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Office of Inspector General
Great Plains Region

Audit Report
Risk Management Agency
Asian Soybean Rust

Report No. 05099-113-KC
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UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



DATE: June 26, 2007

REPLY TO
ATTN OF: 05099-113-KC

TO: Eldon Gould
Administrator
Risk Management Agency

ATTN: Michael Hand
Deputy Administrator for Compliance

FROM: Robert W. Young /s/
Assistant Inspector General
for Audit

SUBJECT: Asian Soybean Rust

This report presents the results of our review of Asian Soybean Rust (ASR), a plant fungal disease that can dramatically reduce soybean harvests. Our objectives were to evaluate controls established for processing crop insurance loss claims due to ASR. We found that the Risk Management Agency (RMA) did not issue any new policies or procedures for processing loss claims resulting from ASR. RMA did implement a new loss code for ASR and issued management bulletins regarding ASR and good farming practices that should be followed in the event of an outbreak of ASR. However, as of February 12, 2007, no losses had been attributed to ASR for the 2005 or 2006 reinsurance years; therefore, we were unable to test controls over the processing of ASR loss claims. For the established controls, nothing came to our attention to indicate weaknesses in these controls, except for the following.

RMA reinsures the approved insurance providers' (AIP) against losses that producers may suffer due to ASR. Under the terms of a 2005 RMA informational memorandum, AIPs were required to inform soybean producers that they needed to document their farming practices to reduce or mitigate any losses from ASR in order to be eligible for any indemnity payments. We found, however, that although AIPs mailed the required information to producers, crop insurance agents did not follow up to ensure that producers understood RMA's terms for ensuring good farming practices were used, as required by the crop insurance policy provisions. Crop insurance agents were not required to discuss ASR with producers to determine if they understood how to treat ASR or if they had any questions about the policy. Nine of the 30 producers that we interviewed did not know that they should document their attempts to prevent ASR in order to be eligible for crop indemnity payments.

BACKGROUND

RMA is responsible for operating and managing the Federal Crop Insurance Corporation (FCIC) programs and for reinsuring policies that AIPs issue to producers to protect them against damage to their crops. One of the new threats to U.S. soybean harvests is ASR. ASR is an aggressive fungal disease that, under optimal environmental conditions, can reduce soybean yield by as much as 80 percent. It is a potentially damaging disease because the severity of outbreaks could double every 2 to 9 days. Given the potential for an outbreak of ASR, a number of preventive fungicides have been made available for use by soybean growers. By November 2004, ASR had been discovered in 9 States; in 2005, it was reported in 131 counties in 8 States; in 2006, it was reported in 274 counties in 15 States; and as of January 17, 2007, ASR already had been reported in 15 counties in 3 States.

Although ASR is an “insured peril” under the Federal crop insurance program, RMA recommends that producers document their attempts to combat the disease in order to receive insurance compensation for damages.¹ Producers are not required to document their damages, but they must be made aware of the precautions required to control soybean rust. In most cases, if producers fail to purchase and apply adequate fungicides, due to economic reasons, their losses would not be insured. To ensure eligibility for an indemnity based on the full amount of loss, RMA requires the producer to use good farming practices. The Common Crop Insurance Policy defines good farming practices as production methods utilized to produce the insured crop and allow it to make normal progress toward maturity and produce at least the yield used to determine the production guarantee or amount of insurance.²

In 2005, there were 16 AIPs with soybean crop insurance policies earning premiums in 33 States on about 58 million acres with a total liability of about \$9 billion. For 2006, there were 15 AIPs with soybean crop insurance policies earning premiums in 34 States on about 61 million acres with a total liability of about \$11 billion.

OBJECTIVES

Our primary objective was to evaluate the adequacy of RMA’s controls over the filing and processing of loss claims to ensure that claims resulting from ASR were handled properly. However, RMA had not paid any indemnities for soybean losses resulting from ASR during the 2005 or 2006 reinsurance year. Therefore, we assessed the AIPs’ responsibility to inform insured producers, crop insurance agents, and loss adjusters about ASR prevention methods and RMA’s terms for ASR coverage.

