



U.S. Department of Agriculture



Office of Inspector General
Southeast Region

Audit Report

Risk Management Agency Added Land Policy

Report No. 05099-25-At
May 2004



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



DATE: MAY 21 2004

REPLY TO

ATTN OF: 05099-25-At

SUBJECT: Risk Management Agency – Added Land Policy

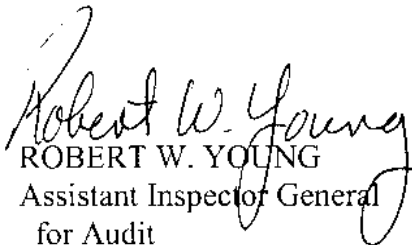
TO: Ross J. Davidson, Jr.
Administrator
Risk Management Agency

ATTN: Michael Hand
Audit Liaison

This report presents the results of the subject audit. Your response, dated May 4, 2004, to the draft report is included as exhibit E, along with excerpts and the Office of Inspector General's (OIG) position incorporated into the relevant Findings and Recommendations section of the report. Management decisions have not been reached on any of the report's three recommendations. Additional information as specified in the OIG position sections is needed before we can accept management decisions for the three recommendations.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the action taken or planned and the timeframes for implementation of the recommendations. Please note that the regulation requires a management decision to be reached on all findings and recommendations within a maximum of 6 months from report issuance and final action to be taken within 1 year of each management decision.

We appreciate the courtesies and cooperation extended to us by members of your staff during the audit.


ROBERT W. YOUNG
Assistant Inspector General
for Audit

Executive Summary

Risk Management Agency – Added Land Policy (Audit Report No. 05099-25-AT)

Results in Brief

This report presents the results of our audit of the Risk Management Agency's (RMA) policies and procedures for approving yields for added land. We performed the review at the request of RMA and focused on crop year (CY) 2000's approved yields for added land units. The objective of the audit was to evaluate RMA's added land policies and procedures and determine if added land yields determinations were reasonable.

The review consisted of analyses of approved yields for crop insurance policies sold and serviced by companies reinsured by the Federal Crop Insurance Corporation. We statistically selected a sample of 289 added land units from a universe of producers who insured barley, corn, cotton, dry beans, grain sorghum, oats, soybeans, sunflowers, and wheat for CY 2000. Approved yields for the 289 sample units were reviewed to determine if RMA's policies and procedures allowed excessive yields to be assigned to added land units for CY 2000. We also reviewed changes made to RMA's added land policies from CY 2000 through CY 2003.

We concluded that revisions to the added land policy since CY 2000 have made yields more representative of producers' operations. Therefore, no recommendations regarding RMA's added land policy are warranted at this time. See the General Comments' section for details.

During the review, we identified reportable issues involving errors in calculating yields and an overpayment due to an incorrect acreage report. We judgmentally selected and reviewed 9 of the 289 sample units. The nine units were selected because indemnities paid were substantial, little or no production was reported, and approved added land yields were greater than the crop transitional yield. Due to problems noted from the review of the CY 2000 data, we reviewed CY 2001 data to determine if similar conditions existed.

We found that insurance providers, in determining CY's 2000 and 2001 actual production history (APH) yield for added land units for five of the nine producers, did not consider prior production history and APH's. This was caused by errors or misinterpretation of yield determination procedures by the insurance providers. We notified the insurance providers of these errors during our review. As a result, the five producers received excess indemnity payments totaling \$372,080. Also, one producer received an overpayment of \$22,000 due to an inaccurate acreage report.

**Recommendations
in Brief**

We recommend that RMA (1) require the applicable insurance provider to recover the \$372,080 in excess indemnity payments made to producers A, B, D, F, and G and adjust the producers' APH for subsequent years as appropriate and (2) require the insurance company, Blakely Crop Hail, Inc., of Topeka, Kansas, to take the necessary action to recover the overpayment of \$22,000 from producer I.

Agency Response

RMA conditionally concurred with the three recommendations contained in the report. RMA plans to conduct a review of the findings relative to each recommendation to determine the appropriate action to take. RMA's response to the draft report is included as exhibit E of the audit report.

OIG Position

We agree with RMA's decision to review the findings and recommendations to determine the appropriate corrective actions. To reach management decision on the report's three recommendations, RMA needs to provide us with the results of its review and planned corrective actions.

Abbreviations Used in this Report

APH
Actual Production History 1

CED
County Executive Director 13

CRC
Crop Revenue Coverage 1

CY
Crop Year 1

FAIR
Federal Agriculture Improvement and Reform 1

FCIC
Federal Crop Insurance Corporation 1

FSA
Farm Service Agency 4

FSN
Farm Serial Number 13

MPCI
Multiple Peril Crop Insurance 1

OIG
Office of Inspector General 12

RMA
Risk Management Agency 1

SA
Simple Average 11

sp
Sample Precision 29

T-yield
Transitional Yields 1

USDA
U.S. Department of Agriculture 1

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Background and Objectives

Background

The Risk Management Agency (RMA), an agency of the U.S. Department of Agriculture (USDA), was established under the provisions of the Federal Agriculture Improvement and Reform (FAIR) Act of 1996, Public Law 104-127. The FAIR Act amended USDA's Reorganization Act of 1994, Public Law 103-354, Title II, by requiring the Secretary of Agriculture to establish within USDA an independent agency responsible for acting on the behalf of the Federal Crop Insurance Corporation (FCIC) to deliver and administer all Federal crop insurance programs. The FCIC is a wholly owned government corporation within USDA that is authorized to carry out all actions and programs authorized by the Federal Crop Insurance Act.

FCIC promotes the national welfare by improving the economic stability of agriculture through a sound system of crop insurance and providing the means for the research and experience helpful in devising and establishing such insurance.

We focused our review on added land yield determinations for the Multiple Peril Crop Insurance (MPCI) and Crop Revenue Coverage (CRC) Programs for crop years (CY) 2000. We also reviewed changes to added land policy for CY 2001 to 2003. The MPCI program is designed to minimize risk and help protect farmers against loss of production caused by natural disasters. While CRC is an insurance program that guarantees a stated amount of revenue, and covers losses due to a low-price, low-yield, or any combination of the two. The yield guarantee is set using each producer's actual production history (APH), just as it is used in MPCI's policies.

To determine yield guarantees a minimum of four years of yields are required; except for new producers and for added land using the approved APH from a reference unit (CY 2000 only). Added land is defined, for CY 2000 purposes, as land, which the insured has not actively engaged in farming for a share of the crop's production on the unit for more than 2 APH years.¹ Added land procedures permitted the use of an existing unit's approved APH yield for the crop (reference unit) to establish the initial approved APH yield for the added land. However, if production records were available for the added land the variable transitional yields (T-yield) process was required to be used.²

Objectives

The objective of the audit was to evaluate RMA's added land policies and procedures and determine if added land yields determinations were reasonable.

¹ RMA 2000 Crop Insurance Handbook, section 3, page 5, effective June 1999.

