U.S. Department of Agriculture

Office of Inspector General
Western Region

Audit Report

Risk Management Agency Indemnity Payments to Prune Producers in California - Producer D

Report No. 05099-7-SF
March 2004

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

DATE: March 31, 2004

REPLY TO
ATTN OF: 05099-7-SF

SUBJECT: Indemnity Payments to Prune Producers in California – Producer D

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

ATTN: Michael Hand
Deputy Administrator
Risk Compliance

This report presents the results of our audit of the subject program for crop years 1997, 1998, and 1999. Your February 18, 2004, response to the draft report, excluding attachments, is included as exhibit C of the report. Excerpts from your response and the Office of Inspector General's positions have been incorporated into the relevant sections of the report.

We agree with your management decision for Recommendation No. 1. The actions needed to reach management decision on Recommendations Nos. 2 through 9 are identified in the Findings and Recommendations section of the report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions 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.

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

/S/

ROBERT W. YOUNG
Assistant Inspector General
for Audit

Executive Summary

Risk Management Agency - Indemnity Payments to Prune Producers in California - Producer D (Audit Report No. 05099-7-SF)

Results in Brief

A prune producer (producer D[1]) and one of its partners (individual A) received federally insured crop indemnity payments to which they were not entitled. The improper payments resulted from inaccurate information submitted by producer D and individual A to support insurance claims filed with two separate insurance providers. Due to negligent servicing, the two insurance providers did not detect the misrepresentations and improperly paid producer D and individual A $386,772 in indemnities for crop losses during 1997 through 1999 (see exhibit A).

The Risk Management Agency (RMA) supervises the Federal crop insurance program, which is administered on behalf of RMA by private insurance providers. Insurance providers issue policies to producers based on the producers' reported acreage, and they settle claims made by the producers based on verified losses. Underreported acreage can lower a producer's premium and later enable the producer to conceal production by assigning harvest from reported acres to unreported acres (i.e., shifting production). Underreported crop production can give the appearance of a loss where one did not in fact occur.

For several years, producer D underreported acreage (1997 and 1998) when applying for insurance and underreported crop production (1997 through 1999) when submitting loss claims. Producer D's insurance provider did not follow procedures when it failed to verify claimed losses by collecting final settlement sheets from packinghouses where producer D sold its fruit.[2]

Further, in 1999, individual A misreported his insurable share when filing an insurance claim with a second insurance provider. This provider had information in its own files that would have shown that the crop individual A claimed as his alone really belonged to producer D. If the provider had properly reviewed its own files, it would have discovered the conflicting information and accordingly not overpaid individual A. It is important for the provider to review ownership information because misreported ownership could enable producers to shift production from insured to uninsured acreages in order to improperly increase the amount of the indemnity payment.

[1] Producer D is a two-person partnership consisting of individual A and individual B.

[2] These sheets indicate total crop production because they record the total dry weight of fruit sold by a producer during a crop year.

As a result of the misrepresentations and the insurance providers' negligent servicing, we question the entire payments, totaling $386,772, made to producer D and individual A for crop years[3] 1997 through 1999. See table 1 below for the indemnity amounts and years paid.

Table 1. Ineligible Indemnities Received by Producer D and Individual A

Crop Year	Producer D	Individual A	Total
1997	$ 22,695	---	$ 22,695
1998	$149,184	---	$ 149,184
Subtotal	**$171,879**	**---**	**$171,879**
1999	$ 72,450	$ 142,443	$ 214,893
Total Payments	**$244,329**	**$142,443**	**$ 386,772**

In April 2001, we referred this case to the Office of Inspector General – Investigations (OIG-I) and suspended our audit while the investigation proceeded. In July 2002, OIG-I reported to RMA that producer D submitted to the insurance provider supporting documents, which contained underreported production figures. The report also stated that producer D gave different production figures to its insurance provider and to the Farm Service Agency (FSA) for the same crop loss when applying for RMA indemnities and FSA disaster assistance in 1998.

OIG-I also presented the case to the U.S. Attorney's office, which is considering civil prosecution against the producer for crop years 1997 through 1999. The 1997 indemnity payment of $22,695 may only be recovered by the U.S. Attorney through civil action, since the statutes of limitations for RMA have expired for that year.[4] The 1998 indemnity payment of $149,184 may be recovered either by the U.S. Attorney through civil action or by RMA through its scheme or device determination. The 1999 indemnity payments of $72,450 from insurance provider 1 and $142,443 from insurance provider 2 are being recovered by RMA's Western Regional Compliance Office.

In addition, RMA can still sanction producer D for intentional misrepresentations made in 1998 and 1999, since the 5-year statute of limitations for administrative action has not expired for those crop years. In July 2003, RMA's Western Regional Compliance Office recommended administrative action for crop year 1998, which consisted of a 2-year disqualification, a 10-year limitation to no more than Catastrophic Risk Protection, and a civil fine of $10,000 against each individual and the partnership.

[3] A crop year is designated by the calendar year in which the insured crop is normally harvested.
[4] RMA is subject to a 3-year statute of limitations for action against insurance providers and a 5-year statute of limitations for administrative action against producers.

Recommendations In Brief

For the $386,772 in questioned indemnities paid to producer D and individual A from 1997 through 1999, RMA should:

- provide documentation to OIG that an accounts receivable has been established for both 1999 indemnity payments of $72,450 from insurance provider 1, and $142,443 from insurance provider 2,

- coordinate with the U.S. Attorney's office to pursue recovery for indemnities totaling $171,879 ($22,695 for crop year 1997 and $149,184 for crop year 1998),

- determine if producer D and individual A knowingly adopted a material scheme or device to evade the provisions of the Federal Crop Insurance Act for crop years 1998 and 1999 and if so, collect back any benefits applicable to the crop year, and

- determine if producer D and individual A willfully and intentionally provided any materially false or inaccurate information to the insurance providers for crop years 1998 and 1999 and if so, coordinate with the Office of the General Counsel to initiate administrative sanctions.

Agency Response

In its February 18, 2004, written response to the draft report, the RMA National Office concurred with the report findings and recommendations except for Recommendation No. 6. RMA's response is included in exhibit C of this report.

OIG Position

We accept RMA's management decision for Recommendation No. 1. The actions needed to reach management decision on Recommendations Nos. 2 through 9 are identified in the Findings and Recommendations section of the report.

