RISK MANAGEMENT AGENCY
CROP INSURANCE COVERAGE
FOR PIMA COTTON, POPCORN,
AND CORN IN TEXAS

AUDIT REPORT NO. 05001-2-Te

APRIL 1999

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: April 16, 1999

REPLY TO
ATTN OF: 05001-2-Te

SUBJECT: Crop Insurance Coverage for Pima Cotton, Popcorn, and Corn in Texas

TO: Kenneth D. Ackerman
Administrator
Risk Management Agency

ATTN: Garland Westmoreland
Director
Compliance Division

This report presents the results of our audit of Crop Insurance Coverage for Pima Cotton, Popcorn, and Corn in Texas. A written response to the draft report is included as exhibit B with excerpts of the Office of Inspector General's position incorporated into the relevant sections of the report. The written response contained sufficient justification to reach management decisions on Recommendations Nos. 1b and 1c. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

Based on your response, management decisions have not been reached for Recommendations Nos. 1a and 1d. The information needed to reach agreement is set forth in the Recommendations section of the report. In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing corrective actions taken or planned and the timeframes for implementation for all recommendations. Please note that the regulation requires management decisions to be reached on all findings and recommendations within a maximum of 6 months from report issuance.

We appreciate the cooperation and courtesies extended to us by members of your staff.

JAMES R. EBBITT
Assistant Inspector General
for Audit

EXECUTIVE SUMMARY

CROP INSURANCE COVERAGE FOR PIMA COTTON, POPCORN, AND CORN IN TEXAS AUDIT REPORT NO. 05001-2-Te

PURPOSE

The audit was initiated based on a hotline complaint of alleged abuse of crop insurance coverage for nonirrigated pima cotton in a four-county area of west Texas (Reagan, Glasscock, Midland, and Upton). Based on discussions with the Risk Management Agency (RMA) Dallas Compliance staff, we expanded our review to include insurance coverage for corn in Tom Green County and nonirrigated popcorn in the Rio Grande Valley because of similar indicated abuses. The audit objectives were to determine whether nonirrigated practices in these respective areas for the three crops were viable and whether the established yields and rates set by RMA for these crops were reasonable.

RESULTS IN BRIEF

We found that the nonirrigated insurance coverage for the three crops was not viable because these three areas did not receive adequate rainfall to produce the crops without irrigation. We also discovered that the growing season for pima cotton was not long enough to produce a meaningful crop in the four-county area of Texas.

We found that the yields for all three crops and the payment rate for popcorn were too high in that insurance payments were significantly more than could be expected from harvesting the crops. These factors resulted in RMA paying over $20 million in indemnity losses to farmers who took advantage of insurance coverage in 1998.

In August 1998, we issued RMA a management alert on these findings. In the alert, we pointed out that we agreed with RMA regional service officials that nonirrigated insurance coverage for these crops should be terminated. In response, RMA stated that starting with the 1999 crop year, the nonirrigated insurance coverage for the three crops in the aforementioned coverage areas of Texas would be terminated. As a result, about $20 million in savings would occur in 1999 if all 1998 conditions remained the same.

The reinsured companies who sold the crop insurance should have known that the yields and popcorn payment rate were unreasonable and the potential for abuse. However, they had little incentive to report indicated abuses because of the premium income generated by such sales and the limited liability they assumed for any crop losses that subsequently occurred. Premium income generated in the three areas amounted to over $5.7 million ($2.3 million subsidized by RMA), and the reinsured companies' shares of this were about $1.5 million which covered administrative costs. Further, the reinsurance companies incurred only small percentages of the losses paid insureds since most indemnities were paid by RMA.

KEY RECOMMENDATIONS

We recommend that for areas without past production history, RMA use information from such sources as the Extension Service (ES) and the Natural Resources Conservation Service (NRCS) to set yields that are representative of the production potential for areas where new coverage is offered. We also recommend that actuarial files be documented to show how transitional yields (T-yields) are established, and that the 10-percent cup provision be eliminated for T-yields that are incorrectly established by RMA. Further, we recommend that RMA establish a feedback mechanism for the insurance companies to provide input on the reasonableness and viability of newly established rates and yields for crops/practices not previously produced in an area.

AGENCY POSITION

The administrator of RMA provided a written response to the draft report showing that the agency concurred with the audit recommendations (see exhibit B).

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INTRODUCTION

BACKGROUND

The Federal Crop Insurance Corporation (FCIC) is a wholly-owned Government corporation created within the United States Department of Agriculture under Title V of the Agricultural Adjustment Act of 1938. As a result of the Federal Crop Insurance Reform and the Department Reorganization Act of 1994, day-to-day operations of the corporation were administered by the Farm Service Agency (FSA). This was changed by the Federal Agricultural Improvement and Reform Act of 1996, which authorized the formation of RMA to handle the day-to-day operations of the crop insurance program.

The Federal Crop Insurance Act of 1980 (Act) contained provisions for expanding crop insurance to more crops and to provide coverage in most counties throughout the United States. This Act mandated, to the maximum extent possible, delivery of Federal crop insurance by privately owned insurance (reinsured) companies and subsidizing of the program by RMA.