² T-yield is an estimated yield provided by in the actuarial table which is used in calculating average/approved APH yields when less than four years of actual, temporary, and/or assigned yields are available on a crop by county basis.

Findings and Recommendations

Section 1. Errors or Misinterpretation of Yield Determination Procedures Resulted in Excess Indemnity Payments to Producers

During this review, we disclosed reportable issues involving errors in calculating yields and an overpayment due to an incorrect acreage report. We judgmentally selected and reviewed 9 of 289 sample units for CY 2000. The nine units were judgmentally selected because indemnities paid were substantial, little or no production was reported, and approved added land yields were greater than the crop T-yield. Although the units selected were part of a farm, we reviewed all added land units for the producer's farming operation.

Eight of the nine producers insured cotton production, while the remaining producer insured corn production for CY 2000. The producers' indemnities were as follows.

INSURED	CROP	CROP YEAR 2000 INDEMNITY
Producer A	Cotton	\$1,050,534
Producer B	Cotton	84,263
Producer C	Cotton	478,937
Producer D	Cotton	188,624
Producer E	Cotton	374,972
Producer F	Cotton	967,289
Producer G	Cotton	95,959
Producer H	Corn	82,931
Producer I	Cotton	73,892
TOTAL		\$3,397,401

Finding 1

RMA Procedures for Determining Yields for Added Land Were Not Followed

Prior production history and APH's were not considered by insurance providers in determining the CY's 2000 and 2001 yields of added land for five of nine producers. This was caused by errors made by the insurance provider or misinterpretation of yield determination procedures by the insurance provider. As a result, the five producers received excess indemnity payments totaling \$372,080.

RMA 2000 Crop Insurance Handbook, Section 3, dated June 1999, states that added land is land on which the insured has not actively engaged in farming for a share of the crop's production on the unit for more than 2 APH CY's. Exhibit 36 of the RMA 2000 Crop Insurance Handbook, "Yield Determination Procedures," dated June 1999³, states the following.

2C Added Land P/T/V [practice/type/variety] for Existing Units.

C(1) Added land P/T/V may be added:

- (1)(a) To an existing basic unit, if the added land P/T/V is part of the SAME basic unit.
- (1)(b) To an existing optional unit, if the added land P/T/V would be part of the SAME basic unit from which the optional unit was derived.

C(2) When added to an existing unit with APH records, and records are not provided for the added land, the existing unit's APH data is used to calculate the yield and the added land will have the same yield, subject to the additional restrictions [in Par. 2D]. If the added land P/T/V qualifies as a separate optional unit and the insured wants a separate optional unit, calculate the yield as indicated in [Par. 2C(3)].

C(3) As a separate optional unit, if the added land P/T/V qualifies as a separate optional unit. Insureds may choose one of the following options:

- (3)(a) Base the approved APH yield on the applicable [T-yield] using variable [T-yields].
- (3)(b) Provide acceptable production reports (added land WITH records) for the added land. If less than four years of actual yields are certified, variable [T-yields] must be used to complete the database.
- (3)(c) Base the added land's/P/T/V's yield on a reference unit database with APH records. The added land/P/T/V unit must be derived from the same basic unit as the reference unit. The reference unit must be identified on the added land's APH form. Additional restrictions apply

RMA Bulletin No. MGR-00-019.1, dated September 29, 2000, provides that all approved APH yields for added land established for CY 2000 using reference units' approved APH yields must be recalculated for CY 2001. It provides that CY 2000 added land databases are restructured by replacing initial year reference unit yields with added land T-yields or variable

³ FCIC 18010, exhibit 36, "Added Land and Added Practice/Type/Variety Procedures for Category B APH Crops," dated June 1999.

T-yields, as applicable. It further provides that if the added acreage exceeds the limitations⁴ and an underwriting review is not requested, the restructured database will consist of variable T-yield (100% variable T-yield).

Our review disclosed that insurance providers for producers A, B, D, F, and G did not use prior production histories in computing APH yields for added land units. Rather, APH yields were based on APH yields from the producers' reference units. See exhibit C for added land units in question by producer.

Producer A - Crop Year 2000

Producer A, a Jackson County, Florida, cotton producer insured 14 farm units consisting of 1 existing optional unit and 13 added land optional units for CY 2000. Producer A's 1 existing CY 2000 unit consisted of 1,633.9 cropland acres and his 13 added land units consisted of 4,065.7 cropland acres. The added land units were insured at an APH yield of 796, based (referenced) from the producer's existing unit. Producer A filed a claim for losses sustained on all 14 units and was paid an indemnity of \$1,050,534. Of which we determined producer A was overpaid \$74,451 on two units.

Our review of Farm Service Agency's (FSA) acreage reports, RMA's producer information data, and APH reports provided by the producer's insurance provider disclosed that producer A farmed cotton on 2 of the 13 added land units (units 115 and 116), during CY's 1998 and 1999 resulting in the following yields.

UNIT	YIELD CROP YEAR 1998	YIELD CROP YEAR 1999
115	89	84
116	100	148

However, the insurance provider's APH reports showed that producer A's CY's 1998 and 1999 actual yields were not used to determine the CY 2000 APH yields for units 115 and 116. Instead, the insurance provider based producer A's CY 2000's APH yields for units 115 and 116 on a 4-year average yield of 796 derived from the producer's reference unit.

The insurance provider calculated producer A's indemnities for units 115 and 116 as \$14,806 and \$118,334, respectively. We computed APH yields of 334 and 353 for units 115 and 116 based on RMA 2000 Crop Insurance Handbook procedures, as follows.

⁴ RMA Bulletin No. MGR-00-019.1, defines "limitations" as 50 percent of the total cropland acres contained in the existing units and that the total cropland acres to be added (for all units) to the existing farm operation do not exceed 640 acres (without respect to crop), dated September 29, 2000.

CROP YEAR	UNIT 115 YIELD	UNIT 116 YIELD
1996	581	581
1997	581	581
1998	89	100
1999	84	148
Average	334	353
APH Yield	334	353
Note: 581 is the T-yield		

We computed indemnities of \$6,212 and \$52,477 for units 115 and 116 using the APH yields of 334 and 353 as determined above. Therefore, producer A received excessive indemnities of \$8,594 (\$14,806-\$6,212) for unit 115 and \$65,857 (\$118,334 - \$52,477) for unit 116. Total overpayment was \$74,451 (\$8,594 and \$65,857) for the two units.

Producer A - Crop Year 2001

Producer A was also overpaid \$38,033 in CY 2001 because indemnity payments were improperly calculated on two units. Producer A insured cotton production on six optional units. Producer A farmed two of the six units, units 106 and 117 in CY 2000 (both units were added lands for CY 2000). Producer A's indemnity for CY 2001 was \$402,879.

Our review of RMA's producer information data for units 106 and 117 and APH reports provided by producer's insurance provider disclosed that the insurance provider improperly calculated the producer's indemnity payments. APH reports, dated April 3, 2002, showed that the insurance provider computed an APH yield of 523 for units 106 and 117 as follows.