RMA did not concur with Recommendation No. 6. OIG recommended that mandatory claims reviews be performed in cases where an arbitration settlement caused an indemnity payment to increase above the $100,000 threshold. RMA explained that these reviews are based on a unit basis and even after the arbitration, none of the individual units exceeded the $100,000 threshold. However, OIG believes that mandatory claims reviews should not be conducted on a "per unit basis;" rather, they should be conducted on a producer's entire operation to avoid improper payments such as those which occurred for this producer.

Abbreviations Used in This Report

CFR	Code of Federal Regulations
FCIC	Federal Crop Insurance Corporation
Form P-1	Inspection Report and Certification Form
FSA	Farm Service Agency
OCFO	Office of the Chief Financial Officer
OGC	Office of the General Counsel
OIG	Office of Inspector General
OIG-I	Office of Inspector General – Investigations
PMC	Prune Marketing Committee
RMA	Risk Management Agency

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Background and Objectives

Background

This audit is one of a series conducted to resolve questions about the amount of prune production reported by growers in Federal crop insurance claims made from 1997 through 1999. During our review, information on file with RMA, which supervises Federal crop insurance, raised production questions for six growers.[5] This report examines the claims of one of them—producer D.

Federal Crop Insurance Corporation (FCIC) offers crop insurance through private insurance providers that in turn are reinsured by FCIC. Since 1998, these private providers have sold and serviced all Federal crop insurance policies that protect producers against losses due to natural causes. RMA supervises FCIC and oversees programs that manage crop risk and support farm income.

Through these programs, eligible producers can insure their land against excessively low crop yields or losses resulting from insurable causes. If the land produces less than a predetermined amount, they are entitled to a reimbursement from the insurance company, i.e., an indemnity. To prove their claim, growers give their insurance provider evidence that the land produced what they claim it did.

Principally, form P-1's ("Inspection Report and Certification Form") serve as the prune producers' evidence of crop production. Each time a prune grower sells his or her dried fruit to a packinghouse, the packinghouse records the dry weight. The Dried Fruit Association takes samples of the fruit and notes the total weight and quality for each of the grower's transactions on the form P-1. These forms are distributed to the producer, the packinghouse, and the Prune Marketing Committee (PMC), which keeps form P-1's for all the prunes produced in California.

Insurance providers are required to verify producer's claimed production (from form P-1's or other production evidence) by collecting final settlement sheets from the packinghouses where producers sell their fruit. These final settlement sheets record the total crop weight purchased from that grower during a crop year. For each producer's insurance claim, the total weight recorded on the packinghouses' final settlement sheets, the total weight from all the form P-1's for that producer held by the PMC, and the producer's claimed crop production should be the same for all insurable acreage.

[5] We issued reports to RMA for four of the six audited prune growers (including this one). The other three reports are 05099-3-SF, 05099-5-SF, and 05099-6-SF.

Inaccurate reporting in the crop insurance program may be a result of shifted production, a device used to conceal the origin of a crop. To falsely show a crop loss on one farm unit, a producer could "shift" production from that unit to a second unit on which he does not expect to claim a loss. When crop provisions allow, producers may elect to divide their insurable crop into more than one unit.[6] Thus in a case of shifted production, the policyholder claiming a loss will often have had multiple units of land under policy and frequently will have at least one unit that received no indemnity payment (because production from other units was assigned to that unit). Producer D had insured multiple units and did not claim losses on several of them. Records also showed discrepancies between production figures producer D reported to its insurance provider and production figures on record at the PMC.

During crop years 1998 and 1999, eligible producers could receive compensation for crop losses from programs administered by both RMA and FSA. FSA programs are delivered through an extensive network of field offices including over 2,500 service centers. Two of these programs, the 1998 Single-Year and Multi-Year Crop Loss Disaster Assistance Program and the 1999 Crop Disaster Program, provided financial assistance to eligible producers for losses suffered due to disasters. Producers were eligible to receive disaster payments if they suffered crop losses in excess of 35 percent of expected production.[7] Producer D received payments from both programs during 1998 and 1999.

Objectives

Our objectives were (1) to resolve discrepancies between production records maintained by PMC and the production reported by producer D to the insurance providers and (2) to determine if indemnity payments calculated by insurance providers were in accordance with RMA procedures.

Our scope covered crop years 1997 through 1999. See the Scope and Methodology section of this report for full details.

[6] FCIC 92B1, section 1(tt), in effect during 1997 and 1998. FCIC 98BR, section 1 and 34, in effect during 1999.
[7] Expected production, for a unit, is the historic yield multiplied by the number of planted acres of the crop.

Producer D and one of its two partners, individual A, did not accurately report the ownership and size of their prune orchards when insuring the orchards, and they did not accurately report their production when claiming losses under their crop insurance policies. As a result of these inaccuracies, both producer D and individual A received indemnities for which they were ineligible over the 3 years from 1997 through 1999. The amounts and the years are shown in table 1 below.

Table 1: Ineligible Indemnities Received by Producer D and Individual A

Crop Year	Producer D	Individual A	Total
1997	$ 22,695	---	$ 22,695
1998	$149,184	---	$ 149,184
Subtotal	**$171,879**	**---**	**$171,879**
1999	$ 72,450	$ 142,443	$ 214,893
Total Payments	**$244,329**	**$142,443**	**$ 386,772**

We question the total indemnities of $386,772 paid to producer D and individual A. The indemnity payment of $22,695 may only be recovered by the U.S. Attorney through civil action, since the statute of limitations for administrative action has expired for 1997. The 1998 indemnity payment of $149,184, may be recovered either by the U.S. Attorney through civil action or by RMA through its scheme or device determination (see Finding 1). The 1999 payments of $72,450 and $142,443 are being recovered by RMA through the two insurance providers, which were responsible for verifying the accuracy of the claims (see Findings 2 and 3).

Finding 1 — Producer D Significantly Misreported Production Amounts and Acreage to Support Insurance Claims

From 1997 through 1999, producer D did not report all of the prune acreage it owned when applying for insurance coverage, nor did it report all the prunes it produced when submitting loss claims to the insurance provider. We believe that producer D intentionally underreported his production and acreage to increase his indemnity payments beyond the amounts he was entitled to. The producer's misreporting was not detected because the insurance provider failed to verify the reported production and acreage (see

Finding 2). By misreporting these figures, producer D was able to increase its indemnity payments to $386,722 for those 3 crop years.[8] (See exhibit A.)

