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Office of Inspector General
Southeast Region

Audit Report

Risk Management Agency, Citrus Indemnity Determinations Made for 2004 Hurricane Damages in Florida

Report No. 05099-27-At
March 2007



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250



March 26, 2007

REPLY TO

ATTN OF: 05099-27-At

TO: Eldon Gould
Administrator
Risk Management Agency

THROUGH: Michael Hand
Deputy Administrator
for Compliance

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

SUBJECT: Risk Management Agency, Citrus Indemnity Determinations Made for 2004
Hurricane Damages in Florida

The approved insurance providers (AIP) issued millions of dollars in indemnity payments to Florida producers for damage to their crops resulting from the 2004 hurricanes – Charley, Frances, and Jeanne. The Risk Management Agency (RMA), which reinsures these AIPs, paid indemnities totaling \$121 million on 1,677 claims for Florida crops damaged by the 2004 hurricanes, including \$50 million on 1,144 citrus claims. The Office of Inspector General (OIG) initiated this limited scope audit to evaluate RMA’s management controls over the loss adjustment process to ensure the accuracy of the loss claim determinations and the resulting payments. Our review of 21 citrus indemnity payments totaling \$10.3 million found that AIPs made erroneous loss adjustment determinations on 15 claims. These erroneous determinations resulted in \$415,710 in over- and underpayments.

During our audit in 2005, Florida was struck by three more hurricanes—Katrina, Rita, and Wilma—and, due to the magnitude of losses resulting from these hurricanes, we shifted our staff resources to reviewing RMA’s response to the 2005 hurricanes. Therefore, we did not assess the effectiveness of controls in the AIPs’ quality control (QC) process or RMA’s related management controls for indemnity payments resulting from the 2004 hurricanes. This report thus evaluates only how accurately AIPs and their loss adjusters appraised losses and calculated indemnity payments for the 2004 hurricane season. It does not include an evaluation of RMA’s or AIPs’ controls to ensure the accuracy of these payments. We are reviewing these controls in

our current efforts examining RMA's emergency relief efforts resulting from the 2005 hurricanes in the State of Florida; the results of that review will be reported under Audit No. 05099-28-At.

BACKGROUND

RMA supervises the operations of the Federal Crop Insurance Corporation (FCIC) and has overall responsibility for administering the crop insurance program. RMA administers the program in partnership with AIPs, which share a percentage of the risk of loss or opportunity for gain associated with each insurance policy. RMA reinsures a portion of all policies the Federal crop insurance program covers.

Generally, producers can insure citrus crops from 50 to 85 percent of their normal harvest. To obtain insurance and receive claim payments, producers must comply with the crop insurance program's provisions. Specifically, they must accurately report to their AIPs the number of acres planted, meet deadlines specified in the policy, pay premiums when due, and report any crop losses immediately. Producers are also obligated to exercise good farming practices to minimize the potential for losses.

Due to the 2004 Florida hurricanes—Charley on August 13, Frances on September 5, and Jeanne on September 26—RMA authorized emergency loss procedures that streamlined certain loss determinations, assisted in the adjustment of losses, and expedited issuance of indemnity payments to crop insurance policyholders in the affected areas. Since these hurricanes caused catastrophic damage to Florida crops, RMA published two manager's bulletins to assist the loss adjusters and producers. RMA Bulletin MGR-04-008 was published on August 24, 2004, and RMA Bulletin MGR-04-008.1 was published on October 8, 2004. Loss adjusters used the emergency loss procedures to appraise losses and compute indemnity payments. Under this limited scope review, we found no evidence that any of the errors identified in this report resulted from the implementation of these emergency loss procedures.

OBJECTIVE

The purpose of our audit was to evaluate RMA's management controls to ensure the accuracy of citrus crop insurance indemnity determinations made by AIPs and their loss adjusters for claims resulting from the 2004 Florida hurricanes.