CROP YEAR	UNITS 106/117 YIELD
1997	581
1998	581
1999	581
2000	581
Preliminary Average	581
Less CUP Factor	(58)
APH Yield	523
Note: 581 is the T-yield and CUP ⁵ factor is 581 x .10 which equals 58	

⁵ Cups are yield limitations that are designed to mitigate the effect of catastrophic years on APH yields. Cups are applicable for carryover insureds. To be eligible for a cup, the database must contain at least one actual yield or assigned yield. Ten percent cup--the approved yield--may not decrease by more than 10 percent compared to the previous years' approved APH.

The insurance provider used 581 (100 percent of T-yield) for CY 1997 to CY 2000 and the APH yield was 523 (cupped at 10 percent). The APH yield of 523 was in accordance with RMA's 2001 crop insurance handbook requirements. Producer A filed a claim for losses sustained on units 106 and 117. The insurance provider improperly calculated producer A's indemnities for units 106 and 117 on a yield of 676 instead of the APH yield of 523. Producer A's CY 2001 indemnities for units 106 and 117 were \$108,586 and \$4,245, respectively.

We computed indemnities of \$71,789 and \$3,009, respectively, for units 106 and 117 using a yield of 523. Therefore, producer A received excessive indemnities of \$36,797 (\$108,586-\$71,789) for unit 106 and \$1,236 (\$4,245-\$3,009) for unit 117. Total overpayment was \$38,033 (\$36,797 and \$1,236) for the two units.

Producer B - Crop Year 2000

Producer B, a Decatur County, Georgia, cotton producer (a corporation), insured five farm units consisting of one existing optional unit and three added land optional units. The remaining optional unit received new producer (new land) status. Producer B's 3 added land units were insured at a yield of 672, referenced from an existing unit. Producer B received an indemnity payment of \$84,263 for CY 2000's losses sustained on all five units. Of which we determined producer B was overpaid \$12,621 for two units.

Our review of FSA's acreage reports, RMA's data, and the insurance provider's records disclosed that individual A, who had a 100 percent interest in producer B, also produced cotton (as an individual) prior to and during CY 2000 on two of producer B's three added land units (units 102 and 103). Individual A produced cotton on unit 102 during CY's 1997 through 1999, and produced cotton on unit 103 during CY's 1998 and 1999. Individual A's actual yields on the units were as follows.

UNIT	YIELD CROP YEAR 1997	YIELD CROP YEAR 1998	YIELD CROP YEAR 1999
102	300	71	1070
103	Not applicable	76	318

However, the insurance provider's APH reports showed that individual A's CY 1997 to CY 1999 actual yields were not used in determining CY 2000's APH yields for units 102 and 103. Furthermore, unit 102 did not qualify as added land because individual A had been actively engaged in producing cotton on the unit, for more than two APH years prior to CY 2000. However, producer B's CY 2000's APH yields for units 102 and 103 were 672, derived from his reference unit.

Producer B's indemnities for units 102 and 103 was \$9,937 and \$24,478, respectively. We computed APH yields of 507 and 392 for units 102 and 103 based on RMA 2000 Crop Insurance Handbook procedures, as follows.

CROP YEAR	UNIT 102 YIELDS	UNIT 103 YIELDS
1996	586	586
1997	300	586
1998	71	76
1999	1,070	318
Average	507	392
APH Yield	507	392
Note: 586 is the T-yield		

We computed indemnities of \$7,503 and \$14,291 for units 102 and 103, using the APH yields of 507 and 392, as determined above. Therefore, producer B received excessive indemnity of \$2,434 (\$9,937-\$7,503) for unit 102 and \$10,187 (\$24,478-\$14,291) for unit 103. Total overpayment was \$12,621 (\$2,434+\$10,187) for the two units.

Producer D - Crop Year 2000

Producer D, a Coffee County, Georgia, partnership, was created for CY 2000. All 10 of producer D's optional units were added land for CY 2000 that consisted of 2,165.2 cropland acres. All of the added land units were insured at a yield of 816, referenced from a unit farmed in previous years by an entity owned by a partner (partner A) of producer D. Producer D filed a claim for losses sustained on its 10 added land units and was paid an indemnity of \$188,624 of which we determined producer D was overpaid \$13,368.

Our review of FSA's acreage reports, RMA's producer information data, as well as the APH reports provided by the producer's insurance provider disclosed that partner A of producer D farmed cotton on unit 102 (as another entity) during CY's 1998 and 1999, generating yields of 126 and 1,259, respectively.

However, the insurance provider's APH reports showed that producer D's CY's 1998 and 1999 actual yields were not used to determine the APH yield for unit 102. Rather, producer D's APH yield for unit 102 was determined based on a 4-year average yield of 816, derived from his reference unit. Producer D's CY 2000 indemnity for unit 102 was \$39,651.

We computed an APH yield of 646 for unit 102 based on RMA 2000 Crop Insurance Handbook procedures, as follows.

UNIT 102	
CROP YEAR	YIELD
1996	599
1997	599
1998	126
1999	1,259
Average	646
APH Yield	646
Note: 599 is the T-yield	

We computed an indemnity of \$26,013 for unit 102 using the APH yield of 646. Thus, producer D received an excessive indemnity payment of \$13,638 (\$39,651-\$26,013) for unit 102.

Producer F - Crop Year 2000

Producer F, a Yazoo County, Mississippi, cotton producer (a partnership consisting of five partners), was created for CY 1999. For CY 2000, producer F insured 12 farm units consisting of 2 existing optional units and 10 added land optional units. Producer F's 10 added land units were insured at yields of 1046 (irrigated) or 946 (non-irrigated), referenced from the 2 existing units. Producer F filed a claim for losses sustained on all 12 units and was paid an indemnity of \$967,289 of which we determined producer F was overpaid \$228,791.

Our review of FSA's acreage reports, RMA's producer information, and the insurance provider's records, disclosed that producer F, and one of its partners (partner B), produced cotton on five of the added land units prior to CY 2000. Producer F produced cotton on four of the added land units during CY 1999, while partner B (with a 20 percent share interest) produced cotton on one of the added land units during CY 1998. Producer F and partner B's actual yields on the added land units for CY's 1998 and 1999 were as follows.

UNIT	PRODUCER	YIELD CROP YEAR 1998	YIELD CROP YEAR 1999
105	Partner B	912	Not applicable
109	Producer F	Not applicable	546
112	Producer F	Not applicable	631
113	Producer F	Not applicable	631
115	Producer F	Not applicable	727

However, the insurance provider's APH records showed that 1998 actual yields for partner B and 1999 actual yields for producer F were not used in determining producer F's APH yields for CY 2000's added land units. Instead, the insurance provider based producer F's CY 2000 APH yields for

units 105, 109, 112, and 115 on a 4-year average yield of 946 derived from a non-irrigated land reference unit and for unit 113 on a 4-year average yield of 1,046 derived from an irrigated land reference unit.

