Compliance to ensure proper controls over the crop insurance program. The division identified a total discrepancy rate of 11.4 percent between 1991 and 1996 and averaged approximately \$3.3 million per year in initial findings during the same time period. Current resources allow for the annual review of approximately \$30 million in indemnities. The results of the actions taken by the division have shown that the compliance review function is essential to ensure that proper controls exist over the crop insurance program.

As of May 14, 1998, Risk Compliance has initiated a total of 1,856 reviews since its inception. Risk Compliance has reviewed nearly \$424 million in indemnity payments and has initially identified over \$50 million in indemnity overpayments (12 percent error rate). Risk Compliance has also identified reinsured companies that collected excessive premiums totaling nearly \$10 million.

As of May 1997, the compliance field offices had performed a total of 15 National Operations Reviews of reinsured companies. These reviews focus on identifying individual and systemic noncompliance with the seven major objectives of the crop insurance program, as promulgated in Manual 14, Guidelines and Expectations for Delivery of Multi Peril Crop Insurance. These reviews have now been performed on all reinsured companies. Through National Operations Reviews, Risk Compliance had identified in excess of \$4.5 million in overpaid indemnities and nearly \$1.8 million in overcollected premiums.

Risk Compliance has sought to effect program changes by aiming its findings at specific modifications in policies and procedures. According to a Risk Compliance spokesperson, it had completed 14 reviews in 1997 that contributed to procedural or policy changes. These changes included modifications to the raisin handbook, to the loss adjustment handbook for nursery crops, and to the green pea policy for bypassed acreage.

Risk Compliance had re-focused its reconsideration process to conserve time by shortening the research period at the beginning of the process. Approximately 15 percent of its findings against

reinsured companies have gone through the reconsideration process. Of these cases that have gone for reconsideration, Risk Compliance has been able to reduce the amount of reconsiderations granted from 65 percent in 1995 to 40 percent in 1996 and 1997. (For 1997, 40 percent of the cases that went to reconsideration were denied and 20 percent were denied in part.)

Risk Compliance had expanded the use of the administrative sanctions process to prevent fraud, waste, and abuse within its programs and insurance delivery systems. The use of such sanctions as suspension and debarment has helped RMA adhere to a policy of conducting business with responsible persons only. In 1995, five participants were either suspended or debarred. This figure increased to 8 in 1996 and 13 in 1997.

Although this report highlights some areas to enhance its operations, we believe the results obtained by Risk Compliance prove the need for the compliance function. This function is essential to ensure that proper controls exist over the reinsured program.

II. RISK COMPLIANCE ACTIVITIES COULD BE ENHANCED THROUGH A MORE EFFECTIVE REPORTING PROCESS

Risk Compliance was not using its reporting process to the best advantage. We identified three areas that we believe would improve the effectiveness of its compliance activities: the uses Risk Compliance makes of its review analyses, the controls it needs over the status of its recommendations, and the advantage it could gain by issuing reports of programmatic matters to other RMA divisions before they are sent to reinsured companies.

Risk Compliance performs two types of compliance reviews: investigative or Special Request Reviews, and programmatic or National Operations Reviews. Special Request Reviews are initiated when it receives a complaint against an insured producer or a reinsured company. National Operations Reviews are formally planned by RMA headquarters and are performed for each reinsured company operating under a Standard Reinsurance Agreement.

We reviewed a total of 70 compliance reviews from 3 compliance field offices.

We noted that although Risk Compliance summarized its National Operations Reviews in 1997, it did not summarize its Special Request Reviews, and it did not use the results of any summaries to identify trends indicating a need for additional review or needing program changes. Special Request Reviews account for 70 percent of the division's workload and have identified approximately 53 percent of all overpaid indemnities. Summaries of these reviews would provide a useful overview of operations. Risk Compliance also did not formally track its recommendations to ensure their resolution. The division could not always easily determine which recommendations were resolved and which were outstanding.

We also concluded that Risk Compliance should integrate its reporting process more fully with other RMA divisions. Currently, Risk Compliance issues the results of their reviews directly to the reinsured companies and reaches a final determination based on the companies' responses to the reports. According to Risk Compliance, it currently only involves the other RMA divisions when a non-routine issue or an uncertainty arises with the reinsurance agreement or policy and procedures. We believe Risk Compliance should redesign its reporting process for programmatic issues and issue those reports dealing with programmatic issues to the RMA divisions responsible for the agreements or procedures under discussion in the reports. We also believe that final administrative determinations should rest with the Office of the Administrator of RMA, who may be perceived to view issues with greater objectivity.

Risk Compliance was not summarizing the results of its reviews to identify problem areas within the program. Although the division's Special Request Reviews offered the best information for summary analyses, these reviews were not used for this purpose. Without summary analyses, there was reduced assurance that vulnerable areas were being properly targeted for compliance reviews and that compliance resources were being used in the most effective manner.