During our review of documents maintained at the insurance provider's office, the Farm Service Agency (FSA) county office, and the Prune Marketing Committee (PMC), we noted the following discrepancies:

a. Underreported Production

The Prune Crop Insurance Policy states that the Federal Crop Insurance Corporation (FCIC) "will not pay any indemnity unless you [the insured] establish the total production of prunes on the unit...[where] the total production to be counted for a unit will include all harvested and appraised production on a natural condition prune basis which grades substandard or better."[9] The Common Crop Insurance Policy intends the insured to establish the total production or value received for all insurable crop on the unit.[10]

To support insurance claims made from 1997 through 1999, producer D significantly underreported production and received indemnity payments based on inaccurate information as shown in table 2 below.

Table 2: Summary of Unreported Production

Crop Year	Tons Unreported	Total Tons[1]	Percentage Unreported	Indemnity Payment
1997	91.4	593.6	15%	$ 22,695
1998	61.8	86.1	72%	$ 149,184
1999	60.3	223.5	27%	$ 72,450
Total				**$ 244,329**

[1] These amounts represent the total tons that producer D should have reported.

For each crop year, we compared the production that producer D declared to the insurance provider on "Proof of Loss" forms to the production records (form P-1's) maintained by PMC (see exhibit B for a comparison of the producer's actual and reported production amounts):

- In 1997, producer D did not report production recorded on 5 out of 38 P-1's on record at PMC. The five unreported P-1's represented 91.4 tons of prunes that were not reported to the insurance providers.

[8] Underreported crop production directly increases indemnity payments because the amount of loss looks greater than it actually is. Unreported acreage may indirectly increase indemnity payments because the producer could subsequently claim that unreported production originated from the unreported acreage.

[9] FCIC 99-036, section 11(c), in effect during 1999. FCIC 98-036, section 11(c), in effect during 1998. FCIC 86-42, sections 9(b) and 9(e), in effect during 1997.

[10] FCIC 98-BR, section 14(e), in effect during 1999. FCIC 92-B1, section 14(e), in effect during 1997 and 1998. Although the language in FCIC 86-42 (Prune Crop Insurance Policy), section 2a –2d, for the 1997 crop suggests that the insured need only insure select acreage, RMA officials told us that the intent of the insurance provisions is to require the insured to insure all prunes grown in the county as long as the prunes have reached their seventh growing season.

- In 1998, producer D reported only three out of nine P-1's. Five unreported P-1's, representing 61.8 tons, were for insurable acreage. One P-1, representing 17.1 tons, was for uninsurable acreage.

- For crop year 1999, producer D did not report 5 out of 15 P-1's, for a total of 60.3 unreported tons.

We met with a partner of producer D to determine the source of the unreported produce. He explained the discrepancies as follows:

- The 91.4 tons that producer D had not reported in 1997 came from a 36-acre parcel of land that had been left uninsured.

- Four P-1's not reported in 1998, showed production from two insured units (101 and 102) and an uninsurable young orchard (7 acres connected to insured unit 102).

- The remaining two P-1's from 1998 represented production from two orchards that belonged to individual A and not to the producer D partnership (a 36-acre mature insurable orchard and a 308.6-acre immature and uninsurable orchard).

- The unreported production for 1999 came from insured units 101, 102, and 104.

Based on the partner's explanation, we analyzed the yields for individual A's and producer D's land parcels. For crop year 1997, our yield analysis showed that if individual A's claims were accurate, the uninsured 36-acre portion of unit 103 produced over 12 times more per acre than the 18.7-acre insured portion of unit 103 (2.5 tons per acre versus .2 ton per acre). We concluded it was extremely improbable that the yields would vary so much on the same orchard, which was a contiguous parcel of land. See table 3 below.

Table 3: 1997 Yield Analysis (all units are insured unless otherwise noted)

Unit	Indemnity	-A- Production	-B- Acres	(A / B) Yield
101	$ 0	111.7	40.0	2.8
102	$ 10,285	68.2	73.0	.9
103	$ 12,410	4.1	18.7	**.2**
103-Uninsured[1]	$ 0	91.4	36.0	**2.5**
104	$ 0	318.2	125.0	2.5
Totals	**$ 22,695**	**593.6**	**292.7**	

[1] Uninsured means that the crop was insurable but the producer did not insure it. In this instance, the producer was required to insure the 36 acres as part of unit 103, but failed to do so (see section b of this finding).

For crop year 1998, our analysis showed that the 7-acre uninsurable portion of unit 102, which the grower referred to as too young to insure, had allegedly attained the highest yield of all the orchards. Since immature plum trees are not capable of producing a significant amount of fruit, we question the likelihood that the 16.9 tons of production that producer D assigned to this orchard came from this source. Therefore, we concluded that the 16.9 tons originated from insured land. See table 4 below.

Table 4: 1998 Yield Analysis (all units are insured unless otherwise noted)

Unit	Indemnity	-A- Production	-B- Acres	(A / B) Yield
101	$ 31,689	22.6	30.0	.8
102	$ 38,997	39.0	73.0	.5
102-Uninsurable[1]	$ 0	16.9[3]	7.0	**2.4**
103	$ 7, 245	3.5	18.7	.2
103-Uninsured	$ 0	4.1	36.0	.1
104	$ 71,253	Unharvested	125.0	---
Subtotal		**86.1**	**289.7**	
Uninsurable[2]	$ 0	17.1	308.6	.1
Totals	**$ 149,184**	**103.2**	**598.3**	

[1] Uninsurable means that the crop could not be insured. Upon reaching insurable age in crop year 1999, the 7 acres was included in the total insured acreage for unit 102 (see table 5).
[2] A unit number had not been assigned to the 308.6-acres as producer D failed to report it during crop year 1998 (see section b of this finding), which was the first year that this acreage had production.
[3] Although the producer claimed that this production was from uninsurable acreage, we concluded that it originated from insured land.

For crop year 1999, the producer allocated 90 percent of the unreported production to units 101 and 102, which had not been paid indemnities. Accordingly, we noted that units 103 and 104 would have produced only 10 to 20 percent (.3/2.9 = 10 percent and .3/1.5 = 20 percent) as much as units 101 and 102. Again, we question the wide yield disparity between the units. See table 5 below.

