



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

Risk Management Agency
Regional Service Office Operations



Survey No.
05099-9-KC
DECEMBER 1998



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



DATE: December 3, 1998

REPLY TO
ATTN OF: 05099-9-KC

SUBJECT: Regional Service Office Operations

TO: Kenneth D. Ackerman
Administrator
Risk Management Agency

ATTN: Garland D. Westmoreland
Deputy Administrator
for Compliance

We have completed our survey of your agency's regional service office (RSO) operations. Our objectives were to evaluate the servicing provided to reinsured companies, the performance of underwriting activities, and the effectiveness of the Risk Management Agency's (RMA) management controls over RSO operations. As part of our survey, we identified and tested existing management controls and identified areas that we believed were vulnerable to abuse. Based on our survey results, we believe additional audit work is needed to fully assess certain issues and evaluate management controls over RSO operations. Also, proposed changes in RMA's field office structure could impact any further audit coverage of these offices.

Our survey determined that: (1) RMA did not have or maintain a current directives system for RSO's; (2) underwriters did not have standard operating procedures for documenting new product development or program expansion into new insurance areas; (3) underwriters were not required to redetermine if premium rates set for insureds on FCI-33 supplements (individually-approved premium rate adjustments for insured producers), which resulted in the insured's premium rate being reduced on an exception basis, represent actual loss conditions; (4) RMA discontinued recording legal descriptions of land rated by written agreement or FCI-33 supplements in its data acceptance system (DAS) in 1996 thereby making it difficult to reevaluate the premium rates set for high risk land; and (5) RSO's were not required to participate in new product development when the region covered by the RSO produced a significant quantity of the crop covered by the new program.

We will contact your office in the near future to set up a meeting to discuss the survey and our future plans for reviewing the RSO's. We appreciated the courtesies extended to us by you and members of your staff during the review.

ERNEST M. HAYASHI
Director
Farm and Foreign Agricultural Division

SURVEY RESULTS

BACKGROUND

The Federal Crop Insurance Corporation (FCIC), an agency of the U.S. Department of Agriculture (USDA), is a government-owned corporation that was created on February 16, 1938, to promote the national welfare by improving the economic stability of agriculture through a sound system of crop insurance. An appointed Board of Directors (Board) provides overall guidance to FCIC. The Federal Agriculture Improvement and Reform Act of 1996, dated April 4, 1996, amended the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994 (P.L. 103-354) (the Act) by creating an independent office called the Risk Management Agency (RMA). The RMA is responsible for the supervision of FCIC, and the administration and oversight of programs authorized under the Act.

RMA's Insurance Services guides, directs, and oversees the operations of ten regional service offices (RSO). The Deputy Administrator for Insurance Services is to develop policies, procedures and standards for the delivery of RMA programs and facilitate, guide and support these programs through the RSO's. The RSO is used to provide oversight and assurance of uniformity in the application of insurance programs and underwriting services to all deliverers of crop insurance, the general public, and the farmer.

OBJECTIVES, SCOPE, and METHODOLOGY:

Our objectives were to evaluate the effectiveness of RSO servicing of reinsured companies and field office underwriting activities. We also assessed RMA's management controls over the administration of RSO's and the performance of assigned functions by RSO personnel. Our review included 1998 RSO operations, and prior years' correspondence files and other materials necessary to complete the objectives of this audit.

The survey was performed at the RMA National Office, RSO's in Springfield, Illinois and Topeka, Kansas and field locations in Nebraska, Kansas, and Missouri. At the RSO's, we reviewed and evaluated operating procedures for administrative activities, program services, and underwriting activities. We interviewed RSO personnel within each branch and reviewed their FCIC handbooks and procedures. We tested controls over: (1) the imprest fund and credit card usage, (2) new product development, (3) expansion of existing programs into new counties, (4) written agreements, and (5) FCIC-33 Actuarial Maps and Supplements. As part of our review of new product development and expansion of existing programs, we visited local Farm Service Agency (FSA) county offices, insurance agents, extension agents, warehouses and processors to assess the need and demand for the insurance products being developed or expanded. We also made on-site visits of the land to determine the accuracy and completeness of actuarial maps and written agreements.

RESULTS:

RMA relies on the RSO's to provide oversight and assure uniformity in the delivery of risk management products. During the survey we identified weaknesses in management controls over administrative and program operations. These weaknesses include:

- RMA does not have a current directives system for RSO operations. The Federal Crop Insurance Reform Act of 1994 created FSA which included FCIC. In 1996, the Federal Crop Insurance Act, created RMA and removed insurance operations from FSA. However, FSA's administrative services retained responsibility over RMA administrative and personnel functions. These changes have created confusion at the RSO's as to applicability of existing administrative procedures. Also, RMA program handbooks are outdated and not applicable to current reinsurance operations. The absence of current procedures may impact the quality of servicing provided to the reinsured companies.
- Procedures were not always in place for underwriters to use in standardizing the documentation of new or expanded crop programs. The Springfield RSO did not use a centralized filing system for the documentation of new or expanded programs. Rather, individual underwriters kept key program documentation in their own files. As a result, the supporting documentation may be lost and not be available for future use when personnel changes are made in these offices. The Topeka RSO was using a centralized filing system for this documentation.
- Procedures do not require any follow-up on written agreements to ensure agreement conditions were met. Even though RMA procedures do not require reviews of FCI-33 Supplements, we found that one underwriter had independently reviewed 100 legal descriptions covered by FCI-33 Supplements. His review determined that 19 supplements still had adverse loss conditions. We believe that FCI-33 Supplements need to be subject to subsequent reviews to ensure producers are not receiving reduced premium rates on land that continues to have unfavorable loss ratios.
- The capability to monitor premium rates established for high risk land has not existed within RMA since 1996. Currently, the RSO's show high risk areas on maps. This data is sent to the reinsured companies in legal description format, who in turn provide the information to their agents for premium quotes. To ensure that agents properly compute the quote, reinsured companies recompute the premium using RMA's mapping. However, RMA made a significant change effective for the 1996 crop year, when it decided to not enter legal descriptions for crop units in the Data Acceptance System. Therefore, RMA underwriters are now unable to track premiums related to high risk land nor construct a history of the losses attributed to individual parcels of land (see previous bullet). As a result, controls over the establishment of premium rates for high risk land are not fully functioning.

- Evidence supporting program expansion was not always accurate. Our review found that the acreage reported by the Topeka RSO for sugar beet requests in two of the five Nebraska counties was not accurate. Due to limited new products and program expansions at the two RSO's visited, we were not able to fully test RMA procedures for handling program expansions.
- RSO's were not required to provide input or participate in new product development even though the crop coverage could be significant in their region. For example, the Springfield RSO assisted in the development of new coverage for melons, but the RSO's for three of the largest melon producing States did not participate in the new product development. As a result, a new product was developed without the input and guidance from the RSO's that have considerable experience with melons.

RECOMMENDATION:

We recommend that an audit program be developed to cover the issues identified during the survey. The audit work is scheduled to be performed in FY 1999 on annual plan page number 99KC018.