SCOPE AND METHODOLOGY

Our review was limited to claims paid to citrus producers for damages caused by Hurricanes Charley, Jeanne, and Frances in Florida for crop year 2004. As of February 8, 2006, RMA had paid 1,144 citrus claims totaling \$49.7 million. Audit fieldwork was performed from February 2005 through January 2006. The audit was performed in accordance with generally accepted government auditing standards.

For the three 2004 hurricanes, four AIPs paid approximately 99.9 percent of the indemnity payments for citrus losses. We selected at least one citrus producer from each of the four AIPs, and we selected some producers who received the larger payments, as well as some who received indemnities of under \$100,000. Our sample included 6 citrus fruit producers who received 21 indemnity payments totaling \$10,267,588.

This review was performed at RMA Headquarters in Washington, D.C.; the RMA regional office in Valdosta, Georgia; and the regional office of one insurance company in Georgia. We (a) reviewed applicable Federal laws and regulations and RMA and FCIC policies and procedures for managing the citrus crop insurance program; (b) interviewed responsible RMA and AIP officials, including adjusters who worked on claims for five of the six citrus producers;¹ (c) reviewed documents from AIPs' claim files relating to loss adjusters' appraisals and indemnity determinations for selected citrus claims; and (d) analyzed data and procedures used by loss adjusters in processing claims.

FINDINGS AND RECOMMENDATION

Loss Adjustment Errors

We found that AIPs' loss adjusters were not always preparing loss determinations for citrus payments correctly. Of 21 citrus claims reviewed, we found that the loss adjusters had made a total of 35 errors on 15 of those claims.² As a result of the \$10.3 million issued for these 21 claims, we found that erroneous loss adjustment determinations resulted in \$415,710 in over and underpayments (see exhibit B).³

In 15 of the 21 claims reviewed, loss adjusters did not always follow RMA's crop-specific handbooks and other policies and procedures when appraising losses and calculating indemnities. There were a variety of different errors, which we have grouped under nine separate categories. Loss adjusters did not always: (1) verify crops' insurability, (2) verify the number of trees, (3) verify crops' risk class, (4) round computations correctly, (5) exclude production from uninsured acres, (6) sample trees from all groves, (7) appraise early and mid-season oranges separately, (8) compute claims correctly, or (9) use correct data when calculating claims.

¹ The adjuster for the sixth producer did not return our telephone calls.

² Of the 21 claims reviewed, 15 exceeded \$100,000 and were therefore subject to the AIPs' QC process. Due to the limited scope of our audit and another ongoing audit of the QC process, we did not evaluate the effectiveness of AIPs' QC reviews.

³ We identified \$484,316 in errors as shown in exhibit C. In exhibit B, the total of \$415,710 in improper payments is less than the sum of the error amounts because many claims had multiple errors—some of these errors tend to reduce the amount of other errors. The sum of \$415,710 is adjusted to account for this problem.

These erroneous loss adjustment determinations totaled \$415,710.⁴ Exhibit C sets forth this information by claim, type of error, and dollar amount for each of the nine types of errors.⁵

(1) Crops' Insurability Was Not Verified

One adjuster processing two claims did not verify that all the acreage in a grove was insurable. The *Loss Adjustment Manual* (LAM) requires adjusters to verify the correctness of the information on the acreage report, including the insurability of the crop at time of loss.⁶ Citrus produced by trees that have not reached their fifth growing season is not insurable.⁷ Insurable acreage is determined on a plot-by-plot basis by the age class of the trees (0 to 4 years, 5 years, 6 to 8 years, and 9 years and above). When trees of various ages are interplanted on a plot, the age class with the most trees will determine the insurability of the plot.⁸ The producer in question provided a detailed grove inventory that showed some plots or subplots of trees listed on the acreage report as insurable were, in fact, uninsurable because the largest numbers of trees on the plot were younger than 5-years old. The adjuster, however, appraised the loss as if all the trees were insurable. These erroneous loss adjustment determinations resulted in two claims with overpayments totaling \$180,266.