**RISK COMPLIANCE SHOULD
ANALYZE ITS REVIEWS TO
IDENTIFY TRENDS**

In our sample of 70 compliance reviews, 36 resulted in findings, and 17 (47 percent) of these directly or indirectly resulted in recommendations.

FINDING NO. 2

Of these 17 compliance reviews with recommendations, 15 were Special Request Reviews. Special Request Reviews can cover any aspect of the crop insurance program. They deal with a wide variety

of issues and include most of the complexity of the crop insurance procedures. Compliance investigators are, therefore, exposed to a large variety of problems, and their review results are a good source from which to derive information about the existence of systemic problems. We concluded that Risk Compliance would find it worthwhile to track this information, analyze it for trends, and schedule future reviews based on the analyses.

Special Request Reviews collectively offer an overview of the insurance program that they do not offer on an individual basis. Because Special Request Reviews are typically single-issue reviews, it would be difficult to make broad statements about the condition of the crop insurance program through a review of a single policy. In fact, many of the reports we examined showed a limited perspective: the causes for a majority of the discrepancies were not identified, and, consequently, recommendations to address these causes were not provided. Because of this limitation, we concluded that Risk Compliance should maintain issue statements and causes of problems in a control system and compile data from this system on a nationwide basis to develop trends and determine areas most vulnerable to errors.

On at least one occasion, Risk Compliance did perform a nationwide analysis. In May 1997, the division prepared a report titled "A Preliminary Report on Compliance National Operations Review Findings," in which it summarized the results of 15 National Operations Reviews (NOR) which had been completed up to that point. (NOR's account for only 15 percent of the division's time.) The division determined that reinsured companies were deficient in all of the seven areas that a NOR analyzes. The areas needing the most attention were training (for both loss adjusters and sales agents), quality control (self audit), and Actual Production History reviews. Specifically, the division found that

- between 7 and 62 percent of the sales agents from 12 reinsured companies did not meet the minimum training requirements,
- 11 reinsured companies had quality control deficiencies, and
- 11 reinsured companies did not meet the minimum guidelines for Annual Production History reviews.

Despite Risk Compliance's efforts to analyze the NOR's and determine how the reinsured companies performed overall, the information was not used to determine trends, identify vulnerable areas, or schedule reviews. It was compiled only for use by the Deputy Administrator for Insurance Services during negotiation of the Standard Reinsurance Agreement.

We concluded that the results of the reviews completed by Risk Compliance were not being effectively used to control the reinsured

program. Each discrepancy noted, and subsequent cause, should give Risk Compliance a better idea of where the problems are and how to prevent similar problems from occurring in the future. If compiled nationwide, this information would show vulnerable areas and identify correctable causes.

RECOMMENDATION NO. 2a

Require Risk Compliance to develop a system to maintain and summarize compliance review results. This includes noting the issues developed and the associated causes of the problems.

RMA Response

In the response to the official draft report, RMA officials stated that they were developing a new Compliance Tracking System (CTS) that would incorporate information regarding CFO reviews, including crop codes, Manual 14 error codes, and monetary and program findings. The CTS will be implemented in phases starting in July 1999, and will be fully implemented by December 1999.

OIG Position

We concur with RMA's management decision.

RECOMMENDATION NO. 2b

Require Risk Compliance to generate reports from this system which show vulnerable areas and analyze these reports to identify trends and target reviews.

RMA Response

In their response RMA officials stated that the new CTS program will be accessible to the RC units in Washington, D.C. and all CFOs, enabling them to perform trend analysis studies, identify vulnerabilities, and target review areas through reports generated at least semi-annually. RMA expected the CTS to be fully implemented by December 1999.

OIG Position

We concur with RMA's management decision.

RISK COMPLIANCE SHOULD INVOLVE RMA PROGRAM MANAGERS IN THE ISSUANCE AND RESOLUTION OF PROGRAM ISSUES

We found that Risk Compliance had issued all findings, including monetary and non-monetary compliance and programmatic issues, directly to the reinsured companies without any response from or any required followup action by the program managers who are primarily responsible for developing the standard reinsurance agreements and reinsurance policies and procedures. In addition, RMA did not have any formal followup procedures for program managers to document the corrective actions being undertaken or to report back to Risk

FINDING NO. 3

Compliance so it could evaluate the actions' implementation. As a result, there was reduced assurance that corrective actions were properly implemented or that those actions effectively kept the problems from recurring.

When Risk Compliance investigates a complaint and notes a discrepancy, it currently issues a report of initial findings to the reinsured company. The reinsured company sends its response to Risk Compliance, which will incorporate the response into a final determination and issue the final report to the reinsured company. NOR's, which center around a reinsured company's conformity to crop insurance regulations, are also issued to the reinsured companies.

