

**RISK MANAGEMENT AGENCY  
FEDERAL CROP INSURANCE CLAIMS  
AUDIT REPORT NO. 05601-3-Te**

**FEBRUARY 1998**

**UNITED STATES DEPARTMENT OF AGRICULTURE  
OFFICE OF INSPECTOR GENERAL - AUDIT  
SOUTHWEST REGION  
ROOM 324, FEDERAL OFFICE BUILDING  
101 SOUTH MAIN STREET  
TEMPLE, TEXAS 76501**



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



DATE: February 18, 1998

REPLY TO

ATTN OF: 05601-3-Te

SUBJECT: Federal Crop Insurance Claims

TO: Kenneth D. Ackerman  
Administrator  
Risk Management Agency

ATTN: Garland Westmoreland  
Deputy Administrator  
Risk Compliance

This report represents the results of our nationwide audit of selected crop insurance claims for crop years 1994, 1995, and 1996.

Your agency's response to the draft report is included as exhibit D. Based on the response, we have accepted a management decision for Recommendation No. 1b. Your response and our comments are presented in the Findings and Recommendations section of the report and explain the actions necessary to accept a management decision on Recommendation No. 1a.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned and the timeframe for implementing the recommendation for which a management decision has not yet been reached. 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. Please follow your internal agency procedures in forwarding final action to the Office of the Chief Financial Officer.

JAMES R. EBBITT  
Assistant Inspector General  
for Audit

# EXECUTIVE SUMMARY

## FEDERAL CROP INSURANCE CLAIMS AUDIT NO. 05601-3-Te

### PURPOSE

This report summarizes the results of our self-initiated review of 103 crop insurance claims paid during crop years (CY) 1994, 1995 and 1996 to 17 insureds. (See exhibit A for sites visited.) These claims were located throughout the United States and specific results on the claims audited were or will be reported in individual audit reports. Our objective was to evaluate the adequacy of the adjustment of crop insurance claims. To further carry out our objective, we reviewed findings pertaining to crop insurance contained in other Office of Inspector General (OIG) audit (11) and investigation (17) reports issued during fiscal years (FY) 1996 and 1997 for trends.

### RESULTS IN BRIEF

Our review of the losses for selected insureds who were among those receiving the largest CY 1995 individual and/or overall losses disclosed the need for improvement in adjusting and reviewing large claims. The Federal Crop Insurance Corporation (FCIC) required that the reinsured companies review all loss adjustments for claims \$100,000 and over, but before September 29, 1997, did not further define the process. As a result of our review, we questioned a net overpayment of \$1,192,753 of the \$13,168,281 indemnity paid, with a net overpayment of almost \$1 million of it on 17 claims over \$100,000. (See exhibit B for claims reviewed and amounts questioned.)

Although other OIG audits and investigations reported material program exceptions in the individual reports, our analysis of the reports' contents did not disclose any significant trends needing attention on a national basis. (See exhibit C for other audit reports reviewed.)

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## KEY RECOMMENDATIONS

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claims over \$100,000 also include other claims of lesser amounts from the same insureds.

**W**e recommend that the Risk Management Agency (RMA) ensure that reinsured companies' reviews of large claims provide sufficient coverage to detect deficiencies and that these reviews of

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## AGENCY POSITION

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**R**MA officials agreed that reinsured companies' reviews of claims over \$100,000 should provide sufficient coverage to detect deficiencies; however, they did not explain how they would ensure the reviews accomplished the desired results. They also stated that during the update of the next Standard Reinsurance Agreement (SRA), they would negotiate with the reinsured companies to require quality control reviews of crop claims \$100,000 and over to also include all claims filed by the insureds during the CY.

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# INTRODUCTION

## BACKGROUND

During the past two decades, FCIC, its authorities, delivery systems, and programs have seen vast changes. FCIC, as a wholly owned Government Corporation, operated in selected counties on a limited basis from 1948 through 1981. The Federal Crop Insurance Act of 1980 (Public Law (PL) 96-365, September 26, 1980) amended the original act, the Federal Crop Insurance Act (7 United States Code 1501 et seq., February 16, 1938) to create an expanded, subsidized, all-risk, nationwide crop insurance program which encouraged delivery no later than 1982 through the private sector by means of reinsurance.

Ten years later, the Food, Agriculture, Conservation, and Trade Act of 1990 (PL 101-624, November 28, 1990) instructed FCIC to revise its reinsurance agreements to require the reinsured companies to assume a greater share of risk. In addition, the Omnibus Budget Reconciliation Act of 1993 required the FCIC to achieve a projected loss ratio of 1.10 or less by October 1, 1995, and thereafter. Four years later, on October 13, 1994, the President signed PL 103-354, The Federal Crop Insurance Reform and the Department of Agriculture Reorganization Act of 1994 (1994 Act). The 1994 Act changed the crop insurance program by adding a catastrophic crop insurance program (CAT) as well as reorganizing the Department of Agriculture. As a result, FCIC, the corporation, was organizationally positioned within the Farm Services Agency (FSA) and FCIC, the agency, was reorganized out of existence.

Then, in less than 2 years, the Federal Agricultural Improvement and Reform Act of 1996 (FAIR Act of 1996), PL 104-127, was enacted April 4, 1996, and took FCIC, the corporation, out from the umbrella of FSA. The FAIR Act of 1996 also formed the RMA with the Administrator reporting to the Under Secretary of Agriculture for Farm and Foreign Agriculture Service. RMA was made responsible for supervision of the FCIC, administration and oversight of programs authorized under the Federal Crop Insurance Act, and other programs that may be established under the Federal Crop Insurance Act, such as revenue insurance. FCIC continues to exist as the corporation authorized to carry out multi-peril and catastrophic crop insurance protection against losses from unavoidable causes and/or uncontrollable events.

Since CY 1994, FCIC has had two primary types of insurance coverage. The first, referred to as CAT, provided protection up to 50 percent of the yield at 60 percent of the expected market price for a \$50 processing fee, whereas the second, referred to as additional coverage, was available for a premium to those who wished to insure crop above the CAT level. The Government fully subsidizes the CAT premiums and partially subsidizes the premiums for the additional coverage.