¹ Producers must make efforts to obtain the recommended fungicides. If producers are unable to obtain needed fungicides prior to or during the time periods when such an application is required, losses resulting from ASR will be covered.

² Common Crop Policy, 7 C.F.R . 457.8.

SCOPE AND METHODOLOGY

Our fieldwork was conducted from April 2006 to January 2007. We interviewed two RMA regional service office officials who had jurisdiction over the southeastern States where ASR findings were reported in 2005. Also, we judgmentally selected four AIPs with the highest amount of soybean loss (for all approved causes of loss) in the States where ASR was identified within our sample selection. During our survey of ASR in Alabama, North Carolina, and South Carolina, we performed the following.

- Interviewed 30 insured soybean producers with soybean losses from other causes in 2005 to determine what advice they received from AIPs and crop insurance agents,³
- Interviewed 13 loss adjusters to determine if they had undergone ASR training,
- Interviewed 15 crop insurance agents to assess the guidance they had given to producers, and
- Reviewed 83 claims records to verify whether cause of loss codes were recorded correctly. (We did not identify any material discrepancies.)

In addition, we interviewed four extension agents in Alabama, Florida, North Carolina, and South Carolina—one agent was interviewed in each State. We also visited sites in North Carolina and Florida where sentinel plots had been established to determine and compare what information had been provided to producers at these sites.⁴ As of February 12, 2007, no claims have been reported for 2005 or 2006 reinsurance years. The review was performed in accordance with generally accepted Government auditing standards.

AUDIT RESULTS

Of the 30 producers interviewed, 9 stated that their AIPs had not informed them about ASR even though they resided in States and counties where the disease had been detected. These producers stated that they did not know that they needed to document the actions taken to prevent ASR or to document fungicides used and information received from agricultural experts. This occurred because even though AIPs mailed ASR prevention and insurance information to producers and crop insurance agents as requested by RMA, they did not require crop insurance agents to follow up with producers to ensure that they understood specific RMA procedures and ASR control methods. As a result, uninformed producers may be ineligible for crop insurance indemnities and risk serious losses in the event of an ASR outbreak.

In response to the 2004 discovery of ASR, RMA issued an informational memorandum on March 28, 2005, outlining preventive methods as well as specific rules for receiving insurance coverage. The memorandum stated that AIPs were primarily responsible for communicating RMA's rules to policyholders. RMA directed AIPs to distribute ASR information in a manner

³ We judgmentally selected the producers because they had received indemnities for soybean loss from other causes in 2005, and they resided within three of the eight States where ASR had been detected that year.

⁴ A sentinel plot is a small area of land specifically planted for research purposes. Plots are utilized to detect, analyze, and monitor diseases such as ASR.

that would reach all producers. In response, AIPs sent out mass mailers which included guidelines for filing claims and recommended methods for preventing ASR. The four AIPs in our sample stated they had sent the required ASR information to all of their soybean policyholders and crop insurance agents.

In our interviews with soybean producers, nine stated that they had not received any ASR literature from their AIPs. They did not know that they should document their attempts to prevent ASR to be eligible for crop insurance coverage. Producers also commented that mail from AIPs often includes irrelevant information which they rarely read.

Our review also disclosed that crop insurance agents were not required to follow up with insured producers to find out if they had any questions about the policy or if they understood how to treat ASR. AIPs only suggested, but did not require, that their crop insurance agents discuss ASR with insured producers. While we are not making any recommendation regarding this matter, we suggest that RMA remind AIPs and their crop insurance agents and loss adjusters that they need to take appropriate actions to ensure that their policyholders have followed good farming practices with respect to ASR and documented whatever precautions the policyholders may have taken before the AIPs can approve and issue indemnities for any loss claims resulting from ASR.

RMA declined an exit conference and opted not to provide any official written response to the draft report.

We appreciate the cooperation extended to us by your staff during this review.

Informational copies of this report have been distributed to:

Administrator, Risk Management Agency	(3)
Government Accountability Office	(1)
Office of Management and Budget	(1)
Office of the Chief Financial Officer	
Director, Planning and Accountability Division	(1)