(2) Number of Trees Was Not Verified

Adjusters processing four claims by two producers failed to properly verify the number of trees using an actual tree count, even though it was practicable to do so.⁹ One adjuster ignored actual tree counts provided by the producer and instead estimated the number of trees based on row spacing; this adjuster provided no documentation to justify his decision. Another adjuster failed to obtain tree counts on all insured groves for two claims. We found that erroneous loss adjustment determinations of \$53,344 on these four claims resulted in overpayments of \$52,402 and underpayments of \$942.

(3) Crops' Risk Class Was Not Verified

Adjusters processing two claims by two producers failed to assign a correct "risk classification" for the acreage. LAM requires adjusters to verify that the information on the acreage report (including the risk classification for the crop at the time of loss) is correct.¹⁰ According to the *Loss Adjustment Standards Handbook* (LASH), the risk classification is based on the age class of

⁴ See footnote 3.

⁵ In determining the effect of individual errors on a claim, we first calculated the proper payment amount taking into account all errors. We then used that determination and adjusted the payment determination inputs for just the individual error and recalculated the payment that would result. Finally, we subtracted the correct payment from the erroneous payment to obtain the error amount. Because of (1) the complicated computations, (2) computations based on earlier computations, (3) duplicate effects of individual errors, (4) canceling effects of individual errors, or (5) compounding effects of individual errors, the individual errors will not necessarily sum to the overall error for a claim.

⁶ LAM, p. 31, dated January 28, 2004.

⁷ Florida Citrus Fruit Crop Provisions 99-026.

⁸ 2005 *Crop Insurance Handbook*, exhibit 18, p. 382, dated June 2004.

⁹ Florida Citrus Fruit *Loss Adjustment Standards Handbook* (LASH), p. 13 and 14, dated February 26, 2003.

¹⁰ LAM, p. 32, dated January 28, 2004.

the trees.¹¹ Age classes are defined in the actuarial documents¹² and the *Crop Insurance Handbook*¹³; these classes determine the amount of insurance per acre. Insured crops are classified as 5-years old, 6 to 8-years old, and 9-years old or older. The age class is determined on a plot basis. When trees of various age classes are interplanted on a plot and cannot be separated into subplots, the age class of the plot is determined by the age class having the most trees within the plot.¹⁴ If at the time of loss the adjuster finds the acreage report information is incorrect and the change will not increase the liability, the information should be revised.¹⁵

For these two cases, the producers filed acreage reports showing the age class of certain plots as 9 years or older. However, at the time of loss the producers provided detailed grove inventory schedules that indicated that all or the largest number of trees on those plots were 6 to 8-years old. Since the change in risk classification from the 9 years or older category to the 6 to 8-years old category would not increase these acres' insurance liability, the adjuster should have revised the risk classification at the time of loss. The adjuster, however, did not use the grove inventory schedules to verify the age class of plots and therefore appraised the loss as if all the trees were 9 years or older. Erroneous loss adjustment determinations on these two claims resulted in overpayments totaling \$44,120.

(4) Computations Were Not Correctly Rounded

Adjusters processing seven claims by three producers failed to round computations according to RMA's prescribed procedures for appraising losses and calculating indemnities.^{16, 17} On two separate claims, one adjuster did not round "boxes of fruit per tree on the ground," "boxes of fruit per tree on the tree," and "percent of loss" according to RMA's requirements; on one claim, a second adjuster rounded "boxes of fruit per tree on the tree" to hundredths of a box instead of to tenths; on four claims, a third adjuster did not round "adjusted potential per acre" to cents, but to dollars. These erroneous loss adjustment determinations on seven claims resulted in overpayments of \$24,299.

(5) Production from Uninsured Acres Was Not Excluded

An adjuster processing a producer's two claims failed to exclude production from uninsured acres when calculating expected production based on previous crop years' production records. RMA's emergency loss procedures allowed adjusters to use previous crop years' production records to estimate the fruit yield if a ground count of downed fruit was impractical.¹⁸ LAM requires that production from insured acres be kept separate from the production of uninsured

¹¹ Florida Citrus Fruit LASH, p. 41, dated February 26, 2003.