Findings developed by Risk Compliance can be generally categorized as either monetary discrepancies or programmatic (control weakness) issues. Monetary discrepancies generally result when a reinsured company did not comply with its standard reinsurance agreements or the crop insurance handbooks. In these cases, Risk Compliance notes the errors and requires an adjustment to the monthly accounting report to correct the monetary discrepancy.

We found that for monetary findings, Risk Compliance generally had adequate controls and followup procedures. Prior to the issuance of final administrative determinations for these monetary discrepancies, Risk Compliance staff generally forwarded these

findings to RMA's National Office for review and comment or to the Office of the General Counsel to verify validity and legal sufficiency. Therefore, we concluded that the current policy for issuance of monetary findings directly to the reinsured companies appears to be adequate.

The other type of findings involve programmatic issues, violations of agreements, or weaknesses in the agreements or in policies and procedures. For these type of findings, the Risk Compliance staff stated that they had consulted with program managers in the Insurance Services and Research and Development Divisions. Of the 36 compliance reviews we noted with such findings, we found that for 17 of these reviews, the Risk Compliance staff had communicated with the program managers. Risk Compliance staff contended that many of these reviews involved routine issues and, therefore, they did not consult with program managers.

However, we concluded that if RMA program managers are formally involved in the processing of these reviews, RMA would be ensured of greater accountability in the crop insurance programs by the program managers. One example of the need for greater management accountability occurred in May 1997, when Risk Compliance prepared a summary of the results of 15 NOR's. The results of this analysis were shared with the Insurance Services Division, but they were only used in the negotiation of the reinsurance agreement. They were not used to determine issues of noncompliance, administrative sanctions, or program improvement (see Finding No. 2). We found that the program managers were not held accountable to ensure that corrective actions were properly implemented.

To determine how RMA monitored corrective actions, we reviewed one NOR for which the compliance field office had made 119 recommendations. Based on the response to the initial findings from the reinsured company, we determined corrective action was taken on 12 of these recommendations. Because the recommendations are not coded and tracked, the field office could not easily determine which 12 recommendations were addressed, and which 107 were still outstanding. But Risk Compliance staff contended that they monitored corrective actions during followup reviews.

Risk Compliance told us that when it cannot enforce procedure or policy terms, it sends an Informational Memorandum to the Research and Development Division, suggesting procedural changes. But we determined Risk Compliance did not track Research and Development Division's followup action or hold it accountable to implement the appropriate action.

Because the current process for monetary findings appears to be working, we concluded that monetary reports should be issued directly to the reinsured companies. However, we believe that programmatic findings should be transmitted directly to the responsible division. After review and discussion, the applicable program unit responsible for addressing these programmatic issues would transmit the initial report of findings to the reinsured company and evaluate the reinsured company's response and/or corrective action. The applicable program unit would also track the recommendations until corrective actions are completed.

RECOMMENDATION NO. 3a

Require Risk Compliance to issue all reports on programmatic issues to the applicable program managers as a means of ensuring required corrective action is taken.

RMA Response

In their response, RMA officials agreed to formalize the process for addressing program findings by issuing findings directly to the responsible RMA offices. The Deputy Administrator for Compliance will issue Program Information Memorandums to agency managers on significant issues that require immediate attention, along with Compliance's recommendations, to address the issues. This process will be implemented during the first quarter of 1999.

OIG Position

We concur with RMA's management decision.

RECOMMENDATION NO. 3b

Issue a directive that requires program managers to respond back to Risk Compliance, in a timely manner, what corrective actions they have implemented as a result of compliance and programmatic findings identified by Risk Compliance.

RMA Response

RMA officials agreed, and stated that the Risk Compliance, Policy, Procedure, and Evaluation Division would prepare and publish a directive as outlined in the recommendation. Publication will take place in the second quarter of 1999.

OIG Position

We concur with RMA's management decision.

RECOMMENDATION NO. 3c

Require Risk Compliance, as well as the applicable program managers, to develop procedures to track and follow up on the recommendations to assure corrective actions are completed.

RMA Response

In their response, RMA officials stated that they would prepare and publish formal procedures, by the second quarter of 1999, that would utilize similar procedures as those used to track and follow up on OIG audit recommendations issued to program managers.

OIG Position

We concur with RMA's management decision.

**FINAL ADMINISTRATIVE
DETERMINATIONS SHOULD BE
MOVED TO THE MANAGER'S
OFFICE**

Personnel who currently render final administrative determinations are not in a position to be considered the most objective personnel in RMA. Risk Compliance Headquarters personnel make final administrative determinations on issues that they were either directly or indirectly involved in developing. As a result, the current structure creates an appearance of a conflict in duties by Risk Compliance Headquarters personnel.