Producer F's indemnities for 105, 109, 112, 113, and 115 were \$14,761; \$127,070; \$252,786; \$12,865; and \$91,350, respectively. We computed producer F's yields for units 105, 109, 112, 113, and 115 based on RMA 2000 Crop Insurance Handbook procedures as follows.

CROP YEAR	UNIT 105 YIELD	UNIT 109 YIELD	UNIT 112 YIELD	UNIT 113 YIELD	UNIT 115 YIELD
1996	746	746	746	958	746
1997	746	746	746	958	746
1998	912	746	746	958	746
1999	746	546	631	631	727
APH Yield	788	696	717	876	741
Note: 746 is the T-yield for non-irrigated crop and 958 for irrigated crop					

We computed indemnities of \$8,970; \$61,503; \$155,035; \$0; and \$44,533, for units 105, 109, 112, 113, and 115, respectively, using APH yields as determined above. Therefore, producer F received excessive indemnities of \$5,791 (\$14,761 - \$8,970) for unit 105; \$65,567 (\$127,070 - \$61,503) for unit 109; \$97,571 (\$252,786 - \$155,035) for unit 112; \$12,865 (\$12,865 - \$0) for unit 113; and \$46,817 (\$91,350 - \$44,533) for unit 115. Total overpayment was \$228,791 (\$5,791 + \$65,567 + \$97,751 + \$12,865 + \$46,817) for the five units.

Producer G - Crop Year 2000

Producer G, a Calhoun County, Georgia, cotton producer, insured four optional units consisting of two existing units and two added land units for CY 2000. Producer G's 2 existing units consisted of 961.2 cropland acres and 2 added land units consisted of 123.7 cropland acres. The added land units were insured at an APH yield of 802 that was derived from a reference unit. Producer G filed a claim for losses sustained on all four of his CY 2000 units and was paid an indemnity of \$95,959. Of which we determined producer G was overpaid \$3,300 on one unit.

Our review of FSA's acreage reports, RMA's producer information data, and APH reports provided by the producer's insurance provider disclosed that producer G farmed cotton on 1 of the 2 added land units (unit 205) during CY's 1994 through 1998, resulting in the following yields.

CROP YEAR	YIELD
1994	1282
1995	800
1996	402
1997	398
1998	600

Unit 205 was reconstituted in CY 2000, from unit 101 (CY 1998). However, the insurance provider's APH reports showed that producer G's CY 1994 to 1998 actual yields were not used in to determine CY 2000's APH yield for unit 205. Instead, the insurance provider based producer G's CY 2000 APH yield for unit 205 on a 4-year average yield of 802 derived from the producer's reference unit.

Producer G's CY 2000 indemnity for unit 205 was \$21,933. We computed an APH yield of 696 for unit 205 based on RMA 2000 Crop Insurance Handbook procedures, as follows.

CROP YEAR	YIELD
1994	1282
1995	800
1996	402
1997	398
1998	600
Average	696
APH Yield	696

We computed an indemnity of \$18,638 for unit 205 using the APH yield of 696. Thus, producer G received excessive indemnity payment of \$3,300 (\$21,933 - \$18,633) for unit 205.

Producer G - Crop Year 2001

Producer G was also overpaid \$1,246 in CY 2002 because an indemnity payment was improperly calculated for one unit. Producer G insured cotton production on five optional units for CY 2001, consisting of three existing units and two added land units. Producer G farmed three of the five units in CY 2000 (two of three were added lands for CY 2000). Producer G's indemnity for CY 2001 was \$19,384.

Our review of RMA's producer information for unit 205 and APH reports provided by the producer's insurance provider disclosed that the insurance provider improperly calculated the producer's indemnity payment. The insurance provider computed an APH yield of 632 for unit 205 as follows.

CROP YEAR	YIELD
1997	702
1998	702
1999	702
2000	65
Preliminary Average	543
Less CUP Factor	(70)
APH Yield	632
Note: CUP factor is 702 x .10, which equals 70. Actual production for CY 2000 equals 69 lbs per acre; however, insurance provider used 65 lbs per acre.	

The CY 2001 approved yield of 632 (cupped yield) was based on the simple average (SA) yield of 702 derived from CY 2000's existing units.

An insurance provider official stated that she was unaware that unit 205 resulted from the reconstitution of another unit and thus unaware of the production. Unit 205 was reconstituted, effective CY 2000, from unit 101 (CY 1998) that had 6 years of production. We computed an APH yield of 592 for unit 205 using actual production and based on the RMA 2001 Crop Insurance Handbook as follows.

CROP YEAR	YIELD
1994	1,282
1995	800
1996	402
1997	398
1998	600
2000	69
Preliminary Average	592
APH Yield	592

According to RMA's producer information, producer G sustained cotton production losses on unit 205 that resulted in an indemnity of \$5,881 based on the approved yield of 632. We computed an indemnity \$4,635 for unit 205 using an APH yield of 592. Therefore, producer G received excessive indemnity of \$1,246 (\$5,881 - \$4,635) for unit 205.

The Agricultural Risk Protection Act⁶ requires RMA to give notice to the insurance provider within 3 years after the end of the insurance period unless the error or omission is willful or intentional. For each producer cited above,

⁶ The Agricultural Risk Protection Act of 2000, Title I – Crop Insurance Coverage, Subtitle B – Improving Program Integrity, Section 515 (b) (2) Time for Notification, states in part that notice shall be given to the insurance provider within 3 years after the end of the insurance period during which error, omission, or failure is alleged to have occurred, except that the time limitation shall not apply with respect to an error, omission, or procedural violation that is willful or intentional.

the insurance provider was contacted by OIG during the audit and was provided with details of the errors in calculating the producers' APH. This was done within the 3 year limitation.

See exhibit C for details of the five producers' liabilities, indemnities, and excessive payments based on yields determined by the Office of Inspector General (OIG) for CY's 2000 (\$332,801) and 2001 (\$39,279).

Recommendation No. 1

Review the crop year 2000 cases for producers A, B, D, F, and G to determine whether the identified errors were willful or intentional. If so, recover the \$332,801 in excess indemnity payments from the insurance provider. Also, adjust the producers' APH for subsequent years as appropriate.

Agency Response. In the May 4, 2004, response, RMA stated that it conditionally concurs with the recommendation. Also, RMA plans to conduct a review of the finding relative to the recommendation to determine the appropriate action to take.

OIG Position. We agree with RMA's decision to review the finding and recommendation to determine the appropriate corrective action. To reach management decision, RMA needs to provide us with the results of its review and planned corrective action.

Recommendation No. 2

Require the applicable insurance provider to recover the \$39,279 in excess indemnity payments made to producers A and G for crop year 2001 and adjust the producers' APH for subsequent years as appropriate.

Agency Response. In the May 4, 2004, response, RMA stated that it conditionally concurs with the recommendation. Also, RMA plans to conduct a review of the finding relative to the recommendation to determine the appropriate action to take.

OIG Position. We agree with RMA's decision to review the finding and recommendation to determine the appropriate corrective action. To reach management decision, RMA needs to provide us with the results of its review and planned corrective action.