Today, the crop insurance program constitutes a joint effort by the private sector and the Government in the delivery of insurance to producers. FCIC had standard reinsurance agreements with 19 reinsured companies in 1995 to deliver crop insurance. For CY's 1995 and 1996, CAT was the only program offered through the FSA offices. However, the FAIR Act of 1996 authorized FCIC to transfer all CAT policies to reinsured companies where they have adequate representation. Thus for CY 1996 FSA did not deliver CAT in 14 States. Further, beginning with the 1998 CY, FSA will no longer be involved in the insurance delivery system. For CY 1995, the reinsured companies delivered 60 percent of the over 2 billion policies sold while FSA delivered 40 percent. In CY 1996, the reinsured companies increased their share of policies sold to 73 percent of the over 1.6 billion policies sold.

FCIC pays the reinsured companies an administrative expense reimbursement which is calculated as a percentage of the total premiums received, regardless of the expenses incurred by the companies. The administrative expense reimbursement for CY's 1995 and 1996 were 31 percent of the premiums. The 1994 Act required that administrative expense reimbursements be reduced over a period of time; thus, the CY 1998 SRA showed a 27 percent administrative reimbursement for most additional coverage. In addition, the reinsured companies earn profits when insurance premiums exceed losses on policies for which they retain risk. These profits are called underwriting gains. As of March 27, 1996, reinsured companies selling crop insurance have earned underwriting gains totaling more than \$507 million during the 10-year period between 1985 and 1996 while FCIC has lost over \$2 billion.<sup>1</sup>

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<sup>1</sup> House of Representatives Hearings before a Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations for 1997, part 5, page 199.

FCIC Summary of Business Report dated July 28, 1997, showed the following activity for CY's 1995 and 1996:

ACTIVITY	CY 1995 TOTAL	CY 1996 TOTAL
<b><u>Total Premium:</u></b>		
Additional Business	\$ 1,086,959,000	\$ 1,408,045,000
CAT Business	455,965,000	428,992,000
Combined Business	\$ 1,542,924,000	\$ 1,837,037,000
<b><u>Government Subsidy for Premium:</u></b>		
Additional Business	\$ 433,211,000	\$ 551,963,000
CAT Business	455,965,000	428,992,000
Combined Business	\$ 889,176,000	\$ 980,955,000
<b><u>Liability:</u></b>		
Additional Business	\$15,286,824,000	\$19,290,117,000
CAT Business	8,438,039,000	7,563,564,000
Combined Business	\$23,724,863,000	\$26,853,681,000
<b><u>Indemnity:</u></b>		
Additional Business	\$ 1,398,288,000	\$ 1,336,516,000
CAT Business	167,551,000	149,744,000
Combined Business	\$ 1,565,839,000	\$ 1,486,260,000
<b><u>Loss Ratio:</u></b>		
Additional Business	1.29	.95
CAT Business	.37	.35
Combined Business	1.01	.81

The crop insurance programs are formulated, implemented, and monitored in coordination with the RMA Administrator, the headquarters office located in Washington, D.C., and the national operations in Kansas City, Missouri. The program is administered in the field through 10 Regional Service Offices and 6 Compliance Offices.

## OBJECTIVE

The audit objective was to evaluate the adequacy of the adjustment of crop insurance claims.

## SCOPE

This audit was performed as a nationwide review of crop insurance claims for CY 1995 and, when applicable, CY 1996 crop insurance claims. We also reviewed prior periods as needed.

We judgmentally selected CY 1995 policyholders (hereafter referred to as insureds) from listings of the largest indemnities paid within their own OIG regions. The auditors reviewed 70 of the CY 1995 claims filed by 17 insureds, as well as 31 of these insureds' CY 1996 claims and 2 of their 1994 claims, for a total of 103 claims with \$13,168,281 indemnities paid. These audits were performed in those counties where the crop losses occurred and/or the insureds retained their records. (See exhibit A for a listing of the counties and exhibit B for a listing of the samples by CY showing the crops and claim amounts paid.)



For purposes of this audit, a sample claim was defined as a claim filed on a single crop under one policy in one county and in one State. Even though there may be more than one crop insured under a policy number, a claim for each crop under that policy for each CY was considered a claim according to our definition. The same applied for the same policy number used in several counties or States. Some of the sample insureds showed on our printouts under different names than on the policies because they had at least a 10 percent interest in the entities filing claims and we did not key in on the insured. However, once selected, we generally reviewed all insureds' claims.

As of May 6, 1996, the RMA data base of crop insurance claims for CY 1995 contained 339,235 crop claims with indemnity payments of over \$1.5 billion. We sorted this data base by States in the geographic area served by OIG Audit regions to identify the 15 largest CY 1995 indemnity payments made to a single insured and the 15 largest CY 1995 indemnity payments made on a single crop.

These sorts identified unduplicated CY 1995 totals of 117 insureds with 287 claims totaling \$56,535,528 indemnities paid. Our redefined universe included about 0.1 percent (287/339,235) of the claims and less than 4 percent (\$56.5 million/\$1.5 billion) of the CY 1995 indemnities. While our 70 CY 1995 sample claims, totaling \$10,185,122, were about 18.1 percent (\$10.2 million/\$56.5 million) of our redefined indemnity universe, the actual indemnities audited were about 0.7 percent (\$10.2 million/\$1.5 billion) of all CY 1995 indemnities paid.

In addition to the CY 1995 claims, we audited \$2,651,035 of the approximately \$1.5 billion CY 1996 indemnities paid as of July 28, 1997, which were about 0.2 percent (\$2.7 million/\$1.5 billion) of the total CY 1996 indemnities. We also audited \$332,124 of CY 1994 indemnities.

Furthermore, we reviewed 11 other OIG audit reports issued during FY's 1996 and 1997 to determine if the types of errors developed during our audit of the 17 insureds were also being surfaced in other reviews. We also inquired of OIG Investigations which provided us with 17 reports from 3 regions issued during fiscal year 1996 and fiscal year 1997 through April 1997.

Our audit was performed in accordance with generally accepted Government auditing standards.