Table 5: 1999 Yield Analysis (all units are insured unless otherwise noted)

Unit	Indemnity	-A- Production	-B- Acres	(A / B) Yield
Producer D:				
101	$ 0	54.6	19.0	**2.9**
102	$ 0	119.1	80.0	**1.5**
103	$ 2,646	3.7	11.3	**.3**
104	$ 69,804	25.3	100.00	**.3**
Individual A:[1]				
100	$ 142,443	20.8	308.6	.1
Totals	**$ 214,893**	**223.5**	**518.9**	

[1] For crop years 1997 and 1998, individual A did not have a separate insurance policy. Therefore, tables 3 and 4 have no separation between producer D's units and individual A's unit whereas table 5 for crop year 1999 does have a separation.

b. Underreported Acreage

The Prune Crop Insurance Policy states that, "the acreage insured for each crop year will be prunes grown on insurable acreage…in which you [the grower] have a share…the insured share is your share as landlord, owner-operator, or tenant in the insured prunes at the time the insurance attaches."[11] The Common Crop Insurance Policy requires that, "an annual acreage report must be submitted to us [insurance provider] on our form for each insured crop in the county.… This report must include ..., if applicable, all acreage of the crop (insurable and not insured) in which you [the insured] have a share."[12]

Counter to the above requirements, in 1997 and 1998, producer D failed to report 344.6 acres out of approximately 600 acres (57 percent). Individual A claimed total ownership of the acreage, which was 308.6 acres of immature and uninsurable trees and 36 acres of mature trees. Individual A argued that since the land belonged to him personally and not to the partnership, he did not report it for producer D's insurance claims.

Questions are raised when producers misreport land ownership because such misreporting could enable producers to assign production from insured acres to uninsured acres. Such shifting of production would conceal the origin of the production and increase the likelihood that the insured acreage would qualify for an indemnity.

To determine if individual A really had full interest in the prunes produced by the unreported 344.6 acres, we reviewed the packinghouse contracts.[13] Rather than listing individual A as the only payee, the contracts showed both individual A and individual B (the second party in the producer D partnership) as payees for the orchard's produce. We also viewed income tax documents for individual A and producer D. In his tax returns, individual A did not declare that he had earned any farm income as an individual from 1997 through 1999. Instead, all farm income was declared as earned by producer D.

Since both partners were listed as payees on the packinghouse contracts, and individual A admitted that all his farm income came from the partnership, we concluded that individual A had an interest in the orchard as a partner of producer D. According to the packinghouse contracts and tax documents, producer D had complete interest in the crop grown on both orchards and should have reported the uninsurable

[11] FCIC 86-42, section 2b-2c, in effect during 1997 and FCIC 98-36, section 6(a), in effect during 1998.
[12] FCIC 92B1, sections 6(a), in effect during 1997 and 1998.
[13] One contract was for a total of 60 acres. The producer insured 18.7 cropland acres as unit 103 and the remaining 36 cropland acres were uninsured. A second contract was for a total of 355 acres, of which 308.6 were cropland acres.

308.6 acres and the insurable 36-acre orchard in crop years 1997 and 1998 as required by the Common Crop Insurance Policy.

Subsequently, in 1999 when the 308.6 acres first became insurable, individual A falsely reported crop ownership by insuring the crop as entirely his with another insurance provider. That year, individual A collected the full indemnity amount ($142,443) on acreage that should have been considered under producer D's crop loss. See Finding 3 for details concerning the indemnity paid on this acreage.

c. Discrepancies in Documentation

Regulations state, "any person who willfully and intentionally provides any materially false or inaccurate information to FCIC or to any approved insurance provider reinsured by FCIC with respect to an insurance plan or policy issued under the authority of the Federal Crop Insurance Act, as amended…may be subject to a civil fine [and] disqualification from participation in: (1) the catastrophic risk protection plan of insurance and the noninsured crop disaster assistance program for a period not to exceed two years or (2) any plan of insurance providing protection in excess of that provided under the catastrophic risk protection plan of insurance for a period not to exceed ten years."[14]

Further, in addition to the penalties noted above, "if a person has knowingly adopted a material scheme or device to obtain catastrophic risk protection, other plans of insurance coverage, or noninsured assistance benefits to which the person is not entitled, has evaded the provisions of the Federal Crop Insurance Act, or has acted with the purpose of evading the provision of the Federal Crop Insurance Act, the person shall be ineligible to receive any and all benefits applicable to any crop year for which the scheme or device was adopted."[15]

Producer D was eligible to receive both RMA insurance program payments and FSA disaster payments for 1998 crop losses. Since both programs applied to the same crop loss, the information submitted to these entities should have been the same. However, we found that producer D had provided different information for each program:

- Producer D submitted four P-1's to FSA to confirm that a disaster payment was warranted and submitted only three P-1's to RMA. Only two P-1's matched between the two agencies.

[14] Title 7 of the Code of Federal Regulations (CFR) Subpart R 400.454 revised January 1, 1999. Per section 400.451(d), Subpart R is applicable to any act or omission by any affected party after October 14, 1993.
[15] 7 CFR Subpart R 400.458 revised January 1, 1999. Per section 400.451(d), Subpart R is applicable to any act or omission by any affected party after October 14, 1993.

- At the same time producer D filed a claim with an insurance provider for an unharvested orchard, the partnership certified to FSA that all its orchards were harvested.

- Producer D provided one report to FSA claiming that all its acreage was uninsured. Meanwhile, the producer collected indemnities from RMA on insured acres.

Producer D's repeatedly underreported acreage, unreported crop production, and misidentified crop ownership constitute materially inaccurate information. Since these inaccurate figures resulted in increased indemnity payments and were provided in a number of different claims over multiple years, they suggest that producer D intentionally manipulated RMA and FSA[16] programs. Accordingly, we referred this case to the Office of Inspector General – Investigations (OIG-I). OIG-I issued a Report of Investigation to RMA and presented the case to the U.S. Attorney's office, which is reviewing the case for consideration of civil prosecution against the producer for crop years 1997 through 1999.

For the 3 years audited, producer D's and individual A's crop indemnity payments totaled $386,772. The 1997 indemnity payment of $22,695 may only be recovered by the U.S. Attorney through civil action, since the statute of limitations has expired for that year.[17] The 1998 indemnity payment of $149,184 may be recovered either by the U.S. Attorney through civil action or by RMA through its scheme or device determination. The 1999 indemnity payments of $72,450 and $142,443 are being recovered by RMA through the two insurance providers, which were responsible for verifying the accuracy of the claims (see Findings 2 and 3).

In addition to the measures discussed above, RMA's Western Region Compliance Office recommended administrative action in July 2003, against producer D and its partners for crop year 1998. This action consisted of a 2-year disqualification, a 10-year limitation to no more than Catastrophic Risk Protection, and a civil fine of $10,000 against each individual and the partnership.

