



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

RISK MANAGEMENT AGENCY
INDEMNITY PAYMENTS TO PEACH
GROWERS IN CALIFORNIA



Report No.
05099-10-SF
August 2002



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20250



DATE: August 26, 2002

REPLY TO

ATTN OF: 05099-10-SF

SUBJECT: Indemnity Payments to Peach Growers in California

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

ATTN: Garland Westmoreland
Deputy Administrator
Risk Compliance

In July 2000, the California cooperative Tri Valley Growers (TVG) became insolvent, and its members suffered significant losses on several crops. Congress appropriated \$20 million (Public Law 106-387) to the Farm Service Agency (FSA) to provide financial relief to the TVG growers. While conducting an audit of FSA payments to TVG's peach growers (Audit Report No. 03099-4-SF), we found 19 of 248 growers also received indemnity payments through a program administered by the Risk Management Agency (RMA). Five of nineteen growers failed to report their total production to insurance providers and, as a result, received excessive indemnity payments totaling \$34,336 (see exhibit A).

BACKGROUND

RMA is responsible for supervision of the Federal Crop Insurance Corporation (FCIC), administration and oversight of programs authorized under the Federal Crop Insurance Act of 1980, and other programs designed to manage risk and support farm income. The FCIC provides crop insurance through a network of approved private insurance companies that are reinsured by FCIC. Since 1998, these companies have sold and serviced all crop insurance policies that insure producers against losses due to natural causes such as drought, excessive moisture, hail, wind, frost, insects, and disease.

A producer suffering an insured loss reports the loss to his insurance provider. For the insurance provider to determine the amount of the loss, the producer must show the insurance provider proof of the production. Cling peach producers generally furnish copies of statements that document their production delivered to canning processors. The insurance provider is responsible for verifying that the production amounts reported by the producer are correct. If the amount of production is less than the guaranteed level of production, per the insurance policy, the producer is entitled to an indemnity, i.e., a

reimbursement against loss or damage. This is calculated by multiplying the production loss amount by the designated price.

OBJECTIVES

The objective of our audit was to determine if the 19 peach growers who received indemnity payments accurately reported production on their crop insurance claims for loss.

SCOPE

For crop year 2000, FSA disbursed about \$6.6 million to 248 peach growers due to the TVG bankruptcy. Of these, 19 growers also received indemnity payments totaling \$224,963. We reviewed the payments to all 19 growers.

Audit fieldwork was performed from May through September 2001 at various locations in California: the California State FSA Office and RMA's Western Regional Compliance Office both located in Davis; Tri Valley Growers' corporate office located in San Ramon; the California Canning Peach Association located in Sacramento; and the Rural Community Insurance Services office located in Fresno. We also contacted the California Crop Insurance Services located in Woodland and Rain and Hail Insurance Service, Inc. located in Fresno.

This audit was performed in accordance with generally accepted government auditing standards.

METHODOLOGY

To accomplish our objectives, we performed the following procedures:

- We compared production reported on the California Canning Peach Association statement to production reported on the growers' TVG statement to determine whether production originated from the same unit.
- We obtained a data base of all peach indemnity payments for crop year 2000 from RMA and verified the production associated with the payment to supporting documentation that we obtained from the insurance providers.
- We analyzed policyholder files obtained from insurance providers to determine if growers reported all production.
- We interviewed California Canning Peach Association and TVG officials, and growers to resolve discrepancies associated with production.

FINDING

Five of nineteen growers who received indemnity payments for peach losses failed to report 24 to 54 percent of their production on their insurance claims.¹ The growers were unable to provide us with satisfactory reasons for failing to report their total production. As a result, they received excessive indemnity payments totaling \$34,336 (see exhibits A and B).

The Common Crop Insurance Policy² states that the grower "...must establish the total production or value received for the insured crop on the unit, that any loss of production or value occurred during the insurance period, and that the loss of production or value was directly caused by one or more of the insured causes specified in the Crop Provisions." To document the crop losses, the insurance providers require the growers to sign a Production Worksheet where the growers certify that their production information is accurate and complete and that it will be used to determine losses on the insured crops.