## METHODOLOGY

To accomplish our audit objective, we performed the following steps and procedures:

- We obtained a tape from RMA of FCIC's CY 1995 data base as of May 6, 1996, and from this tape we developed a universe of large individual and overall crop claims from which OIG regional staffs used their knowledge of county conditions, companies, agents, and/or crops in selecting claims to audit.
- We obtained copies of claim and policy files from the reinsured company offices that were responsible for servicing and adjusting the claims selected for review.
- We performed a desk review of each claim selected, including a review of unit structure, actual production history (APH) yields, acreage reports, production to count, prevented planting provision, and loss notices as applicable.
- To verify the APH yields, we obtained acreage data from applicable FSA county offices. We also obtained production and acreage data from insureds, reinsured companies, sales agents, or FSA county offices as necessary.
- We verified CY's 1995 and 1996 acreage data as applicable for the selected claims at FSA county offices, to the extent possible.
- We verified production to count by obtaining production documents from crop buyers, FSA county offices, and marketing associations, as necessary. We also reviewed appraisals completed by loss adjusters.
- We also contacted and interviewed loss adjusters, insurance agents, insureds, RMA, and FSA personnel as needed to verify and clarify information in the claim files.
- We transmitted the findings by statements of conditions and obtained comments from the applicable reinsured companies or FSA offices.
- Each OIG regional office issued a report to RMA reporting the findings on the claims reviewed. (See exhibit C for report numbers.)
- We analyzed the reports, statements of conditions, and working papers from each OIG region along with other OIG audit and investigation reports for trends.
- We made no recommendations for the monetary amounts or other issues reported in the individual audit and investigation reports noted herein because these have already been addressed in the individual reports issued.

## FINDINGS AND RECOMMENDATIONS

This report summarizes the results of our audit of 103 CY's 1994, 1995, and 1996 crop insurance claims which were included in separate audit reports. In addition, this report also summarizes the result of our review of findings on other claims and issues in 11 OIG audit and evaluation reports issued from March 8, 1996, through September 30, 1997, and 17 OIG investigation reports issued from October 6, 1995, through April 19, 1997. These reports questioned indemnity payments totalling \$42 million.

### REVIEW OF CY'S 1994, 1995, AND 1996 CLAIMS

Our review of the CY's 1994, 1995, and 1996 losses for selected insureds who were among those receiving the largest CY 1995 individual and/or overall losses within each of our six OIG Audit regional boundaries disclosed the need for improvement in reviewing large cumulative claims. FCIC required that the reinsured companies review all claims \$100,000 and over, but not until September 1997 did it provide detailed guidance that would improve the quality of the reviews. As a result of our reviews, we questioned a net overpayment of \$1,192,753 of the indemnity paid with almost \$1 million of it in net overpayments on 17 claims over \$100,000 to the insureds in our sample. (See exhibit B for amounts questioned.)

Until September 1997, FCIC had required quality control reviews of all loss claims in excess of \$100,000 but gave no details on how to perform the reviews.<sup>2</sup> Also, FCIC issues general loss adjustment standards that are to be used with the crop-specific standards identified in the various crop handbooks. The standards define the process of verifying as confirming data by onsite inspections or by checking records that insureds must furnish. Also, the standards explain that some of the adjusters' responsibilities are to (1) review and verify the acreage reports and determine the insurable acreage, (2) inspect farms and make inquiry to independently establish all harvest production, unharvested production, and appraise potential production, and (3) verify that the insureds' entities and shares are correct. Furthermore, the standards caution the adjusters not to rely solely on the statements or evidence of sales to represent all of the production and to review all production evidence closely when the insureds control the transportation, processing plants, farm scales, or warehouse and sales of a particular crop.<sup>3</sup>

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<sup>2</sup> FCIC 14010, Guidelines and Expectations for Delivery of the Federal Crop Insurance Program (DRAFT), dated July 1994, section 8.C.(5)(f).

<sup>3</sup> FCIC-30010-1, Loss Adjustment Manual, dated May 10, 1995, paragraphs 1, page 1; 91, pages 101-102; 140B, page 165, and exhibit 2, page 21.

### Loss Adjustment Determinations on 103 Claims

We questioned the determinations made by adjusters, reinsured companies, and/or FSA in the adjustment and/or calculations of claims in such areas as (1) determining income under dollar plan crops and/or production-to-count under APH plans, (2) determining acreage, (3) verifying units, and (4) determining whether insureds met policy provisions. Our sample included 35 claims over \$100,000, each filed by 17 different insureds. These loss adjustment claims should have been reviewed by the applicable reinsured companies according to the above FCIC requirements, yet we questioned net overpayments of \$983,119 of the \$11,151,974, or 8.8 percent of the indemnities paid on 17 of the 35 claims. Moreover, 12 of the 17 insureds had 68 other claims that were under \$100,000 which were not required to be reviewed under the FCIC requirements. We questioned \$209,634 of the \$2,016,307, or 10.4 percent of the indemnities paid on 34 of these 68 claims.

**Income/Production/Appraisals** - In our 103 sampled claims, we noted 12 cases, or 11.7 percent, where the income to account for under the dollar plan or total production under the other plans were in error. Inaccuracies or questionable practices occurred in (1) recording appraised production and allocating production by the types of potatoes (red, white, etc.), (2) accounting for all production, (3) computing the foreign material adjustment, (4) reporting all income on fresh market tomatoes, and (5) determining appraised production and computing production from appraisals.

For example, the indemnity for a Florida fresh market tomato claim was overpaid by \$41,430 because the insured underreported his income and the adjuster accepted what was reported.

Another example was a CY 1996 corn indemnity in Iowa which was overpaid by \$5,134 when the adjuster understated the appraised potential because he did not follow Table C, Corn Stand Reduction Chart - Percent of Potential Production Remaining, in the Corn Handbook, FCIC 30080.

**Acres** - The adjusters did not correctly determine the insurable acres for which losses were claimed or the company misread or did not use the acres correctly determined by adjusters on 10, or 9.7 percent, of the 103 claims in our sample.

For example, a CY 1995 Nebraska indemnity was overpaid by \$7,904 when the adjuster accepted the insured's reported acres without measuring them. The insured told us that he estimated the acreage covered by the center pivot irrigation system, and that he did not plant the area covered by the end sprinkler. The insured reported to FCIC that he had planted 125 acres of potatoes and reported to FSA that he had planted 132.8 acres of potatoes when he had planted only 117.1 acres of potatoes.