SUBSEQUENT CROP YEARS

For crop years 2000 through 2002, we reviewed producer D's policyholder information reports from RMA's database. For crop year 2000, although the 308.6-acre orchard was required to be insured by producer D, individual A continued to insure the orchard in his name; neither producer D nor

[16] We issued a separate report (03006-08-SF) to FSA for producer D in April 2003.
[17] RMA has a 5-year statute of limitations in which it can take administrative action against producer D. Only crop years 1998 and 1999 still fall within this period.

individual A made claims for that crop year. For crop year 2001, the orchard was not insured under either policy; however, producer D received insurance indemnities totaling $124,821 on its other acreage. For crop year 2002, the orchard was correctly added to producer D's policy.

RMA should review producer D's loss claim for crop year 2001 to determine if the producers accurately reported production and acreage information. Since the 308.6-acre orchard should have been insured for that crop year, RMA should also require the insurance provider to collect the premium from the producer.

Recommendation No. 1

Coordinate with the U.S. Attorney's office to pursue recovery from producer D for the indemnities totaling $171,879 ($22,695 for crop year 1997 and $149,184 for crop year 1998).

Agency Response. RMA concurred with this finding and recommendation. The Office of Inspector General (OIG) – Investigations and RMA's Sanction Officer presented these cases to the Department of Justice in December 2002.

OIG Position. We accept RMA's management decision on this recommendation. For final action, RMA needs to forward the results of these Department of Justice cases to the Office of the Chief Financial Officer (OCFO).

Recommendation No. 2

Determine if producer D and individual A knowingly adopted a material scheme or device for crop years 1998 and 1999 to evade the provisions of the Federal Crop Insurance Act. If so, collect back any benefits applicable to the crop years.

Agency Response. RMA concurred with this finding and recommendation and stated that crop year 1998 was referred to RMA's Sanctions Officer. For crop year 1999, RMA is attempting to get the money back through a final finding that was issued on January 15, 2004.

OIG Position. We are unable to accept RMA's management decision because it does not address whether producer D and individual A knowingly adopted a material scheme or device for crop years 1998 and 1999. If the U.S. Attorney does not agree to pursue indemnities totaling $171,879 for crop years 1997 and 1998 (see Recommendation No. 1), and RMA determines scheme or device, then RMA should recover $149,184 from producer D for crop year 1998 (the statute of limitations has expired for crop year 1997).

Also, RMA did not state whether producer D received any other benefits applicable to the crop years. If RMA determined that producer D adopted a material scheme or device and received any other benefits applicable to the crop years, RMA needs to provide documentation that an accounts receivable was established to recover these benefits.

Recommendation No. 3

Determine if producer D and individual A willfully and intentionally provided any materially false or inaccurate information to the insurance provider for crop years 1998 and 1999. If so, coordinate with the Office of the General Counsel to bring administrative sanctions (including disqualification and fines) against producer D and individuals A and B.

Agency Response. RMA concurred with this finding and recommendation. RMA referred crop year 1998 for sanctions. For crop year 1999, the Sanctions Officer contacted the Department of Justice to obtain approval to start the sanctions process.

OIG Position. We agree with RMA's corrective action. To achieve management decision, RMA needs to provide documentation for crop years 1998 and 1999 that: (1) the fines were billed to producer D and individuals A and B, (2) accounts receivables were established for collections of the sanctions, and (3) producer D and individuals A and B were disqualified from future RMA programs.

Recommendation No. 4

Review producer D's loss claim for crop year 2001 to verify that it reported the correct information for losses sustained that year, and require the insurance provider to bill the producer for premiums related to the 308.6-acre orchard.

Agency Response. RMA concurred with this finding and recommendation. The 308.6-acre orchard was still insured by individual A under the Rural Community Insurance Services (RCIS) policy in 2001. RCIS billed individual A for premiums related to the 308.6 acres in crop year 2001. RMA provided the policyholder information report which showed that the premium was billed on the 308.6-acre block.

OIG Position. We agree with RMA's position concerning insurance on the 308.6 acres and that the premium was properly collected. However, we are unable to accept RMA's management decision on this recommendation until RMA provides evidence that it verified producer D's reported losses for crop year 2001.

Although two insurance providers received false information from producer D and individual A, the insurance providers could have detected the misrepresentations and adjusted the indemnity payments accordingly had they followed standard and required procedures.

Producer D's insurance provider (insurance provider 1) did not discover the underreported production because it did not gather the final settlement sheets from packinghouses as required and did not conduct the mandatory claims review after the indemnity exceeded $100,000 due to an arbitration settlement. A review of the final settlement sheets would have shown that producer D's overall production was greater than the producer claimed for the relevant crop years.

Individual A's insurance provider (insurance provider 2) did not detect misreported crop ownership because it conducted an inadequate mandatory claims review. An adequate review would have shown that the files contained conflicting documents alternately listing individual A as a co-owner with individual B, and as a sole owner.

Insurance provider 1 serviced producer D's crop loss claims for all 3 years, 1997 through 1999. Insurance provider 2 serviced individual A's loss claim for 1999. The years and payment amounts are shown in the table below:

Table 6: Payments Serviced by Insurance Providers 1 and 2

Crop Year	Provider 1	Provider 2
1997	$ 22,695	---
1998	$149,184	---
Subtotal	**$171,879**	**---**
1999	$ 72,450	$ 142,443
Total Payments	**$244,329**	**$142,443**

Finding 2 Insurance Provider 1 Failed to Verify Producer D's Total Production and Acreage

Insurance provider 1 failed to properly verify crop production and acreage when determining producer D's indemnity payments for 1997 through 1999. The company did not verify the production figures submitted by producer D against those on the final settlement sheets maintained by the packinghouses, as required, and it did not perform a mandatory claims review of the 1998 payment to determine if it was made properly. If insurance provider 1 had collected the final settlement sheets, it would have noticed that producer D significantly underreported production (up to 72 percent) and acreage (up to

57 percent).[18] If the provider had performed a mandatory claims review, it would have discovered that the 1998 payment had been calculated in the absence of final settlement sheets. As a result, the provider incorrectly paid producer D $244,329. Although the statute of limitations allows recovery of the 1997 and 1998 indemnity payments of $171,879 either through civil or administrative action against the producer (see Finding 1), the 1999 payment of $72,450 may be recovered from the insurance provider (see exhibit A).