FINDING NO. 4

Risk Compliance Headquarters in Washington, D.C., is involved directly or indirectly in the issues presented in all reports. Compliance field offices conduct all reviews, but if a monetary discrepancy is greater than \$50,000, the reports of initial findings are issued by the headquarters unit. If the monetary discrepancy is less than \$50,000, the field office issues the report and provides copies of it to the headquarters unit. Consequently, the headquarters unit is aware of noncompliance issues as they are being developed.

When the reinsured company and Risk Compliance cannot come to an agreement on the issues in question through the initial and final determination phases, the reinsured company can request a final administrative determination. A final administrative determination requires an unbiased decision on the disputed issue, based on both the evidence from the reinsured company and the evidence from Risk Compliance. This phase is the last phase before the disagreement is decided outside of RMA.

This final administrative determination is currently made by Risk Compliance headquarters. However, this headquarters unit may be directly involved in the development of the issue in question and would, therefore, be asked to render an opinion on the validity of their original decision. Viewed in these terms, personnel in the headquarters unit may not be perceived as objective.

The final administrative determination is, in essence, the final decision by RMA on the issue in question. We believe, since this is the final RMA decision, it should be made by the highest level in RMA, the Administrator's office. We also believe the Administrator's office should decide RMA's final position on any particular issue.

RECOMMENDATION NO. 4

Require that final administrative determinations be decided by RMA's Office of the Administrator.

RMA Response

In their response, RMA officials agreed to revise regulation 400.169 by the fourth quarter of 1999, to have final administrative determinations decided by the Office of the Administrator.

OIG Position

We concur with RMA's management decision.

III. RISK COMPLIANCE DID NOT TRACK ALL COMPLAINTS OF PROGRAM ABUSE DETERMINED TO BE INVALID

FINDING NO. 5

Our review at the three compliance field offices disclosed that compliance personnel did not track complaints of program abuse they determined to be invalid. Field office personnel did not see the need to track complaints that were not scheduled to be reviewed. As a result, RMA cannot determine which complaints have been received and which have been reviewed. RMA could also not determine if the reasons complaints were not reviewed were valid.

The FCIC Compliance Handbook requires that all complaints be recorded and tracked in the Compliance Office Tracking System¹.

During our review at the St. Paul, Indianapolis, and Raleigh compliance field offices, we were informed that not all complaints sent to the field offices were reviewed. OIG hotline complaints, Congressional and GAO requests were always reviewed because a review of these complaints was mandatory. However, field office personnel discarded complaints from other sources if a preliminary check showed the complaint was not valid. If, for example, the person(s) against whom the complaint was made did not have crop insurance, the complaint would not be valid and would not be reviewed. This type of complaint was not being entered into the division's computer system.

At one field office, we noted there were eight complaints which were not entered into the division's system. The director of the field office informed us that three of these complaints would be reviewed and the other five would not. The director said the three complaints that would be reviewed would be entered into the system as soon as field office personnel become available to enter them.

The other five complaints would not be reviewed because the complainants did not provide the field office with enough information. We reviewed the documentation the complainants provided for these five complaints and concluded that the director's decision not to review these complaints was justified.

We informed the director that all complaints received by the field office should be entered into the system, because this would provide a record of the complaints that were not reviewed and the reasons they were not reviewed. The director agreed with this conclusion.

¹FCIC Compliance Handbook, Part II, Section 2, Paragraph 2, dated February 14, 1994.

RECOMMENDATION NO. 5

Require field office directors to establish policies and procedures to ensure that all complaints received by field offices are recorded in their management information systems.

RMA Response

RMA officials agreed to publish formal procedures by the end of the second quarter of 1999, requiring all CFOs to enter all complaints into the RC management information system.

OIG Position

We concur with the RMA's management decision.

IV. PROCEDURES NEED TO PROVIDE FOR STANDARDIZED DIRECTION AND FORMAL QUALITY CONTROL

During our review, we noted that much of the planning and quality control at Risk Compliance depended on verbal communications rather than formal documentary guidance. Risk Compliance had not issued a final version of its compliance handbook and did not always provide written plans for its reviews. Investigators noted that they viewed the handbook as a guide that could not be always followed in every circumstance. Field office officials stated that routine and Special Request Reviews did not require written plans. The officials briefed the investigators verbally at the beginning of any review to ensure they understood their objectives.

We found that Risk Compliance needs to issue a final handbook and incorporate procedures for providing written review plans for all types of reviews. We also concluded that supervisory reviews should be similarly formalized, and that these reviews should include coverage of the documentation used to support field office findings.