When TVG became insolvent, it was unable to pay the contract price for four crops—peaches, pears, tomatoes, and apricots—causing its members to bear significant losses. To provide financial assistance to the growers, Congress appropriated \$20 million, which FSA disbursed by allocating the funds based on the amount of the individual losses. Of this amount, FSA disbursed about \$6.6 million to 248 peach growers. The California Canning Peach Association also purchased a limited amount of peaches.

In addition, we determined that 19 of the TVG peach growers had purchased crop insurance. When they suffered losses due to weather damage, they were able to file claims for indemnity payments. The growers certified on Production Worksheets that the production they reported was accurate and complete.

We reviewed these worksheets and found that 5 of the 19 growers failed to report the TVG contract production purchased by the California Canning Peach Association. This represented 24 to 54 percent of their total production. During an interview, two growers told us that they assumed all of their peaches were delivered to TVG. However, this explanation did not relieve the growers from their responsibility of ensuring that the information on their claims was accurate, especially since the California Canning Peach Association paid them separately.

We determined that the remaining three crops—pears, apricots, and tomatoes—also had trade associations. If these associations purchased fruit from their members, there is a possibility that the members did not report this production to RMA.

RMA should collect \$34,336 from the appropriate insurance providers for the excessive indemnity payments made to the five growers. In addition, RMA should contact the

¹ The additional production originated from grower sales to the California Canning Peach Association.

² 99-BR, Paragraph 14 (e), effective for the 1999 and succeeding crop years for all crops with a contract change date of November 30, 1998, or December 31, 1998, and for the 2000 or 2001 and succeeding crop years for all crops with contract change dates prior to November 30, 1998.

trade associations for the remaining three crops to determine if the associations purchased production from their member growers. For those growers who received indemnity payments, RMA should verify if the growers accurately reported their production and collect any excessive payments.

Recommendation No. 1:

Collect \$34,336 from the appropriate insurance providers for the excessive indemnity payments made to the five growers.

RMA Response:

RMA concurred with this finding and recommendation and stated, "...this office (RMA) will notify you (OIG) once the final findings have been issued for each insurance provider."

OIG Position:

We agree with RMA's corrective action. To achieve management decision, the agency needs to provide us with documentation that the appropriate insurance providers were billed the appropriate amount and support that the amounts have been entered as receivables on RMA's accounting records. If final action has occurred, evidence of collection will suffice.

Recommendation No. 2:

Contact the trade associations for the remaining three crops—pears, apricots, and tomatoes—to determine if the associations purchased production from their member growers. For those growers who received indemnity payments, RMA should verify if the growers accurately reported their production and collect any excessive payments.

RMA Response:

RMA concurred with this finding and recommendation. RMA stated that they contacted appropriate trade associations and that, "none of the associations had purchased production from their member growers."

OIG Position:

We accept RMA's management decision on this recommendation. For final action, RMA needs to forward documentation of its corrective action to the Office of the Chief Financial Officer.

CONCLUSIONS AND REQUIRED AGENCY ACTIONS:

Your August 2, 2002, response to the draft report is included as exhibit C of the report. We have accepted your management decision for Recommendation No. 2. To achieve management decision on Recommendation No.1, the agency will need to provide documentation that the appropriate insurance providers were billed the appropriate amount and support that the amounts have been entered as receivables on RMA's accounting records.

In accordance with Department Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned and the timeframes for implementation of those recommendations for which management decision has not yet been reached. Please note that the regulation requires a management decision to be reached on all recommendations within a maximum of 6 months from report issuance.

The Office of the Chief Financial Officer (OCFO), U.S. Department of Agriculture, has responsibility for monitoring and tracking final action for findings and recommendations. Please note that final action on the finding and recommendations should be completed within 1 year of each management decision. Follow your agency's internal procedures in forwarding final action correspondence to OCFO.

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

/s/

RICHARD D. LONG
Assistant Inspector General
for Audit

EXHIBIT A – SUMMARY OF MONETARY RESULTS

RECOMMENDATION NUMBER	DESCRIPTION	AMOUNT	CATEGORY
1	Growers failed to report all of their production when filing for indemnity payments.	\$34,336	Questioned Costs – Recovery Recommended
TOTAL MONETARY RESULTS		\$34,336	