In another example, the adjuster made the correct determination but the company used a different acreage figure for a CY 1995 cotton indemnity resulting in a \$31,794 overpayment. The adjuster determined that the insured had overreported one tract by 60 acres (601.2 vs 661.2-acre tract) and properly recorded this determination. However, when company personnel computed the claim, they inadvertently used the larger reported acres instead of the adjuster's determined acres.

**Units** - Insurance agents incorrectly established separate basic or optional units on 10 (or 9.7 percent) of the 103 claims sampled. Furthermore, adjusters did not question established units although insureds' records were unacceptable for support optional units or the units did not meet the unit definitions in the policy or FCIC guidance.

For example, a CY 1995 Wisconsin cranberry indemnity was overpaid \$148,143 because when two contiguous tracts were combined there was no loss. During CY's 1990 through 1995, an insurance company allowed four policies in the same county to exist, each with a basic unit for the four separate marshes which the insured owned or cashed leased. Two of the marshes could have been established as optional units. However, to be eligible for optional units, each proposed unit must maintain separate records and the acreage planted in the county has to be located on noncontiguous land. Two of the marshes did not meet this definition as they were located on contiguous land all owned by the insured.

An example of an agent establishing three CY 1995 optional units without acceptable records was a California agent who accepted handwritten summary sheets which split out production for the optional units. However, the summary sheets did not correspond to actual production records. The insured advised that he prepared the summary sheets from memory and could not provide verifiable records to support the optional units. Because there was a loss on each of these three units in CY 1995, there was little, if any, impact on CY 1995 indemnities because of the incorrectly established units.

**Policy Provisions** - The adjusters and companies had not determined whether the insureds met all the policy provisions regarding eligibility, abandoned crops, or expired coverage on 5 (or 5 percent) of the 103 policies we sampled.

For example, on a fresh market tomato claim, the adjuster computed \$71,807 in indemnities on two units of one claim even though the insurable coverage period of 140 days had expired. The crop was damaged 145 days after the reported planting date and the company did not detect the error.

#### **Yield Determinations on 103 Claims**

Yields are not required to be reviewed during the loss adjustment process. This could be the reason that the yields used to determine the guaranteed crop insurance coverage were questionable for 40 percent or 41 of the 103 claims in our sample. Of the 41 claims with questionable yields, 32 exceeded tolerances and 9 were within tolerances and had no immediate impact on the claims. However, the incorrect yields on these nine claims could have some impact on future claims if not corrected. We questioned the yields because insureds, agents, and/or companies (1) made mistakes in reporting and/or calculating yields, (2) did not retain records for review during the required periods, (3) incorrectly used other producers' histories, (4) did not apply yield variance guidelines, (5) did not adjust APH calculations when errors were corrected on prior year's loss claims, and (6) the insureds did not report past production.

For example, one apple claim was overpaid by \$22,994 because the company did not follow procedures regarding yield variances on any of their apple yields. During 1995, RMA turned over to the companies the responsibility for computing all approved yields, except when yield variance guidelines applied. To determine if the variance guidelines applied, a company had to determine the variance target for every average yield which was 75 percent of the current year average (i.e.,  $.75 \times 335$  average = 251 target). Next, each years' yield which made up that current year average (i.e.  $623 + 319 + 396 + 126 + 213 = 1677/5 = 335$  average) had to be reviewed against the variance target figure (i.e., 634 vs 251). If any 2 years (i.e., 126 and 213) fell below the target, the guidelines provided that the data had to be sent to RMA to compute the approved yield. Because the company did not apply the guidelines to any CY 1996 applicable yields, we asked RMA to do a complete review of all CY 1996 yields where variable procedures applied for accuracy and recompute claims as applicable.

Another claim for apricots was overpaid by \$49,959 because the agent and insured included production in the calculation of the APH yield which did not meet the minimum standards and/or did not have acceptable records to support what was reported.

## OTHER OIG AUDIT REPORTS' FINDINGS

Our reviews of 11 other audit and evaluation reports containing findings relating to CY's 1991 through 1996 did not identify significant trends other than those discussed above except in the area of handling yields. These audits reported monetary results of \$39,151,034. (See exhibit C for individual audits.)

As noted above, the only finding common to most of these reports was that four of the reports reported problems with the establishment of and accuracy of yields. Two of the reports (Audit Report No. 03099-3-SF on raisins and Audit Report No. 05099-1-At on dollar plan fresh market tomatoes) took exception to the fact that the crops did not use historical yields to establish guarantees. Audit Report No. 03801-11-Te on the implementation of CAT by FSA county offices noted that 38 of 116 APH determinations either contained inaccurate data, were not computed correctly, or were not properly executed.

Finally, Audit Report No. 05099-1-Te on the self-reviews of APH certifications noted that RMA conducted a statistical sample of non-CAT APH yields for CY 1995 on eight major crops (barley, corn, cotton, oats, soybeans, wheat, grain sorghum, and rice). These eight crops covered 87 percent of all policies with premiums for CY 1995. RMA projected with 95 percent certainty that the error rate of 48.3 percent for policies with APH discrepancies was within 8.5 percent of the true value.

Some of the other findings in these reports are summarized below.

**Audit Report No. 03601-3-KC, Large Operator Compliance With Crop Insurance Provisions** - This audit was part of a review of large operators' compliance with certain payment eligibility and limitation provisions. The audit disclosed differences in the crop acreage and share data provided to insurance officials and FSA officials by producers and/or entities associated with two farming operations. In addition, a loss adjuster did not identify that good farming practices were not followed by producers and/or entities on another farm. As a result, the producers and/or entities received 1993 crop insurance benefits of \$295,020 to which they were not entitled.

**Audit Report No. 03099-7-KC, Application of Quality Adjustment Provisions for Insured Crop Losses** - This statistically sampled audit disclosed that the quality adjustments applied to farm stored crop production were not reflective of the grade and quality determined at the time of delivery of the crop to a warehouse for sale. As a result, the audit reported with 95 percent confidence that the 1993 crop wheat insurance indemnities in 14 counties in 3 States were overstated \$17,755,269.

**Evaluation Report No. 03801-1-KC, Evaluation of Recurring Crop Insurance Claims in Missouri** - This report disclosed that high risk producers continue to file FCIC claims in that 19 selected producers filed claims of at least \$961,000 in CY's 1989 through 1993 and 13 of the 19 again filed claims of \$173,465 in CY 1994. The report noted that 2 of the 13 received \$6,217 in overpaid indemnities because of inaccurate production determinations by the reinsured company.