RISK COMPLIANCE NEEDS TO FINALIZE THE COMPLIANCE HANDBOOK

Risk Compliance's compliance handbook exists only in draft form as a work in progress, and Risk Compliance staff confirmed that the handbook has not been finalized. As a result, there is some confusion and uncertainty at the field offices regarding the authority of the handbook over compliance activities.

FINDING NO. 6

During our reviews at Risk Compliance headquarters and the three field offices we visited, we noted that there were four draft versions of the Compliance Handbook in circulation. They were dated December 27, 1993, February 14, 1994, October 25, 1995, and March 26, 1996. Despite the different versions, the content remained substantially the same.

At one field office, a compliance investigator informed us that he did not always follow compliance handbook procedures word for word. He regarded the handbook as unofficial because it was in draft and he had not received instructions from either the field office's director, his supervisors, or RMA headquarters indicating that he should follow it. Instead, he merely used the handbook as a guide when performing compliance reviews.

At another field office, we were told that Risk Compliance headquarters informed them that the version of the compliance handbook dated October 25, 1995, was the version they should use. We informed them that Risk Compliance headquarters told us that the version dated February 14, 1994, was the one that should be used. The field office subsequently contacted headquarters and was told that the February 14 version was indeed the version to be used.

RECOMMENDATION NO. 6

Require the Risk Compliance National Office to issue finalized compliance handbook instructions. Also, it should issue a memo to the field offices stating that they are required to follow the handbook for all reviews performed.

RMA Response

In their response, RMA officials stated that a manual would be developed and issued to the CFOs, along with instructions to follow the procedures outlined in the manual. They stated, however, that this would be a major undertaking and that completion of the manual was expected the first quarter of 2000.

OIG Position

We concur with RMA's management decision.

FIELD OFFICES DID NOT ALWAYS MAINTAIN DOCUMENTATION OF REVIEW PLANS, SUPPORT FOR CONCLUSIONS, AND EVIDENCE OF SUPERVISORY REVIEWS

Our audit at the three field offices disclosed that review plans, conclusions reached in compliance reports, and evidence of supervisory review of working papers were not always adequately documented. This occurred because the division did not have an effective internal review process or a system of quality control. A quality control system would help to ensure that field office reviews can be relied upon for accuracy and objectivity.

FINDING NO. 7

For our review, we examined 70 compliance review casefiles at the St. Paul, Indianapolis, and Raleigh field offices.

- a. Written review plans were not prepared for all reviews performed.

Our examination of the 70 casefiles showed that there was no evidence that written review plans were prepared for approximately 71 percent of sampled cases reviewed. At the St. Paul field office, none of the 30 sampled cases had written review plans. At the Indianapolis field office, 7 of the 19 did not have written plans, and at the Raleigh field office, 13 of the 21 did not have written plans.

We discussed the absence of review plans with officials at the field offices audited. Staff at the St. Paul Compliance Field Office informed us that because the vast majority of reviews performed by the field office were special request reviews, which involved only single issues, the field office did not believe it was necessary to prepare formal written review plans. The staff said they conducted informal verbal discussions with the investigator(s), telling them what was to be done and how it should be done.

However, FCIC's compliance handbook requires that the information needed to perform the review and to achieve the objectives of the review be documented². The handbook also states the review trail must be documented to show the reason the investigator(s) performed the review in a particular manner³.

We do not believe verbal discussions are a sufficient substitute for review plans, regardless of the nature or scope of the review. Without written review plans, we could not determine if all the issues discussed were addressed during the review, if all relevant information was obtained and reviewed by the field office, and if the approach taken by the field office and the information reviewed would sufficiently deal with the allegations in the complaint.

Staff at the Raleigh Compliance Field Office told us review plans were not always prepared because some of the reviews were desk reviews, and plans were only prepared for reviews involving fieldwork. Indianapolis officials could not explain why plans were not prepared.

- b. Documentation to support field office conclusions was not always sufficient without additional explanation to lead an uninvolved person to the same results.

Our examination of the 70 casefiles showed that the working papers used to support conclusions in review reports for 90 percent of the cases would not lead an uninvolved person to the same conclusions without additional explanation as those reached by field office personnel.

FCIC's compliance handbook states that "working papers connect the field work and the final report. Working papers provide a systematic record of the work done by the reviewers and contain the information and evidence necessary to support the findings, judgements, conclusions, and recommendations presented in the review report." The handbook requires working papers to contain enough evidence to lead a reasonable person to the same conclusions as those arrived at by the compliance investigator.⁴

We discussed the lack of adequate working papers with the officials at the field offices reviewed. For one case at St. Paul, we questioned how the field office reached its conclusions because we could not arrive at the same results. With the help of oral explanations provided by the case investigator, we were subsequently able to arrive at the conclusion reached by the field office.