Reinsured companies enter into standard reinsurance agreements with RMA which contain provisions for the marketing, distributing, servicing, training, and loss adjusting by companies for the crop insurance that they sell. In return for these functions, the companies receive reimbursement of administrative expense equal to about 27 percent of the premium income generated by the policies they sell.

Reinsured companies hire agents to sell policies, and they are paid commissions based upon a percentage of sales they generate. The reinsured companies also hire adjusters to adjust claims for the policies they sell.

Crop yields are established for insurance purposes based on actual production history (APH) when an insured has had a history of raising an insured crop. A minimum of 4 and up to 10 years of past production history is used to set the yields. The RMA has procedures to prevent yield decreases of more than 10 percent in any 1 year. This limitation is referred to as the 10-percent cup by the crop insurance industry. The RMA established the T-yield for insurance purposes when there is no history of raising a crop in the coverage area. For the three crops covered by our review, RMA established a nonirrigated T-yield because the insured did not have a history of raising these crops in the coverage area without irrigation.

OBJECTIVES

The objectives of our audit were to determine whether nonirrigated practices were viable and whether established yields and rates were reasonable for popcorn, corn, and pima cotton at three separate locations in Texas.

SCOPE

This audit was initiated based upon a hotline complaint concerning the development of T-yields for pima cotton in Reagan, Glasscock, Midland, and Upton Counties, Texas. The complaint alleged that crop year 1998 pima cotton T-yields for these counties were overstated, causing abuse and financial losses to the Government. Based on discussions with RMA Dallas Compliance staff, we subsequently expanded the scope of our review to include nonirrigated practices for corn in Tom Green County and popcorn in the Rio Grande Valley in Texas because of similar potential problems.

This audit was conducted in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. Accordingly, the audit included such tests of program and accounting records as considered necessary to meet the audit objectives.

METHODOLOGY

To determine the viability of raising the three nonirrigated crops in the aforementioned areas and the reasonableness of the yields and rates established by RMA, we spoke/corresponded with RMA officials in the actuarial division in Kansas City, Missouri; reinsured company owners, agents, and loss adjusters; and county extension agents and agronomists who were familiar with the areas and crops under review. We obtained information concerning the histories of insurance coverage for these crops, weather data for counties under review, as well as opinions and comments of underwriters in the RMA Oklahoma City, Oklahoma Regional Service Office (RSO). We also obtained information from the RMA Dallas Compliance Office about their reviews in the coverage areas and personnel from that office accompanied us in our reviews at field locations.

FINDINGS AND RECOMMENDATIONS

I. QUESTIONABLE CROP INSURANCE IN TEXAS

FINDING NO. 1

Producers in three separate areas of Texas were provided nonirrigated crop insurance coverage when there was little likelihood that their crops could be produced without irrigation. The climatic conditions in these areas were such that the viability of raising these crops without irrigation is questionable. Also, RMA established crop insurance yields and rates for the insured crops that were significantly higher than could be expected from harvesting the crops. For this reason, producers without past production histories were able to obtain crop insurance coverage for purposes of "farming the insurance program," and RMA incurred costs of over $20 million to pay for losses associated with this insurance coverage. This coverage included nonirrigated corn in Tom Green County, popcorn in the Rio Grande Valley (Cameron, Hidalgo, and Willacy Counties), and pima cotton in west Texas counties (Glasscock, Midland, Reagan, and Upton Counties).

Information about the viability of raising insured crops in three separate areas of Texas and the corresponding yields set for these crops by RMA follows.

Popcorn in Rio Grande Valley

Farmers were offered dryland crop insurance coverage for popcorn in the Rio Grande Valley when the normal rainfall was not sufficient to produce a crop. Also, the high yields and payment rates for this coverage caused producers to plant the popcorn for insurance purposes rather than for the crop. The RMA records show that for the 1997 crop year, there were 150 policies for popcorn in the Rio Grande Valley (Cameron, Hidalgo, and Willacy Counties). Of this group, 113 policies earned premiums of $843,009 for 49,351 acres of planted popcorn (47,847 acres nonirrigated and 1,504 acres irrigated). Indemnities of $5,512,005 were paid on 77 of the 113 policies that were sold. In addition to the paid indemnities, it cost FCIC an additional $283,566 in premium subsidies.

Before 1997, there were only a small number of policies (three in 1996) for popcorn in the Rio Grande Valley, and all were for irrigated practices. Most of the new policies sold in 1997 were for nonirrigated popcorn on land located around McCook, Texas, in Hidalgo County. McCook is located in the northwest corner of Hidalgo County, which gets less rainfall than the rest of the county, and the area has sandy soil that is not suitable for nonirrigated corn production. The area is known to be a dryland farming area with no access to irrigation. The sandy soil in this area does not hold moisture well, and with the hot south Texas weather requires an above-average amount of moisture to produce crops.