Finding 2**Producer Received Excess Indemnity Payment Based on an Incorrect Report of Acreage**

Producer I's indemnity payment for CY 2001 was based on more cotton acres than was actually planted. Although the producer certified the report of acreage was correct, he stated that there was a misunderstanding between him and the FSA program technician concerning total acres planted when the report was filed. As a result, producer I received an excessive indemnity payment for CY 2001 totaling \$22,000.

FCIC 18010, Section 4F (2)(g), "Service Forms and Administrative Requirements," dated June 1999, states, "Verifying the Acreage Reported. The representative/agent shall CAREFULLY REVIEW with the insured the original acreage report BEFORE it is submitted to the Insurance Provider. It is absolutely imperative that the information required to be reported on the acreage report is ENTIRELY accurate. * * *"

For CY 2001, producer I insured 287.7 acres of cotton on farm unit 104 (farm serial number (FSN) 333). The producer's Form FSA-578, "Report of Acreage," filed with FSA, dated June 5, 2001, also showed that he certified planting 287.7 acres of cotton and 74.3 acres of corn for CY 2001. The producer filed an insurance claim for CY 2001 cotton losses on unit 104 and received an indemnity payment totaling \$59,974. The indemnity payment for unit 104 was based on cotton losses for 287.7 acres.

Our review of production worksheets obtained from the producer's insurance provider for unit 104 showed that producer I certified losses sustained on 74.3 acres of corn on September 12, 2001, as well as losses sustained on 287.7 acres of cotton on October 19, 2001.

On October 25, 2002, the producer filed a corrected CY 2001 Form FSA-578, "Report of Acreage," for unit 104 (FSN 333) with FSA, changing his certification to 204.9 cotton acreage planted and 79.5 corn acreage planted. Producer I's October 25, 2002, certification of 204.9 cotton acres conflicted with his earlier certifications of 287.7 cotton acres to the insurance provider and FSA. The 287.7 acres of cotton was also the basis for his insurance liability and indemnity. As a result, the 82.8 excess cotton acreage resulted in producer I receiving an excessive indemnity payment totaling \$22,000.

In an effort to verify the actual number of cotton acres planted on FSN 333 (unit 104), the FSA Jackson County, Texas, County Executive Director (CED), informed us that he measured the cotton acreage on the unit - using the aerial photo slide and that only 204.9 acres of cotton was planted. The CED was appointed early in 2003. He stated that producer I was notified

regarding the 2003 Farm Bill requirements by mail during October 2002, requiring him to complete a corrected CY 2001 Form FSA-578, "Report of Acreage," for FSN 333. The corrected Form FSA 578 was certified by the producer on October 25, 2002, showing that he had planted 204.9 acres of cotton and 79.5 acres of corn on the farm.

Producer I stated that when he certified the cotton acreage for unit 104 on June 5, 2001, both he and the FSA program technician had a misunderstanding concerning the number of cotton acres planted and the fields where the cotton and corn were planted. He stated that he did not think to inform the insurance provider (sales agent) of the error in the cotton acreage after he completed the corrected acreage report for the unit on October 25, 2002.

Recommendation No. 3

Require that the insurance provider take the necessary action to recover the overpayment of \$22,000 from producer I.

Agency Response. In the May 4, 2004, response, RMA stated that it conditionally concurs with the recommendation. Also, RMA plans to conduct a review of the finding relative to the recommendation to determine the appropriate action to take.

OIG Position. We agree with RMA's decision to review the finding and recommendation to determine the appropriate corrective action. To reach management decision, RMA needs to provide us with the results of its review and planned corrective action.

General Comments

Risk Management Agency's Crop Year 2000 Policy Allowed Unproven Yields to be Assigned for Added Land – Revisions to the Policy Make Added Land Yields More Reflective of Producers Farming Operations

RMA's CY 2000 policy allowed excessive yields to be approved for added land units. The policy allowed producers to assign a reference unit's yield to added land without evidence that the added land unit's production potential was equivalent or at least comparable to that of the reference unit. The policy allowed a producer to select a yield that may not have been achievable, which caused increased premium costs to the producer and premium subsidy costs to the Government, but even more importantly, increased the Government's liability exposure and indemnity costs. Variable county actuarial transitional yields (T-yields) were normally used for new producers with no acceptable production records. We analyzed CY 2000's added land policies and found that statistical estimates provided \$60 million in additional indemnities, as a result of this policy.

To assess the impact of RMA's policy for assigning yields to added land, we reviewed a statistical sample of 289 added land units for CY 2000. The sample consisted of added land units for the nine main crops⁷ insured by RMA's MPCCI and CRC programs.

Our review results showed that approved yields for 258 of the 289 added land units (sample size) were greater than the county actuarial T-yield. Had the added land yields been approved at T-yields, liability for the 258 units would have been reduced by about \$1.6 million.

Statistically projected over the universe of added land units using the T-yields, the liability would have been reduced by about \$187 million or 19 percent of CY 2000's total, which was a \$903 million liability for the added land units for the nine crops.

Additionally, we found that had T-yields been used, indemnities of \$1.4 million would not have been paid because reported production exceeded T-yields for 62 of the 91 added land units that received an indemnity payment.

Statistically projected over the universe, producers received about \$60 million in additional indemnities who had production that exceeded their guarantees. The guarantee⁸ is based in part, on the producer's approved yield.

⁷ Corn, soybeans, cotton, wheat, dry beans, sunflowers, grain sorghum, barley, and oats.

⁸ Guarantee = Coverage Level X Insured Share X Approved Yield X Number of Acres Insured

RMA explained that using yields from reference units for the added land yields was the result of producers' concerns that they would be penalized by holding them to the variable T-yield methodology for assigning yields to added land. RMA officials stated that most producers explained to them that using county averages or T-yields punishes the better farmer who routinely outperforms the county average.

However, RMA changed its position and revised its policy to make added land yields more representative of the producer' farming operation or the crop's T-yield for the applicable county. Highlights of some of the changes are as follows:

- In September 2000, RMA's Administrator issued Bulletin No. MGR-00-019.1, which required all approved APH yields for added land, established for CY 2000, using reference units' approved APH yields, recalculated for CY 2001 using variable or added land T-yields. Added land T-yields are the SA of the optional units' (within the existing basic unit) approved APH yields for CY 2000.
- CY 2001 policy⁹ - The definition for added land became more restrictive and was revised to require that added land is cropland acreage (irrespective of crop) added for the current CY to the existing farming operation of the insured person/entity within the insured county. It is the policy holder's responsibility to ensure and certify that any added land reported as a separate optional unit and using T-yields must not have previously produced any crop on the added land.

The reference unit yields for added land were eliminated and yields for added land were determined as follows:

Variable T-yields must be used if the added land is (1) a separate basic unit; (2) added as a separate optional unit and does not qualify for an added land T-yield; (3) added as a separate optional unit and the added land T-yield is less than the variable T-yield; (4) added to an existing unit and does not qualify for the APH yield of the existing unit; or (5) partially or entirely located in the lower T-yield map area than the existing unit if T-yield map areas are applicable.