¹² RMA, Actuarial Table, FCI-35 Coverage and Rates for 2005 and Succeeding Crop Years.

¹³ 2005 *Crop Insurance Handbook*, exhibit 18, p. 382, dated June 2004.

¹⁴ See footnote 13.

¹⁵ LAM, pgs. 40 and 41, dated January 28, 2004.

¹⁶ 2005 *Crop Insurance Handbook*, p. 23, dated June 2004.

¹⁷ Florida Citrus Fruit LASH, p. 15, 21, and 41, dated February 26, 2003.

¹⁸ MGR-04-008, dated August 24, 2004 and MGR-04-008.1, dated October 8, 2004.

acres.¹⁹ The adjuster included past production from uninsured groves in the calculation for potential production for two claims. On the first claim, the adjuster included 244,165 boxes of production from uninsured acres; on a second claim, the adjuster included 20,626 boxes of production from uninsured acres. Erroneous loss adjustment determinations on these two claims resulted in overpayments of \$11,513.

(6) Trees Were Not Sampled From All Groves

Adjusters processing a producer's two claims failed to select representative samples of trees from different groves, even though those groves were distinct and would not produce the same amount of fruit per tree. The Florida Citrus Fruit LASH requires that adjusters select a representative sample of trees to be used in making dropped fruit and tree fruit counts in loss appraisals. The number and location of trees in the sample should be based in part on the extent of variation in amount of production or damage within the acreage, as well as tree age, size, density, and vigor.²⁰ This grower produced the two fruit types on two noncontiguous groves several miles apart. The adjuster noted that one grove was not well maintained and contained many non-producing trees that were either dead or old and barren. The adjuster had taken samples from both groves for five other fruit types but overlooked the second grove for these two fruit types.

We concluded that trees from both groves should have been included in the sample for it to represent the entire crop. Since the adjuster did not take these samples, we excluded the acreage and tree counts from second grove when we calculated the payment errors. Erroneous loss adjustment determinations on these two claims resulted in overpayments of \$6,505.

(7) Early and Mid-Season Oranges Were Not Appraised Separately

An adjuster processing one claim failed to prepare a separate Adjuster's Citrus Worksheet²¹ for early and mid-season oranges. The Florida Citrus Fruit LASH requires that adjusters prepare a separate Adjuster's Citrus Worksheet for each fruit type insured within a unit.²² Early and mid-season oranges are classified as separate fruit types.^{23, 24} The erroneous loss adjustment determination on this claim resulted in overpayments of \$3,263.

(8) Adjusters Miscalculated Payments

We found that adjusters committed a variety of errors when they calculated eight claims.²⁵ For these eight claims, erroneous loss adjustment determinations of \$50,759 resulted in

¹⁹ LAM, p. 32, dated January 28, 2004.

²⁰ Florida Citrus Fruit LASH, p. 4 and 5, dated February 26, 2003.

²¹ Florida Citrus Fruit LASH, p. 13, dated February 26, 2003, designates the Adjuster's Citrus Worksheet as the adjuster's appraisal worksheet.

²² Florida Citrus Fruit LASH, p. 13, dated February 26, 2003.

²³ RMA County Actuarial Documents, FCI-35 Coverage and Rates, 2005 and Succeeding Crop Years RMA for St Lucie County FL, dated December 22, 2003.

²⁴ MGR-04-008, dated August 24, 2004.

²⁵ Adjusters for 2 claims committed 2 calculation errors on the claims resulting in 10 total errors for the 8 claims.

overpayments of \$20,656 and underpayments of \$30,103.

- Adjusters incorrectly added tree counts while processing three claims. These erroneous loss adjustment determinations resulted in overpayments of \$16,560.
- An adjuster processing one claim correctly prepared the Production Worksheet used to determine the Total Guarantee and Total to Count. The indemnity amount is the Total Guarantee minus the Total to Count. The adjuster copied the three numbers on the worksheet but incorrectly switched the Total to Count and the indemnity amount. The AIP thus paid the producer the Total to Count amount instead of the indemnity amount. This erroneous loss adjustment determination caused an underpayment of \$13,547.
- Adjusters processing three claims incorrectly calculated average production for appraised blocks of citrus trees. These erroneous loss adjustment determinations resulted in underpayments of \$12,354.
- Adjusters processing three claims miscalculated the acreage. These erroneous loss adjustment determinations totaled \$8,298, and resulted in overpayments of \$4,096 and underpayments of \$4,202.