We also noted that the working papers were not always prepared in the purpose-source-scope-conclusion format, or in any kind of narrative format. Deficiencies were apparent in all 30 of the reviews sampled at the St. Paul office, in 17 of the 19

²FCIC Compliance Handbook Part III, Section 2, Paragraph 5, dated February 14, 1994.

³FCIC Compliance Handbook Part III, Section 1, General Information, dated February 14, 1994.

⁴FCIC Compliance Handbook Part III, Section 2, Paragraph 6, 6D(1), and G(2), dated February 14, 1994.

reviews at the Indianapolis office, and in 16 of the 21 reviews at the Raleigh office. The handbook requires each working paper to organize its information in terms of purpose, source, scope, results, and conclusions.⁴

St. Paul personnel informed us that the working papers were not in the purpose-source-scope-conclusion format because the field office was production-oriented, and the preparation of working papers in accordance with the handbook requirements would consume too much time. We informed the field office officials that because the working papers are not in the proper format, anyone not familiar with the work would have difficulty arriving at the same conclusions. As such, the extent to which the results of these reviews can be relied upon is greatly diminished.

c. Documentary evidence to support supervisory reviews of working papers was not always present.

Our examination of the 70 casefiles showed that documentary evidence to support the performance of supervisory reviews was not present in about 73 percent of the cases. These deficiencies were apparent in all 30 of the casefiles sampled in St. Paul, in 4 of the 19 casefiles in Indianapolis, and in 17 of the 21 casefiles in Raleigh.

FCIC's compliance handbook states the supervisor is responsible for reviewing working papers to ensure that they are clear and provable and have objective evidence to support the review work. The supervisor is required to date and initial each working paper in the lower left-hand corner. Supervisors need to support their reviews by preparing notes and recording them on the supervisory review worksheets⁵.

We discussed the lack of evidence of supervisory reviews with officials at the field offices. Officials at St. Paul told us that supervisory reviews were performed, but that draft reports were usually not signed or dated and were usually discarded after the initial findings were presented to the director for approval.

The director at the Raleigh office informed us that supervisory reviews were performed on the draft reports of the initial findings by the staff assistants and then by himself. The director mentioned that evidence of supervisory reviews consisted of corrections and comments on the draft report of initial findings. However, the comments were not dated and signed, and the working papers were not initialed and dated as required.

Officials at the Indianapolis office could not explain why any of their cases lacked evidence of supervisory review.

⁵FCIC Compliance Handbook Part III, Section 2, Paragraph 11, 11A, and 11B dated February 14, 1994.

RECOMMENDATION NO. 7

Require the Risk Compliance National Office to establish written policies and procedures for performing periodic internal reviews of field offices, and to establish a system of quality control at field offices to ensure the handbook is followed.

RMA Response

In their response, RMA officials stated that they were developing a Risk Compliance Assurance Program for CFOs, to be implemented during the second quarter of 1999.

OIG Position

We concur with RMA's management decision.

V. MANAGERS MAY WANT TO GIVE RISK COMPLIANCE A ROLE IN OVERSEEING OTHER "KEY" RMA ACTIVITIES

FINDING NO. 8

Except for reinsured company operations, Risk Compliance does not review other types of RMA operations such as the regional service centers. Such oversight could guard against the release by the regions of potentially erroneous

information and the possibly inflated indemnity payments that could result if reinsured companies relied on the information.

A compliance program objective, as outlined in the Risk Compliance Handbook,⁶ states "the objective of FCIC's Compliance Program is to provide internal oversight of the nationwide crop insurance program." A specific objective is to conduct inspections of policy service and claims activities. The handbook further states that one of the major goals of FCIC's Compliance Program is to ensure the integrity of the Nationwide Multiple Peril Crop Insurance Program.

Risk Compliance divides its time between conducting Special Request Reviews (70 percent), National Operations Reviews (15 percent), and administrative functions (15 percent). The division does not conduct internal reviews of RMA functions, only of reinsured companies.

The objectives and goals of Risk Compliance indicate their oversight functions could include a review of regional service offices. According to division officials, these reviews had not been performed or planned.

We were told that the level of resources provided to the division to perform its functions had remained constant, which allowed it to review about \$30 million in indemnity payments. On the other hand, the crop insurance program had expanded from about \$400 million to about \$2 billion in FY 1998. Providing oversight of operational activities would allow the division to act preemptively and identify potential compliance problems before they result in overpayments or appeals board actions.

⁶Federal Crop Insurance Corporation Compliance Handbook, dated February 14, 1994, Part I, Section 1, paragraph 5 and 6.

RECOMMENDATION NO. 8

Require Risk Compliance to include, as part of its annual review schedule, reviews of other "key" RMA activities, such as the regional service centers, on a periodic basis.