Added land T-yields may be available for land added as a separate optional unit if the cropland acres for the optional unit to be added:

Does not exceed 50 percent of the total cropland acres contained in the existing basic unit and the total cropland acres to be added to the existing farm operation do not

⁹ FCIC 18010, exhibit 36, "Added Land and Added Practice/Type/Variety Procedures for Category B APH Crops," dated June 1999.

exceed 640 cropland acres, the insurance provider will calculate an added land T-yield. The approved APH yield will be the higher of the added land T-yield or the variable T-yield.

Exceeds 50 percent of the total cropland in the existing basic unit or the total cropland acres to be added to the existing farm operation exceeds 640 cropland acres; and the insured requests, by the applicable deadline, an underwriting review by the RMA Regional Office to determine if an added land T-yield may be used. If use of the added land T-yield is approved the insurance provider will calculate the added land T-yield. If use of an added land T-yield is not approved by the RMA Regional Office, the insurance provider must determine a variable T-yield.

Land added to an existing unit: If the cropland acres to be added to an existing basic or optional unit:

Does not exceed 50 percent of the total cropland acres contained in the existing unit and the total cropland acres to be added to the existing farm operation does not exceed 640 acres, the APH yield of the existing unit will apply.

Exceeds 50 percent of the total cropland in the existing unit or the total cropland acres to be added to the existing farming operation exceeds 640 acres; use regular variable T-yield procedures for the added acreage or the insured may request an underwriting review by the RMA Regional Office to determine if the existing unit's APH yield may be used.

- CY 2002 policy¹⁰: Additional changes to added land policies and procedures:

Added land definition was revised to state that added land is cropland acreage added to the insured person's farming operation within the county for the current CY.

Added land can use SA T-yields which are T-yields calculated from the individual producer's yield data, which may be used in place of variable T-yields for qualifying databases.

¹⁰ FCIC 18010, exhibit 36, "Added Land and Added Practice/Type/Variety," dated June 2001.

Calculate SA T-yields by determining a SA of all existing optional units of approved APH yields within the same existing basic unit that contains actual/assigned yields.

(1)(b) Compare the SA T-yield to the variable T-yield for the same P/T/V and use the higher of the two.

- CY 2003 policy¹¹: Added land is cropland acreage (irrespective of crops) added to the insured person's farming operation within the county for the current CY.

Cropland acreage limitations are the criteria that establish the total cropland acreage that may be added to the insured's farming operation (640 acres) or the percentage (50 percent) of cropland acreage that may be added to an existing basic or optional unit or added as a separate optional unit without an RMA Regional Office review; and less than 2,000 cropland acres added to the operation that may be submitted for RMA's Regional Office review.

We concluded that RMA's changes to the added land policy since CY 2000 have made yields more representative of producers' operations. Therefore, no recommendations are warranted at this time.

¹¹ FCIC 18010, exhibit 36, "Added Land and Added Practice/Type/Variety," dated June 2002.

Scope and Methodology

The audit was requested by RMA and covered RMA's CY 2000 policies and procedures for approving yields for added land. We focused our review on approved CY 2000 approved yields for added land. We statistically selected a sample of 289 added land units from a universe of producers who insured barley, corn, cotton, dry beans, grain sorghum, oats, soybeans, sunflowers, and wheat. These crops represented the nine major crops for the CY 2000 crop insurance program. The universe consisted of CY 2000 added land units with yield descriptors "C" and "L" in RMA's information database¹², which signify those yields entered in a database using an approved APH yield from a reference unit with the same P/T/V.¹³ The following table shows universe data for added land units from which the statistical sample units were selected.

Crop Type	No. of Added Land Units	No. of Acres	Liability	Liability Percent of Totals
Corn	31,774	2,494,697	\$380,680,891	37.66
Soybeans	33,758	2,651,743	278,957,030	27.59
Cotton	6,001	575,792	168,118,502	16.63
Wheat	13,798	1,650,767	106,281,274	10.51
Dry Beans	2,393	217,114	34,842,234	3.45
Sunflowers	2,756	298,900	19,202,271	1.90
Grain Sorghum	2,731	248,353	12,743,769	1.26
Barley	1,929	202,102	9,128,289	0.90
Oats	605	32,854	999,417	0.10
Totals	95,745	8,372,321	\$1,010,953,677	

Total liability for the nine crops insured in CY 2000 was \$23.9 billion while the liability for the whole CY 2000 program was about \$34.4 billion. The added land liability of \$1 billion represented about 4.18 percent of the nine crops' total liability.

We stratified the statistical sample (see exhibit D) based on the crop type and within each crop type; we stratified the sample units based on the acreage of the added land unit. The following table shows data for the seven different strata from which samples were selected.

¹² RMA's definition is the data used to calculate the average/approved APH yield. A minimum of 4 up to maximum of 10 continuous APH CY's of data are used.

¹³ RMA 2000 Crop Insurance Handbook, section 6, page 93, effective June 1999.

Strata (acres)¹⁴	No. of Added Land Units	Percent of Total	Acres	Percent of Total
LT 30	24,001	25.07	381,461	4.56
GE 30 and LT 70	28,635	29.91	1,362,670	16.28
GE 70 and LT 120	20,996	21.93	1,862,325	22.24
GE 120 and LT 210	15,656	16.35	2,357,969	28.16
GE 210 and LT 460	5,349	5.59	1,527,178	18.24
GE 460 and LT 6,000	1,107	1.16	869,579	10.39
GE 6,000	1	0.001	11,139	0.13
Totals	95,745		8,372,321	

From the statistical sample of 289, we selected and performed a detailed review of 9 sample units for CY 2000. The units were selected because indemnities paid were substantial, little or no production was reported, and approved added land yields were greater than the crop T-yield. Although the units selected were part of a farm, we reviewed all added land units for the producer's farming operation. Due to issues noted from CY 2000's review, we reviewed CY 2001 events for the nine sampled producers.

The audit was conducted at RMA's Headquarters in Washington, D.C.; RMA's offices in Kansas City, Missouri; regional RMA compliance and service offices; FSA county offices; insurance providers' offices; and other locations as necessary (see exhibit B for specific locations). Fieldwork was performed from April 2001 through June 2003.

The audit was performed in accordance with generally accepted government auditing standards. To accomplish our audit objectives, our review consisted of the following:

- review of applicable Federal laws and regulations, and RMA's and FCIC's policies and procedures;
- review of specific CY's 2000's to 2003's policies and procedures for assigning yields for added land;
- review of prior audits and other examinations and analyses performed by OIG, RMA, and the General Accounting Office;
- interviews with officials of RMA, FSA, the Office of the General Counsel, and insurance providers;
- interviews with insured producers, insurance provider sales agents, and crop purchasers;

¹⁴ Table abbreviations, LT = less than, GE = greater than or equal to.