The Loss Adjustment Manual states that the insurance provider should: (1) "verify harvested production records documented by receipts from… packing houses…[,] verify receipts against the entries on the summary/settlement sheets [, and] obtain gross production for the unit from the summary and/or settlement sheets after verification"[19] and (2) during farm visits, "determine (measure if applicable) the insurable acreage of the loss unit…[and] determine if there is any unreported insurable acreage."[20]

The insurance provider disregarded RMA's requirements to collect final settlement sheets and stated that as a standard practice, they do not collect these documents. If the provider had collected the final settlement sheets from the packinghouse, and if it had asked the packinghouse where the additional production on the final settlement sheet originated, it would have discovered that the producer had not reported additional acreage on contract with that packinghouse.

Additionally, insurance providers are required to complete a mandatory claims review for claims larger than $100,000. The mandatory claims review is a process designed to make sure that large insurance claims are properly serviced. Producer D's indemnities for crop year 1998 were originally under $100,000 but increased to $149,184 as a result of arbitration. The arbitration was conducted to resolve a difference in opinion on whether or not an indemnity should be paid on one of producer D's four units. In our review of the insurance provider's files, we were unable to conclude what type of review was done to prepare for the arbitration. However, we found evidence that a mandatory claims review of the entire claim was not performed. If the review had been performed on all four units, the reviewer should have discovered that the provider had calculated the loss amount without collecting the final settlement sheets.

Since the insurance provider failed to uncover the producer's underreported production in crop years 1997 through 1999 and unreported acreage in 1997 and 1998,[21] producer D was incorrectly paid $244,329 in indemnities.

[18] See section b of Finding 1.
[19] FCIC 25010, paragraph 101 (B and C), in effect during 1997 and paragraph 106 (B and C) in effect during 1998 and 1999.
[20] FCIC 25010, paragraph 8 B (7) (e) and (f), in effect during 1997 and 1998.
[21] Producer D correctly reported the acreage in crop year 1999.

In a previous report, Audit Report No. 05099-5-SF issued in 2002, we recommended that RMA instruct insurance provider 1 to collect final settlement sheets to verify total production. Therefore, we are not repeating this recommendation in this report.

RMA has a 3-year statute of limitations in which it can take action to recover monies directly from the insurance provider for overpayments due to insurance provider error. Based on OIG-I's Report of Investigation, RMA instructed insurance provider 1 to refund indemnities of $72,450 for crop year 1999. The statute of limitations has expired for crop years 1997 and 1998.

Recommendation No. 5

Provide documentation to OIG that an accounts receivable was established for the 1999 indemnity payment of $72,450 from insurance provider 1.

Agency Response. RMA concurred with this finding and recommendation. RMA issued its Final Findings on January 15, 2004. OIG will be notified once an accounts receivable has been established.

OIG Position. We agree with RMA's corrective action. To achieve management decision, RMA needs to provide us with documentation that an accounts receivable for $72,450 from insurance provider 1 was established for the 1999 indemnity payment.

Recommendation No. 6

Implement controls that ensure a mandatory claims review is performed in cases where an arbitration settlement (or any other circumstance) causes an indemnity payment to increase above the $100,000 threshold.

Agency Response. The agency did not concur. Officials stated that the recommendation was based on a misunderstanding of the current rules governing the $100,000 claims reviews. These reviews are based on a unit basis and even after the arbitration; none of the individual units exceeded the $100,000 threshold.

Additionally, RMA discussed this recommendation with several of the reinsured companies. In their opinion, cases that go to arbitration are subject to far more scrutiny than the current $100,000 claims review process. Since in this case, the error was not discovered during the arbitration, it is not likely that a normal $100,000 review, even if it were required, would have found the error.

RMA is currently renegotiating the SRA [Standard Reinsurance Agreement] and the quality control guidelines commonly referred to as Manual 14. RMA anticipates a significant number of changes to the quality control requirements, which would make agreement with the recommendation premature at this time even if the recommendation was based on the correct assumptions regarding the current review requirements.

OIG Position. RMA's Manual 14 states, "the insurance provider must conduct field reviews for all crop insurance contracts with a crop claim equal to or greater than $100,000." We focused on the term "crop claim." We reviewed the insurance company's 1998 Proof of Loss form, which showed four of the producer's units under one claim number. In this case, the crop claim was for the entire indemnity payment ($149,184 after arbitration). Although RMA intended this instruction to apply to a "per unit basis," the claims review section of Manual 14 is misleading because it does not specify unit basis.

However, we believe that mandatory claims reviews should not be conducted on a "per unit basis;" rather, they should be conducted on a producer's entire operation to avoid improper payments such as those which occurred for this producer. (A similar recommendation was made in OIG Audit Report No. 05601-4-At, issued on March 14, 2001.)

We are unable to reach management decision until the agency revises Manual 14 so that mandatory reviews are triggered based on a more reasonable criteria (e.g., if total crop payments or the total value of individual claims equal or exceed $100,000).

Recommendation No. 7

Require the insurance provider to determine why it failed to collect final settlement sheets to verify production amounts as required by the Loss Adjustment Manual, and take appropriate remedial action.

Agency Response. RMA concurred with this finding and recommendation. RMA informed us that its Western Regional Compliance Office sent a letter to the insurance provider questioning why the company did not collect final settlement sheets to verify production amounts as required by the Loss Adjustment Manual. RMA agreed to take appropriate action based on the insurance provider's response, which was due on February 13, 2004.

OIG Position. We agree with RMA's corrective action. To achieve management decision, RMA needs to provide OIG with: (1) a copy of the insurance provider's response and (2) the remedial action it plans to take and proposed completion dates.

Finding 3 — Insurance Provider 2 Failed to Verify Individual A's Correct Insurable Share

In crop year 1999, one of producer D's prune orchards, totaling 308.6 acres, was insured by insurance provider 2 in individual A's name alone rather than the partnership's. This occurred because insurance provider 2 did not determine that individual A had misreported his insurable share in the crop, which affected his indemnity payment. While insurance provider 2 documented that a file review and a mandatory claims review were completed, neither review identified the conflicting information about the type of ownership entity—partnership or individual—and its share in the crop. Therefore, we question the entire indemnity paid to individual A for crop year 1999, totaling $142,443.