(9) Adjusters Used Incorrect Data When Performing Calculations

We found that adjusters and QC reviewers used incorrect data to compute three claims. These erroneous loss adjustment determinations totaled \$110,247 and resulted in overpayments of \$29,897 and underpayments of \$80,350.

- A QC reviewer processing one claim made changes to data on the Adjuster's Citrus Worksheet for crop CS VII (grapefruit), but failed to use the correct number of grapefruit per box and the correct percentage of wind-scar damage for fruit on the tree used in the computation of the percent of loss for the crop. This erroneous loss adjustment determination of \$100,100 resulted in overpayments of \$21,761 and underpayments of \$78,339.
- Adjusters processing two claims did not include field appraisal results from one grove and used the number of fruit per tree on the tree for another crop when calculating the percentage of loss for a crop. This erroneous loss adjustment of \$10,147 resulted in overpayments of \$8,136 and underpayments of \$2,011.

We interviewed 7 adjusters who worked on these 21 claims to determine why they failed to follow RMA's policies and procedures. Adjusters told us that the hurricanes resulted in a large number of claims with large amounts of damage, that there were few adjusters available to work on claims, and that producers pressured them to settle quickly. Adjusters explained that they (1) were not experienced in citrus crop insurance procedures and loss adjustment standards;

(2) did not interpret loss adjustment standards correctly; (3) were not knowledgeable of any efficient methods to verify tree counts; and (4) were not aware of rounding implications of automated spreadsheets they used. In addition, we found that they did not obtain information or overlooked information in their possession when processing claims and that they were not sufficiently diligent to ensure that all calculations were correct and that information was obtained and used correctly. Overall, they were rushed to complete claims and were not diligent enough to ensure that all the data was included in calculations and that computations were correct.

Both RMA and the AIPs generally agreed that adjusters made errors resulting in indemnity payments being incorrectly calculated, though the AIPs were surprised at the number and types of errors we found. Overall, these 4 AIPs had a total of \$415,710 in erroneous loss adjustment determinations for the 21 citrus claims we reviewed.²⁶

RECOMMENDATION 1:

Recover from AIPs erroneous loss adjustment determinations totaling \$415,710.

AGENCY RESPONSE:

In its March 14, 2007, response, RMA stated the following.

We conditionally agree with this recommendation pending further analysis and evaluation of this matter. Within the next year, the RMA, Eastern Regional Compliance Office (ERCO) will open a case and review the erroneous loss adjustment determinations. If the ERCO determines there is a monetary discrepancy due to erroneous determinations, RMA will establish an accounts receivable and collect any monies owed from the responsible insurance provider.

RMA requests management decision for this recommendation.

OIG POSITION:

Although RMA generally concurred with our recommendation, we need additional information in order to accept management decision. To reach management decision, RMA needs to provide us with copies of its final determinations against the responsible AIPs for all of the questioned indemnity payments (including copies of the accounts receivable established) and/or its justification for not pursuing the questioned indemnity payments.

²⁶ See exhibit B.

Exhibit A – Summary of Monetary Results

FINDING NUMBER	RECOMMENDATION NUMBER	DESCRIPTION	AMOUNT	CATEGORY
1	1	AIP erroneous loss adjustment determinations	\$325,943	Questioned costs, recovery recommended
1	1	AIP erroneous loss adjustment determinations	\$ 89,767	Underpayments, payment recommended
TOTAL			\$415,710	