**Audit Report No. 03099-3-SF, 1994 Reinsured Raisin Losses in California** - This report identified weaknesses in the raisin insurance policy and procedures that rendered the program susceptible to abuses by reinsured companies. In addition to not using historical production noted in the above discussion of yields, the report recommended adding controls to ensure that (1) liability is established prior to loss adjustment, (2) rain-damaged raisins are reconditioned whenever feasible, and (3) a methodology be established to value raisins sold as salvage.

**Audit Report No. 03099-5-KC, Options Pilot Program** - This report noted several areas where improvements could be made in the Options Pilot Program implemented in CY 1994. The report recommended (1) analyzing the probable costs and benefits of allowing producers to enroll additional bushels in relation to the achievement of program goals, (2) clarifying eligibility criteria so they can be applied uniformly between States and counties, and (3) providing standard procedures to develop and distribute loan rate information. The audit reported monetary results of \$16,550.

**Audit Report No. 06401-5-FM, Report on Management Issues as of September 30, 1995** - This report was a result of the fiscal year 1995 audit of the FCIC financial statements. The report noted that contrary to law, there was no active board of directors during fiscal year 1995, but acknowledged that one had been appointed and held its first meeting in December 1995.

**Evaluation Report No. 03801-11-Te, Implementation of the Federal Crop Insurance Reform Act of 1994** - This review evaluated FSA county offices' implementation of CAT during CY 1995 and was performed within a few months of implementation. In addition to the problems previously discussed relating to establishing APH, the report discussed additional training needed relating to canceling and transferring policies, preparing acreage reports, and tracking claims.

**Audit Report No. 05099-1-At, Crop Insurance On Fresh Market Tomatoes Crop Year 1996 - Florida** - This audit questioned all dollar plan fresh market tomato loss claims paid during CY's 1991 through 1996 because it appeared that the insureds suffered financial losses due to low market prices rather than a quantity or quality production loss. Also, the report noted that the Fresh Market Tomato Crop Insurance program in Florida has been poorly managed by the reinsurance companies and abused by sales agents, loss adjusters, and producers. As a result, the report questioned indemnities totaling \$15,082,744.

**Management Alert for Audit No. 03099-12-Te, Abuse of the Crop Insurance Program in South Texas** - OIG issued a management alert in May 1996 to notify RMA of abuses caused by insureds not replanting to initial crops, plantings on acreage with chemical carryover, and problems with using seed viability to adjust claims with losses caused by drought. RMA informed the reinsured companies that indemnities determined using these improper adjustment procedures may not be eligible for reinsurance. A subsequent review by RMA-OIG questioned indemnities totaling \$6,176,611 that were paid by these reinsured companies.

**Audit Report No. 05401-1-FM, Independent Auditors' Report on the Internal Control Structure** - This report was a result of the fiscal year 1996 audit of the FCIC financial statements. The report noted that contrary to law, FCIC had not issued regulations or published a notice in the Federal Register informing all parties of the availability of the Crop Revenue Coverage Program.

**Audit Report No. 05099-1-Te, Reinsured Companies' Actual Production History Self-Reviews** - This report noted that the companies' APH reviews were not effective in preventing, detecting or correcting systemwide APH errors.



## OIG INVESTIGATION REPORTS' FINDINGS

Our reviews of 17 investigative reports issued during fiscal year 1996 and part of 1997 showed no trends related to the exceptions noted during our review of 103 claims covering CY's 1994, 1995, and 1996 or the claims reviewed in the other audit reports issued. These 17 reports recorded monetary results of \$1,647,065.

The results of the 17 OIG investigations reported during FY's 1996 and 1997 were located within OIG Western, Southwest and Midwest regions. These reports all involved false claims because the insureds (1) did not originally plant crops for which they filed claims, (2) hid production or otherwise did not report all production, (3) submitted false seed receipts, (4) reported false planting dates, or (5) filed duplicate claims with two companies.

## CONCLUSION

We concluded from our audit that the reviews of large claims required of reinsured companies were not effective in identifying and correcting program violations since we questioned 17 of the 35 loss claims of \$100,000 or more (49 percent). As noted earlier, since July 1994, FCIC required that the reinsured companies review all claims of \$100,000 or more but did not further define the process.

In September 1997, FCIC issued guidance to replace and supersede that issued in July 1994.<sup>4</sup> The new guidance, effective for 1998, specifies that reviews of crop claims equal to or greater than \$100,000 are mandatory and require field reviews. The guidelines provide that the reinsured companies will assign loss adjusters not previously associated with the initial claims determinations to verify all information used to establish the indemnity (i.e., acreage, production to count, share, etc.). The guidelines further state that it is the insurance providers' responsibilities to correct all monetary discrepancies which exceed the FCIC approved tolerances and timely process such corrections. Finally, the guidance requires the reinsured companies to prepare annual summary reports detailing the results of each review category required.

The new guidelines should improve the situation we are reporting herein with claims of \$100,000 and above provided the reinsured companies effectively perform the reviews outlined in the guidance.

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<sup>4</sup> FCIC 14010, Guidelines and Expectations for Delivery of the Federal Crop Insurance Program, dated September 29, 1997, paragraphs 7 A (5) and (13), and 7 C (5) (c).

## RECOMMENDATION NO. 1a

Ensure that the companies perform the quality control reviews of crop claims \$100,000 and over in sufficient depth to detect discrepancies and follow the new guidelines on correcting discrepancies and reporting results of reviews.

### **RMA Response**

RMA concurs with this recommendation. New guidelines concerning review requirements for claims \$100,000 and over were issued by RMA in September 1997 after negotiations with the insurance providers. As noted in the audit report, the new guidelines require insurance providers to conduct field reviews for all crop insurance contracts with a crop claim equal to or greater than \$100,000. Insurance providers must also assign a loss adjuster, not previously associated with the initial claims' determinations, for verification of all information used to establish indemnities.

### **OIG Position**

Although the RMA Administrator's response states the agency concurs with the recommendation, the response does not state what actions will be taken to ensure the insurance providers effectively implement the new review guidelines. We can accept a management decision once we receive this information and a timeframe for implementation.