EXHIBIT B – GROWERS’ CLAIM COMPUTATION WORKSHEET

-A- Grower No.	-B- Unit No.	-C- Guarantee Per Acre ¹	-D- Acres	-E- (C X D) Unit Guarantee	-F- Production to Count ²	-G- (E - F) Unit Loss	-H- Price Election ³	-I- (G X H) Indemnity Amount ⁴
1	Indemnity Calculation Per Insurance Provider:							
	107	14.8	8.4	124.3	119.1	5.2	\$170	\$884
	Indemnity Calculation Per OIG:							
	107	14.8	8.4	124.3	157.5	0	\$170	\$0
Difference:					38.4			\$884
2	Indemnity Calculation Per Insurance Provider:							
	101	11.4	18.9	215.5	121.8	93.7	\$170	\$18,053 ⁵
	Indemnity Calculation Per OIG:							
	101	11.4	18.9	215.5	165.1	50.4	\$170	\$9,710 ⁶
Difference:					43.3			\$8,343
3	Indemnity Calculation Per Insurance Provider:							
	101	10.3	3.0	30.9	21.4	9.5	\$170	\$1,615
	Indemnity Calculation Per OIG:							
	101	10.3	3.0	30.9	28.5	2.4	\$170	\$408
Difference:					7.1			\$1,207
4	Indemnity Calculation Per Insurance Provider:							
	103	13.6	9.2	125.1	39.3	85.8	\$170	\$14,586
	Indemnity Calculation Per OIG:							
	103	13.6	9.2	125.1	85.1	40.0	\$170	\$6,800
Difference:					45.8			\$7,786
5	Indemnity Calculation Per Insurance Provider:							
	101	10.7	30.1	322.1	152.0	170.1	\$170	\$21,688 ⁷
	Indemnity Calculation Per OIG:							
	101	10.7	30.1	322.1	278.4 ⁸	43.7	\$170	\$5,572 ⁹
Difference:					126.4			\$16,116
TOTAL OVERPAYMENTS								\$34,336

¹ The guarantee per acre is shown in tons of production.

² The total production to count (in tons) includes all harvested and appraised production.

³ RMA established a price election of \$170 per ton for California cling peaches for crop year 2000.

⁴ The indemnity amount is the reimbursement against loss or damage.

⁵ The grower received a regular indemnity of \$15,929 (93.7 X \$170) and an additional indemnity of \$2,124.

⁶ The grower should receive an indemnity of \$8,568 (50.4 X \$170) and an additional indemnity of \$1,142.

⁷ The grower had a 75-percent unit share and was paid 170.1 X \$170 X .75 = \$21,688.

⁸ The insurance provider incorrectly included 0.8 excess tons in this grower's indemnity payment calculations, which caused the grower to be underpaid \$102. Our production to count has been adjusted by this amount.

⁹ The grower had a 75-percent unit share and should be paid 43.7 X \$170 X .75 = \$5,572.


EXHIBIT C – RMA’S WRITTEN RESPONSE TO THE DRAFT REPORT



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

AUG 2 2002

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

FROM:  Garland D. Westmoreland
Agency Audit Liaison Official

SUBJECT: OIG Audit Report 05099-10-Sf, Official Draft Report Indemnity Payments to Peach Growers in California

Outlined below is the Risk Management Agency’s (RMA) response to recommendation numbers 1 and 2 in the subject report.

RECOMMENDATION NO. 1

Collect \$34,336 from the appropriate insurance providers for the excessive indemnity payments made to the five growers.

Risk Management Agency Response:

Initial findings have been issued to the appropriate insurance providers. This office will notify you once the final findings have been issued for each insurance provider.

RECOMMENDATION NO. 2

Contact the trade associations for the remaining three crops - pears, apricots, and tomatoes-to determine if the associations purchased production from their member growers. For those growers who received indemnity payments, RMA should verify if the growers accurately reported their production and collect any excessive payments.



Richard D. Long

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Risk Management Agency Response:

Using a list of tomato, pear, & apricot organizations provided by the Office of Inspector General, the RMA, Western Regional Compliance Office (WRCO) contacted the California Pear Advisory Board, Apricot Producers-California, the Fresh Apricot Council, the Processing Tomato Advisory Board, California Pear Growers, and California Tomato Growers Association. WRCO found that none of the associations had purchased production from their member growers. No further action is needed by RMA.

RMA requests management decision for this recommendation based on the above actions.

If you have any questions regarding the audit response, please contact Alan Sneeringer at (202) 720-8813.

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