Exhibit B – Loss Determination Errors by Producer Claim

Exhibit B – Page 1 of 1

Producer	Claim		Loss Determination Errors		
	Number	Amount	Overpayment Errors	Underpayment Errors	Total Erroneous Loss Determinations
A	1	\$ 99,125	\$ 5,411		\$ 5,411
	2	32,476	4,085		4,085
	3	46,534	No Error		
	4	425,899		\$ 820	820
B	5	4,441	No Error		
	6	363,951		13,547	13,547
	7	2,155,030		64,828	64,828
C	8	476,803	63,207		63,207
	9	584,424	129,416		129,416
D	10	186,024	1,380		1,380
	11	1,290,449	13,028		13,028
E	12	403,023	50,686		50,686
	13	430,792	17,290		17,290
F	14	474,191		10,406	10,406
	15	1,105,380		166	166
	16	90,912	No Error		
	17	106,873	No Error		
	18	671,213	41,171		41,171
	19	1,047,999	269		269
	20	70,078	No Error		
	21	201,971	No Error		
Total for Claims with Errors		\$9,746,779	\$325,943	\$89,767	\$415,710
Total All Claims		\$10,267,588			

Exhibit C – Adjuster Errors by Claim

	Crops' Insurability Was Not Verified	Number of Trees Was Not Verified	Crops' Risk Class Was Not Verified	Computations Were Not Correctly Rounded	Production from Uninsured Acres Was Not Excluded	Trees Were Not Sampled from All Groves	Early and Mid-Season Oranges Were Not Appraised Separately	Incorrect Computations	Incorrect Data	Total Errors
Claim 1						X	X			2
Claim 2						X		X	X (2)	4
Claim 4								X	X	2
Claim 6								X		1
Claim 7				X					X (2)	3
Claim 8	X		X							2
Claim 9	X							X (2)		3
Claim 10				X						1
Claim 11				X						1
Claim 12		X			X			X (2)		4
Claim 13		X			X			X		3
Claim 14		X		X				X		3
Claim 15		X		X				X		3
Claim 18			X	X						2
Claim 19				X						1
Total Errors	2	4	2	7	2	2	1	10	5	35
Overpayments	\$180,266	\$52,402	\$44,120	\$24,299	\$11,513	\$6,505	\$3,263	\$20,656	\$29,897	\$372,921
Underpayments		\$942						\$30,103	\$80,350	\$111,395
Total Erroneous Loss Adjustment Determinations	\$180,266	\$53,344	\$44,120	\$24,299	\$11,513	\$6,505	\$3,263	\$50,759	\$110,247	\$484,316

This exhibit is presented to show the isolated effect that any given specific error had on the correct payment. Exhibit B is presented to show the overall audit error for each claim taking into account all individual errors found for the claim. Since individual errors can have cross cutting effects on the overall claim amount, and since individual overpayments and underpayments net to a lower overall payment error for a claim, the total error amounts on this schedule do not agree with the total claim errors presented in exhibit B.

Exhibit D – Agency Response

Exhibit D – Page 1 of 1



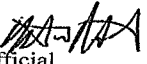
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Risk
Management
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TO: Robert W. Young
Assistant Inspector General for Audit
Office of Inspector General

MAR 14 2007

FROM: Michael Hand 
Audit Liaison Official

SUBJECT: Office of Inspector General Audit 05099-27-At Official Draft Report,
Citrus Indemnity Determinations for 2004 Hurricane Damages in Florida

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

RECOMMENDATION NO. 1:

Recover from AIPs erroneous loss adjustment determinations totaling \$415,710.

RMA Response:

We conditionally agree with this recommendation pending further analysis and evaluation of this matter. Within the next year, the RMA, Eastern Regional Compliance Office (ERCO) will open a case and review the erroneous loss adjustment determinations. If the ERCO determines there is a monetary discrepancy due to erroneous determinations, RMA will establish an accounts receivable and collect any monies owed from the responsible insurance provider.

RMA requests management decision for this recommendation.

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



Informational copies of this report have been distributed to:

Administrator, RMA (3)

ATTN: Agency Liaison Officer

Government Accountability Office (1)

Office of Management and Budget (1)

Office of the Chief Financial Officer (1)

Director, Planning and Accountability Division