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## RECOMMENDATION NO. 1b

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Require that the quality control review of crop claims \$100,000 and over include all claims filed by insureds during that CY to the date pulled for review, regardless of size.

### **RMA Response**

RMA does not concur with this recommendation. As noted during the meeting on December 18, 1997, RMA has only recently completed negotiating the 1998 SRA with the insurance providers. Recommendation No. 1b would need to be implemented through Manual 14, Guidelines and Expectations for the Delivery of the Federal Crop Insurance Program, which is a part of the SRA. Therefore, acceptance of this recommendation would require RMA to reopen the SRA which is not an option at this time.

As a compromise, RMA will place the recommendation on the schedule of items to be discussed relative to Manual 14 during the next SRA negotiation. At this time, there is no indication that the SRA will be renegotiated for 1999; however, RMA agrees to place the recommendation on the table at the earliest possible opportunity.

This response will be provided to RMA, Reinsurance Services Division, to ensure tracking and followup of the agreed-to action.

### **OIG Position**

We accept the management decision.

## EXHIBIT A - SITES VISITED BY OIG AUDITORS

STATE	COUNTY
<b>NORTHEAST REGION</b>	
Virginia	Albermarle
	Caroline
	Hanover
	Henrico
<b>SOUTHEAST REGION</b>	
Florida	Collier
	Hendry
	Manatee
Mississippi	Hinds
	Yazoo
<b>MIDWEST REGION</b>	
Illinois	Hamilton
	Saline
Massachusetts	Plymouth
South Dakota	Grand Forks
<b>SOUTHWEST REGION</b>	
Texas	Cameron
	Frio
	Hidalgo
	LaSalle
	Willacy

## EXHIBIT A - SITES VISITED BY OIG AUDITORS

STATE	COUNTY
<b>GREAT PLAINS REGION</b>	
Iowa	Adair
	Adams
	Ringgold
	Taylor
	Union
Nebraska	Box Butte
South Dakota	Codington
	Clark
<b>WESTERN REGION</b>	
California	San Joaquin
	Solano
	Stanislaus
	Tulare
	Yolo

## EXHIBIT B - CLAIMS REVIEWED AND AMOUNTS QUESTIONED

	STATE	COUNTY	CONTRACT NUMBER	CROP	INDEMNITY AMOUNTS PAID	AMOUNTS QUESTIONED
<b>CY 1994</b>						
1	MN	WEST POLK	[ ]	POTATOES	\$ 259,377	\$ 189,141
2	SD	GRAND FORKS	[ ]	POTATOES	72,747	7,685
<b>AUDIT NO. 05601-1-Ch</b>					<b>\$ 332,124</b>	<b>\$ 196,826</b>
<b>CY 1994 TOTALS</b>					<b>\$ 332,124</b>	<b>\$ 196,826</b>
<b>CY 1995</b>						
3	VA	CAROLINE	[ ]	SOYBEANS	\$ 48,337	\$ 0
4	VA	HANOVER	[ ]	SOYBEANS	102,388	0
5	VA	HENRICO	[ ]	SOYBEANS	50,510	0
6	VA	CAROLINE	[ ]	SOYBEANS	330	0
7	VA	HANOVER	[ ]	SOYBEANS	1,370	0
8	VA	HENRICO	[ ]	CORN	1,440	0
9	VA	ALBERMARLE	[ ]	APPLES	150,673	0
10	VA	ALBERMARLE	[ ]	PEACHES	116,793	0
11	VA	ALBERMARLE	[ ]	APPLES	237,665	0
<b>AUDIT NO. 05601-1-Hy</b>					<b>\$ 709,506</b>	<b>\$ 0</b>
12	TX	CAMERON	[ ]	COTTON	\$ 639,567	\$ 0
13	TX	CAMERON	[ ]	COTTON	241,181	0
14	TX	HIDALGO	[ ]	COTTON	467,840	0
15	TX	HIDALGO	[ ]	GRAIN SORGHUM	4,076	0
16	TX	WILLACY	[ ]	GRAIN SORGHUM	14,992	0
17	TX	HIDALGO	[ ]	COTTON	529,879	(8,035)
18	TX	LASALLE	[ ]	POTATOES	120,256	0
19	TX	FRIO	[ ]	POTATOES	52,347	0
20	TX	HIDALGO	[ ]	POTATOES	29,639	0
21	TX	FRIO	[ ]	POTATOES	212,952	0

## **EXHIBIT B - CLAIMS REVIEWED AND AMOUNTS QUESTIONED**

	STATE	COUNTY	CONTRACT NUMBER	CROP	INDEMNITY AMOUNTS PAID	AMOUNTS QUESTIONED
22	TX	FRIO	[ ]	PEANUTS	\$ 69,942	\$ 0
23	TX	HIDALGO	[ ]	COTTON	465,751	0
<b>AUDIT NO. 05601-1-Te</b>					<b>\$ 2,848,422</b>	<b>\$ (8,035)</b>
24	MN	WEST POLK	[ ]	POTATOES	\$ 173,246	\$ 173,246
25	SD	GRAND FORKS	[ ]	POTATOES	55,370	55,370
26	MA	PLYMOUTH	[ ]	CRANBERRIES	415,910	0
27	WI	ONEIDA	[ ]	CRANBERRIES	173,143	0
28	WI	JACKSON	[ ]	CRANBERRIES	148,143	148,143
29	IL	HAMILTON	[ ]	CORN	133,257	0
30	IL	HAMILTON	[ ]	SOYBEANS	46,505	(499)
31	IL	SALINE	[ ]	SOYBEANS	16,205	0
32	IL	SALINE	[ ]	CORN	4,836	0
<b>AUDIT NO. 05601-1-Ch</b>					<b>\$ 1,166,615</b>	<b>\$ 376,260</b>
33	IA	ADAIR	[ ]	CORN	\$ 109,758	\$ 92
34	IA	ADAIR	[ ]	SOYBEANS	73,140	176
35	IA	TAYLOR	[ ]	CORN	70,994	264
36	IA	TAYLOR	[ ]	SOYBEANS	68,319	171
37	IA	UNION	[ ]	CORN	68,721	3,649
38	IA	UNION	[ ]	SOYBEANS	66,207	555
39	IA	RINGGOLD	[ ]	CORN	24,766	0
40	IA	RINGGOLD	[ ]	SOYBEANS	24,652	0
41	IA	ADAMS	[ ]	CORN	11,140	658
42	NE	BOX BUTTE	[ ]	POTATOES	304,271	7,904
43	NE	BOX BUTTE	[ ]	CORN	49,140	0
44	NE	BOX BUTTE	[ ]	SUGAR BEETS	17,484	0
45	SD	CODINGTON	[ ]	SOYBEANS	70,456	0
46	SD	CODINGTON	[ ]	WHEAT	10,953	828
47	SD	CODINGTON	[ ]	SUNFLOWERS	24,588	0
48	SD	CLARK	[ ]	CORN	64,037	0