RMA Response

In their response, RMA officials stated that they were refining RMA's Management Controls Program to include all RMA operations and Regional Service Offices. RSO's will be among the operations evaluated each year through vulnerability assessments, and based on assessment results, considered for inclusion in RC's Annual Review Plan. The new program is expected to start operations in the first quarter of 1999.

OIG Position

We concur with RMA's management decision.

GENERAL COMMENTS

Each of the three field offices visited followed prescribed guidelines when civil rights complaints were involved. However, for one case reviewed, RMA did not follow prescribed procedures. When a civil rights complaint is received or a civil rights violation is discovered by the field office, it immediately forwards the complaint to RMA's Civil Rights & Community Outreach Staff in Washington, D.C. RMA's civil rights staff is required to then forward the complaint to the Office of Civil Rights (OCR) for further instructions.

The agency's role in the investigation of civil rights complaints is, primarily, that of a fact-finder. Under the instructions from OCR, the agency is to try to mediate the complaint and reach some sort of compromise. If no compromise can be reached, the agency is required to gather facts and present them to OCR. This information, along with information gathered from OCR's own investigation, is used by OCR to determine if discriminatory action has occurred. A decision as to whether or not an individual's civil rights have been violated can only be made by OCR.

During our audit, we reviewed the actions taken by the field offices during the investigation of civil rights complaints. At one field office, we reviewed a civil rights complaint in the mediation phase. A settlement agreement was drafted in order to reach a compromise between the complainant and the reinsured company. The complainant alleged racial discrimination in the manner in which adjusters handled a claim for indemnity. The settlement agreement states that RMA's civil rights staff conducted a preliminary inquiry of the complaint, which included an inquiry into the complainant's 1997 wheat production reported to the reinsured company. The agreement further states that the preliminary inquiry did not find conclusive evidence either that the complainant misrepresented his wheat production or that the reinsured company's adjusters and reviewers discriminated against the complainant in their handling of his wheat claim.

A determination of whether racial discrimination occurred cannot be made by the agency performing the preliminary inquiry. This one case gives the appearance that a determination of no discrimination was reached in order to get the complainant to settle with no further action. If this is the case, the complainant would be denied due process under the law. The settlement agreement was drafted by RMA's Civil Rights & Community Outreach Staff in Washington D.C. Therefore, we referred this matter to OCR for further investigation.

EXHIBIT A - RMA RESPONSE TO THE DRAFT REPORT



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

TO: James R. Ebbitt
Assistant Inspector General for Audit
Office of Inspector General

FROM: Kenneth D. Ackerman
Administrator

A handwritten signature in black ink, appearing to read "K. A.", written over a horizontal line.

DEC 23 1998

SUBJECT: OIG Official Draft Audit Report No. 05005-1-CH: Controls Over Monitoring of
Private Insurance Companies

Outlined below is our response to the recommendations in the subject audit.

RECOMMENDATION NO. 2a

Require Risk Compliance to develop a system to maintain and summarize compliance review results. This includes noting the issues developed and the associated causes of the problems.

RECOMMENDATION NO. 2b

Require Risk Compliance to generate reports from this system which show vulnerable areas and analyze these reports to identify trends and target reviews.

Risk Management Agency (RMA) Response:

RMA concurs with these recommendations. Currently, Risk Compliance (RC) maintains a Compliance Office Tracking System (COTS) in which Compliance Field Office (CFO) review results are entered, including error codes and monetary amounts. The COTS system is a useful tool in the development of RC's Annual Review Plan in which vulnerable areas are identified for review in the upcoming fiscal year. However, the current COTS system does not easily facilitate trend analysis for it is not utilized consistently and is maintained by one CFO office. To rectify this situation, and accommodate other elements associated with CFO reviews (e.g. litigation assistance), the Agency is developing a new Compliance Tracking System (CTS).



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

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

An Equal Opportunity Employer

EXHIBIT A - RMA RESPONSE TO THE DRAFT REPORT

James R. Ebbitt

2

The CTS will incorporate a wealth of information regarding CFO reviews, including crop codes, Manual 14 error codes, and monetary and program findings. Furthermore, the system will be accessible to RC units in Washington D.C. and all CFOs, enabling headquarters and field staff to conduct trend analyzes studies, identify vulnerabilities, and target review efforts, accordingly. Detailed guidance and "help" screens will also be available to help ensure proper usage of the system. CTS reports will be generated semi-annually, at a minimum, to conduct trend analyzes studies and target/realign review efforts, accordingly.

The CTS is currently under development and will be implemented in phases beginning in July 1999, and will be fully operational by December 1999.

RMA requests management decision be reached on recommendations 2a and 2b.

RECOMMENDATION NO. 3a

Require Risk Compliance to issue all reports on programmatic issues to the applicable program managers as a means of ensuring required corrective action is taken.