The Loss Adjustment Manual states that insurance providers must verify that the "entity type processed from the application reflects the correct entity (individual, partnership, corporation, co-owner, joint operator, estate, trust, etc.)…[and] verify the insured's correct share, by crop, by comparing the reported share on the crop insurance acreage report to the insured's share shown on lease agreements, elevator summaries, packer statements, etc." Further, "an insurable share is the percentage of interest in the insured crop that the owner, operator, or tenant has at the time insurance attaches…[and] insurance will cover only the share of the crop owned by the person/entity who completed that application." [22]

The Crop Insurance Handbook states that to be considered an individual entity "the applicant incurs debt (if any) related to production, stores or markets in his or her name and receives proceeds."[23]

Manual 14, Guidelines and Expectations for Delivery of the Federal Crop Insurance Program, requires insurance providers to "verify that all information provided by the policyholder, sales agent, and loss adjuster is true and accurate through whatever means are necessary, including, but not limited to, interviews, field inspections, file reviews, production records from third parties, etc." Additionally, "the insurance provider must conduct field reviews for all crop insurance contracts with a crop claim equal to or greater than $100,000. The insurance provider will assign a loss adjuster, not previously associated with the initial claims determinations, for verification of all information used to establish the indemnity (i.e., acreage, production to count, share, etc.)."[24]

[22] FCIC-25010, paragraphs 14D and 14E, and paragraph 14(A)(1), dated January 1998 (in effect through 1999).
[23] FCIC-18010, exhibit 32, section 1(A), dated June 1999.
[24] FCIC-14010, section 7, paragraph A (2), and paragraph C (5)(c), dated September 1997 (in effect through 1999).

During our review of insurance provider 2's files, we found two documents containing conflicting information. First, we noted that the insurance application listed the producer as an individual.[25] The insurance application requires that producers list any other person(s) with 10 percent or more interest. However, individual A did not note anyone other than himself as having an interest and certified that all information on the application was correct. Second, we noted that a production document in the files listed individual A and individual B (whose partnership makes up producer D) as the producer.

To determine whether the orchard was owned solely by individual A or by the partnership (producer D), we contacted the packinghouse and obtained the contract for the 308.6 acres. The contract listed both individuals as being payees for the crop.[26] We also found that the packinghouse had issued a December 1999 check payable to individuals A and B for production from the acreage, which individual A had insured in his name alone. Furthermore, we examined producer D's tax returns for 1999 and 2000 which showed that individuals A and B each had a 50-percent interest in the partnership.

In a statement made on May 17, 2002, individual A admitted that most of the expenses for both "entities" were paid for by the partnership, all of the income from the "entities" was reported on the partnership's tax returns, and the orchard was part of one farming operation. We concluded that individual A did not own the orchard apart from the partnership and did not have a 100-percent insurable interest in the 308.6 acres.

We also noted that the claims adjuster checked the "Yes" boxes on the claim checklist to indicate that both the entity and the insurable share had been verified. However, there was nothing to indicate how these items were verified or that the claims adjustor questioned the discrepancy between the name(s) shown on the insurance application and the production document. The Loss Adjustment Manual requires a comparison between these types of documents to verify entity type and share/ownership interest.

In addition, a claims review report was signed by a second reviewer to indicate that the mandatory high-dollar claims review was completed. As stated in the criteria above, this review is completed partly to certify the accuracy of the grower's share. The claims review report did not note how or if the entity or crop share was verified, and there was no notation of the discrepancies in the file.

[25] Upon our request for an acreage report, the insurance provider provided the insurance application and stated that the application was what the producer used as an acreage report.
[26] There were 355 total acres shown on the contract, of which 308.6 were cropland acres.

The file review and mandatory claims review did not detect the correct entity type and share even though there was evidence in the file for the insurance provider to determine accurately who had the risk of loss and insurable interest in the prunes produced from the 308.6-acre orchard. We determined that producer D owned the crop, not individual A, and therefore we question the entire indemnity of $142,443 paid to individual A for crop year 1999.

Based on OIG-I's Report of Investigation, RMA instructed insurance provider 2 to refund indemnities of $142,443 for crop year 1999.

Recommendation No. 8

Provide documentation to OIG that an accounts receivable was established for the 1999 indemnity payment of $142,443 from insurance provider 2.

Agency Response. RMA concurred with this finding and recommendation. OIG will be notified once an accounts receivable has been established.

OIG Position. We agree with RMA's corrective action. To achieve management decision, the agency needs to provide us with documentation that an accounts receivable for $142,443 from insurance provider 2 was established for the 1999 indemnity payment.

Recommendation No. 9

Require the insurance provider to determine why the reviewer's analysis did not detect the same discrepancies that OIG found, and take appropriate remedial action.

Agency Response. RMA concurred with this finding and recommendation. RMA informed us that the insurance provider's response explains that the loss adjustor questioned the buyer regarding the difference in names. The Western Regional Compliance Office sent OIG-Audit a copy of its draft Final Findings, showing the insurance provider's response. The Final Findings are awaiting an OGC legal sufficiency determination.

OIG Position. We agree with RMA's corrective action. However, we are unable to accept management decision because RMA did not provide documentation that clearly defined why the insurance provider failed to detect discrepancies. To achieve management decision, RMA needs to provide OIG with: (1) additional clarification concerning the reasons why the reviewer failed to detect the discrepancies and (2) the remedial action it plans to take and proposed completion dates.

Scope and Methodology

During the survey phase of our audit, we looked at concerns about the inaccurate reporting of production by prune producers, which could be, among other things, an indicator of shifting production to increase indemnities. We limited our review to California growers because California prune orchards produce 99 percent of U.S. prune production. We judgmentally selected a sample of 20 growers to review based on the following criteria: (1) the policy had multiple units or parcels of land (which could allow shifting of production), (2) at least one of the units received no indemnity payment (which might indicate that production had been falsely assigned to that unit), and (3) the indemnity was among the largest paid. Our scope covered crop years 1997 through 1999.

We found discrepancies in the production reported by 6 of the 20 producers in our sample. Based on the survey results, we decided to conduct audits of each of the six producers to resolve the questions about the discrepancies. Five of the six producers received payments through programs administered by both RMA and FSA. Producer D is one of the growers who received both RMA insurance program payments and FSA disaster payments during 1998 and 1999.

Audit fieldwork was performed from April through August 2000 at RMA's Western Regional Compliance Office, RMA's Davis Regional Office, and the Rural Community Insurance Services Office (insurance provider), each located in Davis, California; the Rain and Hail Insurance Service, Inc. (insurance provider), located in Fresno, California; the Sutter/Yuba County FSA Office and Premier Valley Foods, Inc., both located in Yuba City, California. During the survey phase of our audit in January 2000, we also performed fieldwork at the Prune Marketing Committee (PMC) in Pleasanton, California.

This audit was performed in accordance with generally accepted government auditing standards. To accomplish the audit objectives,[27] we performed the following procedures:

- We compared production records obtained from the PMC to production records used by insurance providers to calculate indemnity payments.

- We analyzed the grower's files obtained from insurance providers to determine if indemnities were adjusted in accordance with approved procedures.