## **EXHIBIT B - CLAIMS REVIEWED AND AMOUNTS QUESTIONED**

	STATE	COUNTY	CONTRACT NUMBER	CROP	INDEMNITY AMOUNTS PAID	AMOUNTS QUESTIONED
49	SD	CLARK	[ ]	DRY BEANS	\$ 23,004	\$ 0
50	SD	CLARK	[ ]	SUNFLOWERS	20,647	920
51	SD	CLARK	[ ]	SOYBEANS	12,183	0
52	SD	CLARK	[ ]	WHEAT	3,961	1,139
53	SD	CLARK	[ ]	DRY BEANS	2,802	2,802
54	SD	CLARK	[ ]	CORN	54,772	19,353
55	SD	CLARK	[ ]	SOYBEANS	18,169	671
56	SD	CLARK	[ ]	SUNFLOWERS	15,682	15,654
57	SD	CLARK	[ ]	WHEAT	6,229	2,241
<b>AUDIT NO. 05601-1-KC</b>					<b>\$ 1,216,075</b>	<b>\$ 57,077</b>
58	CA	SOLANO	[ ]	CORN	\$ 70,610	\$ 18,263
59	CA	YOLO	[ ]	WHEAT	127,412	6,445
60	CA	YOLO	[ ]	WHEAT	32,536	0
61	CA	YOLO	[ ]	FORAGE	26,279	384
62	CA	STANISLAUS	[ ]	APRICOTS	575,505	0
63	CA	SAN JOAQUIN	[ ]	APRICOTS	151,683	0
64	CA	STANISLAUS	[ ]	APRICOTS	472,941	35,238
65	CA	YOLO	[ ]	FORAGE	237,203	6,890
66	CA	TULARE	[ ]	PLUMS	73,020	7,875
67	CA	SOLANO	[ ]	WHEAT	387,591	(9,594)
<b>AUDIT NO. 05601-1-SF</b>					<b>\$ 2,154,780</b>	<b>\$ 65,501</b>
68	MS	YAZOO	[ ]	COTTON	\$ 716,808 6,238	\$ 31,794 (4,448)
69	MS	YAZOO	[ ]	SOYBEANS	331,590	0
70	MS	HINDS	[ ]	SOYBEANS	11,656	0



## EXHIBIT B - CLAIMS REVIEWED AND AMOUNTS QUESTIONED

	STATE	COUNTY	CONTRACT NUMBER	CROP	INDEMNITY AMOUNTS PAID	AMOUNTS QUESTIONED
71	MS	YAZOO	[ ] <sup>1c</sup>	COTTON	\$ 2,960	\$ 0
72	FL	MANATEE	[ ]	FRESH MARKET TOMATOES	1,020,472	41,430 13,925
<b>AUDIT NOS. 05601-1-At/05099-1-At</b>					<b>\$ 2,089,724</b>	<b>\$ 82,701</b>
<b>CY 1995 TOTALS</b>					<b>\$ 10,185,122</b>	<b>\$ 573,504</b>
<b>CY 1996</b>						
73	VA	HENRICO	[ ] <sup>1r</sup>	CORN	\$ 2,268	\$ 0
74	VA	HENRICO	[ ]	WHEAT	32,084	0
75	VA	CAROLINE	[ ] <sup>1r</sup>	SOYBEANS	4,658	0
76	VA	ALBERMARLE	[ ]	APPLES	104,193	22,994
77	VA	ALBERMARLE	[ ]	PEACHES	12,821	1,765
78	VA	ALBERMARLE	[ ]	APPLES	16,267	0
79	VA	ALBERMARLE	[ ]	PEACHES	10,285	<sup>1r</sup> 0
<b>AUDIT NO. 50601-1-Hy</b>					<b>\$ 182,576</b>	<b>\$ 24,759</b>
80	TX	HIDALGO	[ ]	POTATOES	\$ 100,553	\$ 0
81	TX	FRIO	[ ]	POTATOES	378,719	0
<b>AUDIT NO. 05601-1-Te</b>					<b>\$ 479,272</b>	<b>\$ 0</b>
82	SD	GRAND FORKS	[ ]	POTATOES	\$ 151,973	\$ 151,973
<b>AUDIT NO. 05601-1-Ch</b>					<b>\$ 151,973</b>	<b>\$ 151,973</b>
83	IA	ADAIR	[ ]	CORN	\$ 32,247	\$ 0
84	IA	ADAMS	[ ]	CORN	2,031	192
85	IA	RINGGOLD	[ ]	CORN	24,899	5,134 183
86	IA	TAYLOR	[ ]	CORN	66,364	113
87	IA	UNION	[ ]	CORN	48,336	2,145
88	SD	CLARK	[ ]	CORN	20,257	15,606
89	SD	CLARK	[ ]	SOYBEANS	13,123	2,613
90	SD	CLARK	[ ]	SUNFLOWERS	18,346	14,674