RMA Response:

RMA concurs. RC will formalize its process for addressing program findings, disclosed during policy or company reviews, by issuing findings directly to the responsible RMA office. Specifically, Program Information Memorandums will be issued by the Deputy Administrator for Compliance to inform agency managers of significant issues that require immediate attention and compliance's recommendations to address these issues. This process will be implemented in the first quarter of 1999.

RMA requests management decision be reached on recommendations 3a.

RECOMMENDATION NO. 3b

Issue a directive that requires program managers to respond back to Risk Compliance, in a timely manner, what corrective actions they have implemented as a result of compliance program findings identified by Risk Compliance.

RMA concurs. The Risk Compliance, Policy, Procedure, and Evaluation Division (PPED) in Washington, D.C. will prepare and publish a directive, as outlined in this recommendation. Publication will take place in the second quarter of 1999.

RMA requests management decision be reached on recommendation 3b.

EXHIBIT A - RMA RESPONSE TO THE DRAFT REPORT

James R. Ebbitt

3

RECOMMENDATION NO. 3c

Require Risk Compliance, as well as the applicable program managers, to develop procedures to track and follow up on the recommendations to assure corrective actions are completed.

RMA Response:

RMA concurs. PPED will prepare and publish formal procedures to track and follow up on recommendations issued by RC to program managers. These procedures will be similar to those currently utilized by RC to track and follow up on Office of Inspector General (OIG) audit recommendations issued to program managers. Publication will take place in the second quarter of 1999.

RMA does not concur. RMA believes the system utilized by RC to track OIG recommendations issued to program managers is adequate to track RC's findings and recommendations issued to program managers without the need for duplicate systems at the program managers' level. We, therefore, do not concur with the portion of this recommendation concerning the development of procedures by applicable program managers.

RMA requests management decision be reached on recommendations 3c.

RECOMMENDATION NO. 4

Require that final administrative determinations be decided by RMA's Office of the Administrator.

RMA Response:

RMA concurs. RMA will revise regulation 400.169 to have final administrative determinations decided by the Office of the Administrator. The Administrator's Office may, however, delegate this authority to other officials within RMA to minimize backlog and ensure continuity of operations. Publication of the final regulation will take place in the fourth quarter of 1999.

RMA requests management decision be reached on recommendations 4.

RECOMMENDATION NO. 5

Require field office directors to establish policies and procedures to ensure that all complaints received by field offices are recorded in their management information systems.

EXHIBIT A - RMA RESPONSE TO THE DRAFT REPORT

James R. Ebbitt

4

RMA Response:

RMA concurs. PPED will prepare and publish formal procedures requiring CFOs to enter all complaints into the RC management information system. Publication will take place in the second quarter of 1999.

RMA requests management decision be reached on recommendation 5.

RECOMMENDATION NO. 6

Require Risk Compliance National Office to issue finalized compliance handbook instructions. Also, it should issue a memo to the field offices stating they are required to follow the handbook for all reviews performed.

RMA Response:

RMA concurs. A manual will be developed and issued to the CFOs with instructions to follow the procedures outlined in the manual. This initiative will be a substantial undertaking, as the current handbook focuses on National Operations Reviews, which are being conducted less frequently in favor of targeted and program reviews. PPED will work in partnership with the CFOs to develop and implement the new manual. The manual is currently under development and will be implemented in phases, as each major section is completed. Completion of the manual is expected the first quarter of 2000.

RMA requests management decision be reached on recommendation 6.

RECOMMENDATION NO. 7

Require Risk Compliance National Office to establish written policies and procedures for performing periodic internal reviews of field offices and to establish a system of quality control at field offices to ensure the handbook is followed.

RMA Response:

RMA concurs. RC is developing a Risk Compliance Quality Assurance Program for CFOs. The program is scheduled to be implemented during the second quarter of 1999.

RMA requests management decision be reached on recommendation 7.

RECOMMENDATION NO. 8

Require Risk Compliance to include, as part of its annual review schedule, reviews of other "key" RMA activities, such as the regional service centers, on a periodic basis.

EXHIBIT A - RMA RESPONSE TO THE DRAFT REPORT

James R. Ebbitt

5

RMA Response:

RMA concurs. Consistent with Office of Management and Budget Circular A-123 requirements, PPED is in the process of refining RMA's Management Controls Program (MCP). The scope of the MCP includes all RMA operations, including Regional Service Offices (RSO). As such, RSOs will be among the operations evaluated each year through vulnerability assessments, and, based on assessment results, considered for inclusion in RC's Annual Review Plan. The new program is expected to start operations in the first quarter of 1999.

RMA requests management decision be reached on recommendation 8.

If there are any questions, please contact Alan Sneeringer on (202) 720-8813 or Tracey Mock on (202) 690-6020.