[27] See Background and Objectives section of this report.

- We compared crop loss records submitted to insurance providers with the grower's disaster application at the Sutter/Yuba County FSA Office to determine any reported production differences.

- We interviewed RMA and FSA officials, individual A (representing producer D), packinghouses, and insurance providers to resolve discrepancies.

Exhibit A – Summary of Monetary Results

FINDING NUMBER	RECOMMENDATION NUMBER	DESCRIPTION	AMOUNT	CATEGORY
1	2	Producer D received 1997 ($22,695) and 1998 ($149,184) indemnity payments as a result of underreporting production and acreage when certifying crop losses.	$171,879	Questioned Costs – Recovery Recommended
2	5	Insurance provider 1 failed to detect producer D's underreported production when paying on 1999 crop losses.	$72,450	Questioned Costs – Recovery Recommended
3	8	Insurance provider 2 failed to detect individual A's misreported insurable share when paying on 1999 crop losses.	$142,443	Questioned Costs – Recovery Recommended
TOTAL MONETARY RESULTS			**$386,772**	

Exhibit B – Comparison of Reported and Actual Production (in Tons)

CROP YEAR	REPORTED	ACTUAL	DIFFERENCE	PERCENTAGE UNREPORTED
1997	502.2	593.6	91.4	15%
1998	24.3	86.1	61.8	72%
1999[1]	163.2	223.5	60.3	27%
TOTAL UNREPORTED			**213.5**	

[1] For 1999, amounts shown include reported and actual tonnage for both producer D and individual A.

USDA

United States Department of Agriculture

Farm and Foreign Agricultural Services
Risk Management Agency

FEB 18 2004

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

FROM: for Michael Hand Ellen Meade Gibbs
Agency Audit Liaison Official

SUBJECT: OIG Official Draft Audit Report 05099-07-SF, Indemnity Payments to Prune Producers in California - Producer D

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

RECOMMENDATION NO. 1

Coordinate with the U.S. Attorney's office to pursue recovery from producer D for the indemnities totaling $171,879 ($22,695 for crop year 1997 and $149,184 for crop year 1998).

RMA response:

Concur. The Office of Inspector General (OIG) - Investigations and RMA's Sanction Officer presented these cases to the Department of Justice (DOJ) in December 2002. Therefore, RMA requests management decision for this recommendation.

RECOMMENDATION NO. 2

Determine if producer D and individual A knowingly adopted a material scheme or device for crop years 1998 and 1999 to evade the provisions of the Federal Crop Insurance Act. If so, collect back any benefits applicable to the crop year.

RMA

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All Programs Authorized Under the Federal Crop Insurance Corporation

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RMA response:

Concur. Crop year 1998 has been referred to RMA's Sanctions Officer. For crop year 1999, RMA is attempting to get the money back through a final finding that was issued on January 15, 2004.

RECOMMENDATION NO. 3

Determine if producer D and individual A willfully and intentionally provided any materially false or inaccurate information to the insurance provider for crop years 1998 and 1999. If so, coordinate with the Office of the General Counsel to bring administrative sanctions (including disqualification and fines) against producer D, and individual A, and individual B.

RMA Response:

Concur. RMA has already referred crop year 1998 for sanctions. For crop year 1999, the Sanctions Officer has contacted DOJ to obtain approval to start the sanctions process. RMA requests management decision for this recommendation.

RECOMMENDATION NO. 4

Review producer D's loss claim for crop year 2001 to verify that it reported the correct information for losses sustained that year, and require the insurance provider to bill the producer for premiums related to the 308.6-acre orchard.

RMA Response:

Concur. The 308.6 acre orchard was still insured by individual A under the Rural Community Insurance Services (RCIS) policy in 2001. RCIS billed individual A for premiums related to the 308.6 acres in crop year 2001. Attached is the policyholder information report which shows that the premium was billed on the 308.6 acre block. RMA requests management decision and closure of this recommendation.

RECOMMENDATION NO. 5:

Provide documentation to OIG that an accounts receivable has been established for the 1999 indemnity payment of $72,450 from insurance provider 1.

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RMA Response:

Concur. The final finding was issued on January 15, 2004. OIG will be notified once an accounts receivable has been established.

RECOMMENDATION NO. 6:

Implement controls that ensure a mandatory claims review is performed in cases where an arbitration settlement (or any other circumstance) causes an indemnity payment to increase above the $100,000 threshold.

RMA Response:

Do Not Concur. The recommendation is based on a misunderstanding of the current rules governing the $100,000 claims reviews. These reviews are based on a unit basis and even after the arbitration none of the individual units exceeded the $100,000 threshold.

Additionally, RMA discussed this recommendation with several of the reinsured companies. In their opinion, cases that go to arbitration are subject to far more scrutiny than the current $100,000 claims review process. Since in this case, the error was not discovered during the arbitration, it is not likely that a normal $100,000 review, even if it were required, would have found the error.

RMA is currently renegotiating the SRA and the quality control guidelines commonly referred to as Manual 14. RMA anticipates a significant number of changes to the quality control requirements which would make agreement with the recommendation premature at this time even if the recommendation was based on the correct assumptions regarding the current review requirements.

RECOMMENDATION NO. 7:

Require the insurance provider to determine why it failed to collect final settlement sheets to verify production amounts as required by the Loss Adjustment Manual, and take appropriate remedial action.

RMA Response:

Concur. RMA's Western Regional Compliance Office (WRCO) sent a letter to the insurance provider (attached) questioning why the company did not collect final settlement sheets to verify production amounts as required by the Loss Adjustment Manual. RMA will take appropriate action based on the insurance provider's response, which is due on February 13, 2004.

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RECOMMENDATION NO. 8:

Provide documentation to OIG that an accounts receivable has been established for the 1999 indemnity payment of $142,443 from insurance provider 2.

RMA Response:

Concur. The final finding was issued on January 15, 2004. OIG will be notified once an accounts receivable has been established.

RECOMMENDATION NO. 9:

Require the insurance provider to determine why the reviewer's analysis did not detect the same discrepancies that OIG found, and take appropriate remedial action.

RMA Response:

Concur. The RMA's WRCO issued an Initial Finding to the insurance provider. The insurance provider's response explains that the loss adjustor questioned the buyer regarding the difference in names. The WRCO sent OIG - Audit a copy of its draft Final Findings, showing the insurance provider's response. The final findings are awaiting OGC legal sufficiency. The WRCO asked OIG - Audit to review the draft to see if the company response satisfies this recommendation.

Attachment

Risk Management Agency