## EXHIBIT B - CLAIMS REVIEWED AND AMOUNTS QUESTIONED

	STATE	COUNTY	CONTRACT NUMBER	CROP	INDEMNITY AMOUNTS PAID	AMOUNTS QUESTIONED
91	SD	CLARK	[ ]	WHEAT	11,371	3,606
92	SD	CODINGTON	[ ]	SOYBEANS	\$ 17,194	\$ 10,416
93	SD	CODINGTON	[ ]	SUNFLOWERS	25,543	11,442
94	SD	CODINGTON	[ ]	WHEAT	12,419	1,158
95	SD	CODINGTON	[ ]	CORN	34,184	1,775
96	SD	CODINGTON	[ ]	SUNFLOWERS	15,026	653
97	SD	CODINGTON	[ ]	WHEAT	7,572	0
98	SD	CODINGTON	[ ]	CORN	11,969	0
99	SD	CODINGTON	[ ]	SOYBEANS	3,146	<sup>IV</sup> / <sub>.</sub> 0
<b>AUDIT NO. 05601-1-KC</b>					<b>\$ 364,027</b>	<b>\$ 69,710</b>
100	CA	SOLANO	[ ]	WHEAT	\$ 86,144	\$ 0
101	CA	STANISLAUS	[ ]	APRICOTS	351,372	49,959
<b>AUDIT NO. 05601-1-SF</b>					<b>\$ 437,516</b>	<b>\$ 49,959</b>
102	FL	HENDRY	[ ]	FRESH MARKET TOMATOES	\$ 634,792	\$ 71,807
103	FL	COLLIER	[ ]	FRESH MARKET TOMATOES	400,879	42,900 11,315
<b>AUDIT NO. 05099-1-At</b>					<b>\$ 1,035,671</b>	<b>\$ 126,022</b>
<b>CY 1996 TOTALS</b>					<b>\$ 2,651,035</b>	<b>\$ 422,423</b>
<b>GRANT TOTAL FOR CY'S 1994-1996 CLAIMS</b>					<b>\$ 13,168,281</b>	<b>\$ 1,192,753</b>
<small>           I-1/ CAT Policies.            I-2/ Replant payment claim.            I-3/ The indemnity for this claim was originally \$566,162. FSA reviewed and corrected the claim prior to our review.            I-4/ Within tolerance; therefore, no dollars recorded.         </small>						

## EXHIBIT C - OTHER AUDIT REPORTS REVIEWED

	AUDIT REPORT NO.	DATE ISSUED	CROP YEAR	MONETARY RESULTS
1	03601-03-KC	03/29/96	1993	\$ 295,020
2	03099-07-KC	05/20/96	1993	17,755,269
3	03801-01-KC	04/22/96	1994	6,217
4	03099-03-SF	09/30/96	1994	0
5	03099-05-KC	07/01/96	1994	16,550
6	06401-05-FM	03/15/96	1995 <sup>a/</sup>	0
7	03801-11-Te	03/08/96	1995	0
8	05099-01-At	09/30/97	1991-1996	14,901,367 <sup>b/</sup>
9	<sup>c/</sup> 03099-12-Te	05/20/96	1996	6,176,611
10	05401-01-FM	02/19/97	1996 <sup>a/</sup>	0
11	05099-01-Te	09/30/96	1994-1995	0
	<b>TOTAL</b>			<b>\$ 39,151,034</b>
<p><sup>a/</sup> This report covers an FY not a CY.</p> <p><sup>b/</sup> This report showed total monetary amounts of \$15,082,744, of which \$181,377 (\$41,430 + \$13,925 + \$71,897 + \$42,900 + \$11,315) is included in exhibit B in the 103 claims audited.</p> <p><sup>c/</sup> The report for this management alert was not issued during fiscal year 1997; however, a discussion draft was issued under Audit No. 03099-16-Te.</p>				

# EXHIBIT D - RMA RESPONSE TO THE DRAFT REPORT



United States  
Department of  
Agriculture

Risk  
Management  
Agency

1400 Independence Ave., S.W.  
Washington, D.C.  
20250-0800

TO: Cletis L. Wills  
Director  
Farm and Foreign Agricultural Division

JAN 26 1998

FROM: Kenneth D. Ackerman  
Administrator

SUBJECT: Response to the Discussion Draft OIG Audit 05601-3-Te, Federal Crop Insurance Claims

On December 18, 1997, Risk Management Agency (RMA) officials met with Office of Inspector General for Audit staff to discuss program recommendations based on their review of large 1995 and 1996 crop insurance claims. A general agreement on RMA's response was reached during the meeting and is documented below.

**Recommendation No. 1a.:**

Ensure that the companies perform the quality control reviews of crop claims \$100,000 and over in sufficient depth to detect discrepancies and follow the new guidelines on correcting discrepancies and reporting results of reviews.

**RMA Response:**

Concur. New guidelines concerning review requirements for claims \$100,000 and over were issued by RMA in September 1997 after negotiation with the insurance providers. As noted in the audit report, the new guidelines requires the insurance provider to conduct field reviews for all crop insurance contracts with a crop claim equal to or greater than \$100,000. The insurance provider must also assign a loss adjuster, not previously associated with the initial claims determinations, for verification of all information used to establish the indemnity.

**Recommendation No. 1b.:**

Require that the quality control review of crop claims \$100,000 and over include all claims filed by insureds during that CY to the date pulled for review, regardless of size.

**RMA Response:**

Do not concur. As noted during the meeting on December 18, RMA has only recently completed negotiating the 1998 Standard Reinsurance Agreement (SRA) with the insurance providers. Recommendation 1b would need to be implemented through Manual 14, Guidelines and Expectations for the Delivery of the Federal Crop Insurance

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## ***EXHIBIT D - RMA RESPONSE TO THE DRAFT REPORT***

Cletis L. Wills, Director

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Program, which is a part of the SRA. Therefore, to accept this recommendation would require RMA to reopen the SRA which is not an option at this time.

As a compromise, RMA will place the recommendation on the schedule of items to be discussed relative to Manual 14 during the next SRA negotiation. At this time there is no indication that the SRA will be renegotiated for 1999; however, RMA agrees to place the recommendation on the table at the earliest possible opportunity.

This response will be provided to RMA, Reinsurance Services Division to ensure tracking and follow-up of the agreed to action.

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## **ABBREVIATIONS**

APH	Actual Production History Yields
CAT	Catastrophic Crop Insurance Program
CY	Crop Year
FY	Fiscal Year
FAIR Act of 1996	Federal Agricultural Improvement and Reform Act of 1996
FCIC	Federal Crop Insurance Corporation
FSA	Farm Service Agency
OIG	Office of Inspector General
PL	Public Law
RMA	Risk Management Agency
1994 Act	Federal Crop Insurance Reform and the Department of Agriculture Reorganization Act of 1994