- reviews of insured producers, sales agents, and loss adjuster files;
- field visits to RMA's regional and compliance offices, FSA's county offices, and insurance providers' operation centers;
- tests the propriety of yields assigned to added land units statistically selected for review;
- performance of comparative analyses of approved yields assigned to the added land units relative to actual and T-yields, when available, of the added land units; and
- analyses and assessment of liabilities and indemnities of added land units.

Exhibit A - Summary of Monetary Results

Exhibit A - Page 1 of 1

REC. NUMBER	DESCRIPTION	AMOUNT	CATEGORY
1	2000 Crop year yield determinations did not include prior production history	\$332,801	QUESTIONED COST/RECOVERY RECOMMENDED
2	2001 Crop year Yield determinations did not include prior production history	\$39,279	QUESTIONED COST/RECOVERY RECOMMENDED
3	Overpayment due to incorrect acreage report.	\$22,000	QUESTIONED COST/RECOVERY RECOMMENDED

Exhibit B - Locations Visited

ORGANIZATION/ENTITY	LOCATION
<p><u>U.S. Department of Agriculture</u></p> <p>Risk Management Agency National Office Regional Service Offices</p> <p>Regional Compliance Office</p> <p>Farm Service Agency Yazoo County Office Jackson County Office Coahoma County Office Decatur County Office Jackson County Office Coffee County Office Christian County Office Calhoun County</p> <p>Insurance Providers</p>	<p>Washington, D.C. Jackson, Mississippi Kansas City, Missouri Valdosta, Georgia Indianapolis, Indiana</p> <p>Kansas City, Missouri</p> <p>Yazoo City, Mississippi Edna, Texas Clarksdale, Mississippi Bainbridge, Georgia Marianna, Florida Douglas, Georgia Hopkinsville, Kentucky Morgan, Georgia</p> <p>Topeka, Kansas Council Bluffs, Iowa Omaha, Nebraska Lawrenceville, Georgia</p>

Exhibit C - Producer Information

Exhibit D - Page 1 of 1

CROP YEAR 2000

Producer	Unit Number	APH Per Ins. Co.	APH Per OIG	Liability Per Ins. Co.	Liability Per OIG	Excess Liability	Indemnity Per Ins. Co.	Indemnity Per OIG	Excess Indemnity Payment
A	115	796	334	\$14,806	\$6,212	\$8,594	\$14,806	\$6,212	\$8,594
	116	796	353	118,334	52,477	65,857	118,334	52,477	65,857
B	102	672	507	9,937	7,503	2,434	9,937	7,503	2,434
	103	672	392	24,478	14,291	10,187	24,478	14,291	10,187
D	102	816	646	65,654	52,016	13,638	39,651	26,013	13,638
F	105	946	788	34,694	28,903	5,791	14,761	8,970	5,791
	109	946	696	248,193	182,626	65,567	127,070	61,503	65,567
	112	946	717	403,968	306,217	97,751	252,786	155,035	97,751
	113	1,046	876	245,826	205,897	39,929	12,865	0	12,865
	115	946	741	216,141	169,324	46,817	91,350	44,533	46,817
G	205	802	696	25,060	21,760	3,300	21,933	18,633	3,300
TOTAL				\$1,407,091	\$1,047,226	\$359,865	\$727,971	\$395,170	\$332,801

CROP YEAR 2001

Producer	Unit Number	APH Per Ins. Co.	APH Per OIG	Liability Per Ins. Co.	Liability Per OIG	Excess Liability	Indemnity Per Ins. Co.	Indemnity Per OIG	Excess Indemnity Payment
A	106	676	523	\$162,371	\$125,575	\$36,796	\$108,586	\$71,789	\$36,797
	117	676	523	5,453	4,217	\$1,236	4,245	3,009	\$1,236
G	205	632	592	19,952	18,706	\$1,246	5,881	4,635	\$1,246
TOTAL				\$187,776	\$148,498	\$39,278	\$118,712	\$79,434	\$39,279

Exhibit D - Statistical Sampling Plan

STATISTICAL SAMPLE DESIGN Risk Management Agency Crop Insurance APH Review

The general statistical sample design for this audit was a stratified simple random sampling scheme where added land units were selected from data acquired from RMA. The universe was composed of 95,745 added land units. The 95,745 added land units were placed in nine major strata (CROP) according to crop type. The crop types were:

CROP	Crop Type	Number of Policies
11	Wheat	13,798
16	Oats	605
21	Cotton	6,001
41	Corn	31,774
47	Dry Beans	2,393
51	Grain Sorghum	2,731
78	Sunflowers	2,756
81	Soybeans	33,758
91	Barley	1,929
TOTAL		95,745

Within each crop major strata the added land units were further stratified with respect to the acres and six strata were formed. For corn a seventh strata was determined subjectively because of its large amount of acreage. These six acreage strata were constructed using the cumulative square root of the frequencies methodology (Cochran, SAMPLING TECHNIQUES) with respect to the acreage value for the overall distribution of this acreage figure.

Exhibit D - Statistical Sampling Plan

The following table gives the specifics of the stratification used in this sample design.

CSTRAT	BOUNDARY Acreage Amount	Number Of Policies	Acreage Value	n=289
Wheat	CROP=11			
1	Less than 30	2,201	36,985.5	4
2	30 – 70	3,291	157,893.0	4
3	70 – 120	3,083	276,046.0	4
4	120 – 210	3,549	538,565.0	4
5	210 – 460	1,420	407,627.0	4
6	Over 460	254	233,650.0	4
SUBTOTAL CSTRAT 1-6		13,798	1,650,766.5	24
Oats	CROP=16			
1	Less than 30	283	4,401.1	4
2	30 – 70	193	8,652.7	4
3	70 – 120	73	6,418.4	4
4	120 – 210	37	5690.8	4
5	210 – 460	13	4,083.8	4
6	Over 460	6	3,607.4	4
SUBTOTAL CSTRAT 1-6		605	32,854.2	24
Cotton	CROP=21			
1	Less than 30	1,949	31,264.1	10
2	30 – 70	1,781	83,044.4	10
3	70 – 120	952	87,436.3	10
4	120 – 210	723	112,170.0	10
5	210 – 460	433	129,087.0	10
6	Over 460	163	132,790.0	10
SUBTOTAL CSTRAT 1-6		6,001	575,791.8	60

Exhibit D - Statistical Sampling Plan

CSTRAT	BOUNDARY Acreage Amount	Number Of Policies	Acreage Value	n=289
Corn	CROP=41			
1	Less than 30	8,600	136,258.0	10
2	30 – 70	10,060	477,335.0	10
3	70 – 120	7,115	628,546.0	10
4	120 – 210	4,406	659,763.0	10
5	210 – 460	1,312	369,933.0	10
6	460 – 6,000	280	211,723.0	10
7	Over 6,000	1	11,139.2	1
SUBTOTAL CSTRAT 1-7		31,774	2,494,697.2	61
Dry Beans	CROP=47			
1	Less than 30	338	5,670.8	4
2	30 – 70	736	35,773.4	4
3	70 – 120	621	54,758.9	4
4	120 – 210	577	84,350.4	4
5	210 – 460	112	31,245.8	4
6	Over 460	9	5,314.7	4
SUBTOTAL CSTRAT 1-6		2,393	217,114.0	24
Grain Sorghum	CROP=51			
1	Less than 30	660	10,912.9	4
2	30 – 70	858	40,240.4	4
3	70 – 120	572	49,851.9	4
4	120 – 210	454	69,680.0	4
5	210 – 460	145	43,295.9	4
6	Over 460	42	34,371.7	4
SUBTOTAL CSTRAT 1-6		2,731	248,352.8	24

Exhibit D - Statistical Sampling Plan

CSTRAT	BOUNDARY Acreage Amount	Number Of Policies	Acreage Value	n=289
Sunflowers	CROP=78			
1	Less than 30	359	6,138.7	4
2	30 – 70	669	33,170.8	4
3	70 – 120	721	64,972.4	4
4	120 – 210	732	111,294.0	4
5	210 – 460	252	69,792.1	4
6	Over 460	23	13,531.4	4
SUBTOTAL CSTRAT 1-6		2,756	298,899.4	24
Soybeans	CROP=81			
1	Less than 30	9,291	144,428.0	4
2	30 – 70	10,546	502,388.0	4
3	70 – 120	7,401	653,243.0	4
4	120 – 210	4,672	699,728.0	4
5	210 – 460	1,548	440,248.0	4
6	Over 460	300	211,708.0	4
SUBTOTAL CSTRAT 1-6		33,758	2,651,743.0	24
Barley	CROP=91			
1	Less than 30	320	5,401.9	4
2	30 – 70	501	24,172.1	4
3	70 – 120	458	41,051.8	4
4	120 – 210	506	76,728.1	4
5	210 – 460	114	31,865.0	4
6	Over 460	30	22,882.6	4
SUBTOTAL CSTRAT 1-6		1,929	202,101.5	24
TOTAL		95,745	8,372,320.4	289

A sample size of 289 added land units was selected. This sample size was subjectively determined and subjectively allocated to the individual crop and acreage strata. The single added land unit in the corn CSTRAT 7 was selected with certainty. The other added land units in the remaining CSTRAT strata were selected with equal probability without replacement within the individual strata. The sample unit within each strata was an added land unit. The table above contains the details for this allocation and sample selection. A 95-percent two-sided confidence level was used for all the statistical estimates in this review.

Exhibit D - Statistical Sampling Plan

Statistical Analysis

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

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

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

where

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

Schedules 1 – 6 show the projection results for the total 289 samples reviewed.

Schedule 1 - Liability Savings from T Yield									
		Sample Units - occurrences				Liability Amounts			
Sample Results	No.	Lower 95% Confidence Level	Point Estimate	Upper 95% Confidence Level	Sampling Precision	Lower 95% Confidence Level	Point Estimate	Upper 95% Confidence Level	Sampling Precision
Yes	258	74,324	82,387	90,450	0.098	152,344,110	186,633,993	220,923,877	0.184
No	31	5,295	13,358	21,421	0.604				

Schedule 2 - Indemnity Savings Using T Yield									
		Sample Units - occurrences				Indemnity Amounts			
Sample Results	No.	Lower 95% Confidence Level	Point Estimate	Upper 95% Confidence Level	Sampling Precision	Lower 95% Confidence Level	Point Estimate	Upper 95% Confidence Level	Sampling Precision
Yes	62	7,720	13,581	19,443	0.432	39,570,642	60,041,195	80,511,747	0.341
No	29	8,159	17,209	26,259	0.526				
NA	198	54,290	64,954	75,618	0.164				

Exhibit E - Agency Response

Exhibit E - Page 1 of 1



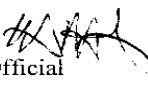
United States
Department of
Agriculture

Risk
Management
Agency

1400 Independence
Avenue, SW
Stop 0801
Washington, DC
20250-0801

MAY - 4 2004

TO: Robert W. Young
Assistant Inspector General for Audit
Office of Inspector General

FROM: Michael Hand 
Audit Liaison Official

SUBJECT: OIG Draft Audit Report 05099-25-At, Added Land Policy

The Risk Management Agency (RMA) conditionally concurs with the three recommendations contained in the subject report. The Office of the Deputy Administrator of Compliance will conduct a review of the findings relative to each recommendation to determine the appropriate action(s) that can be taken by RMA to address each one. We will keep your office informed as actions are completed relative to this matter.

Should you have any questions, please contact Alan Sneeringer at (202) 720-8813.



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

An Equal Opportunity Employer

Glossary of Terms

Added Land - Land on which the insured has not actively engaged in farming for a share of the crop's production on a unit for more than 2 APH CY's.

Added Land Practice, Type, or Variety (P/T/V) - A P/T/V of the insured crop as identified on the actuarial document that requires separate APH yields, and for which the insured has not been actively engaged in farming for a share of the P/T/V's production on the unit for more than 2 APH CY's.

Approved APH Yield/Approved Yield - The amount of production per acre computed and approved by the verifier in accordance with RMA's Actual Production History Program (7 CFR part 400, subpart G) or, for crops not included under 7 CFR, part 400, subpart G, the yield used to determine the guarantee in accordance with the crop provisions or the Special Provisions. The approved APH yield may contain up to 10 consecutive APH CY's of actual and/or assigned yields.

Basic Unit - All insurable acreage of a crop in the county on the date coverage begins for the CY in which the insured has (1) a 100 percent share in the crop, (2) less than 100 percent share in the crop (owned by one entity and operated by another entity on a share basis).

Existing Unit - Basic or optional unit that was in the farming operation the previous CY that remain in the farming operation for the current CY.

Optional Unit - A unit established from basic units, if (1) insured has records, that are acceptable to insurance provider, of planted acreage and the production from each optional unit for at least the last CY used to determine your final guarantee, (2) insured plants the crop in a manner that results in a clear and discernable break in the planting pattern at the boundaries of each optional unit, (3) all optional units insured selects for the CY are identified on the acreage report for that CY, and (4) insured has records of marketed or stored production from each optional units maintained in such a manner that permits insurance provider to verify the production from each optional unit, or the production from each optional unit is kept separate until loss adjustment is completed by insurance provider.

Reconstitution - a change in the land constituting a farm as a result of combining or dividing tracts or farms. A farm combination is the consolidation of two or more farms, having the same operator, into one farm. A farm division is the dividing of a farm into two or more farms because of a change in ownership or operation.

Reference Unit - An existing unit that contains at least one actual yield (by P/T/V, if applicable) from which the current year's approved APH yield is taken to establish an initial database for added land P/T/V that is a part of or derived from the same basic unit.

Unit - The insurable acreage of the insured crop in the county taken into consideration when determining the approved APH yield, production guarantee/amount of insurance, and, the amount of any indemnity (loss payment). Each insured crop's unit structure is defined in the policy and/or respective endorsement.