RMA set a T-yield for all policyholders with nonirrigated insurance coverage based on a factor 28 times the corn program yield established by FSA, with most yields set at about 2,000 pounds per acre. For Hidalgo County, where most of the popcorn was grown, the FSA average corn program yield was 73 bushels an acre which equated to a 2,044-pound yield for popcorn. The popcorn yield in this county was also increased another 10 percent, an allowance increase for counties considered pilot counties for insurance purposes. The RMA and FSA officials both agreed that the 73-bushel yield for corn was unreasonable and that a 40-bushel yield was more in line with what could be produced with average rainfall. For example, one of the insureds who obtained 1997 popcorn insurance coverage based on a 2,033-pound yield had insurance coverage for nonirrigated corn with 1997 crop year APH yields of 22, 32, and 35 bushels on three units covered by the policy. The highest APH yield of 35 bushels would only equate to a 980-pound popcorn yield (35 bushels x 28 pounds). This demonstrates the unreasonableness of the popcorn yields that were set for insurance purposes.

For insureds to be eligible for crop insurance, they must have contracts with a processor to buy the popcorn. For crop year 1997, all of the insureds had contracts with Southwest Grain Company which had an agreement with a small processor for processing and marketing the popcorn. There was a question as to whether the processor had the facilities or the market to handle popcorn production from about 50,000 acres for which insurance coverage was requested. However, RMA subsequently confirmed the availability of processing facilities, as did we.

We also found that for insurance purposes, the price of popcorn was set at 12 cents per pound while the above-mentioned processor only contracted to pay 7 cents per pound. Thus, for insurance purposes, the insured producers received an average $159 an acre at the 65-percent coverage level (that is, 65 percent x 2,044 pounds per acre x 12 cents per pound), while they would have only received $143 per acre from the processor if they had produced up to the average T-yield (2,044 pounds per acres x 7 cents per pound).

Few, if any, loss claims were filed by May 22, 1997, the deadline date for RSO to submit its recommended changes in the existing insurance coverage for the 1998 crop year. However, due to the increased vulnerability from the large planted acreage and possible program abuse, RSO reduced the T-yield to 1,002 pounds for the 1998 crop year. This reduction was based on what they called the new county T-yield method using the dryland district National Agricultural Statistical Service (NASS) averages for corn in the district north of the valley. This reduction did not have much effect on 1998 yields for individual policyholders with existing insurance coverage because their yields were not reduced by more than 10 percent as provisions relating to the 10-percent cup were invoked.

Late in the summer of 1997, the processor, Southwest Grain, started rejecting popcorn from producers due to aflatoxin or low expandability. After the processor started rejecting the popcorn, the claims and underwriting services product development division of RMA and insurance company representatives agreed to pay producers for losses relating to expandability and aflatoxin. The cause of loss for most of the claims was shown to be drought or excess heat, although adequate precipitation was received during the 1997 growing season.

For 1998, there were 52 policies insuring 25,661 acres of popcorn. Because of drought, it is expected that all policyholders with nonirrigated coverage have suffered losses with indemnities in excess of $3 million.

Pima Cotton - Glasscock, Midland, Reagan, and Upton Counties

Farmers in these four counties were offered 1998 crop year coverage for nonirrigated pima cotton when it was not feasible to produce cotton without irrigation. Also, the growing season in these four counties was too short to produce a pima cotton crop. The RMA also established unreasonable yields for the insurance coverage that prompted farmers to plant the cotton for insurance purposes.

For 1998, there were 359 policies in effect, and premium income for these policies amounted to $4.4 million with $1.9 million subsidized by RMA. As of October 28, 1998, indemnities of $14.9 million were paid to 334 policyholders for losses on 71,850 acres in the four counties.

The average rainfall in the four-county area is between 15 and 20 inches which is not sufficient to produce a viable dryland pima cotton crop. The Texas Agricultural ES told RSO, based on an RSO 1991 inquiry, that pima cotton cannot be grown in the high plains area of west Texas (this area includes all four counties) without irrigation and that the growing season was too short for pima cotton.

Even with this information, RMA decided to provide insurance because of the mandate to provide insurance coverage in all counties where an insured crop is grown. Upland cotton has been grown in this area in the past, and because of the high price for pima cotton, a small number of farmers planted a few acres of pima cotton. Nine farmers had insurance coverage for pima cotton in 1997 but they reported no planted cotton. Prior to 1998, the T-yield for pima cotton in the four counties was set at less than 105 pounds per acre. However, these yields were increased by RMA for 1998 to 343 pounds for Reagan and Upton Counties and 286 pounds for Midland and Glasscock Counties. With this increase, farmers took advantage of the program because they would obtain more benefits from insurance than producing a crop. The benefits were reported by the Texas Journal of the Wall Street Journal to be $6 million more than the farmers would have collected had they stuck with their traditional crops of upland cotton and grain sorghum.

Corn - Tom Green County

Starting with the 1998 crop year, farmers in Tom Green County were offered crop insurance coverage for nonirrigated corn. The RMA established unreasonable yields for their insurance coverage and, as a result, farmers took advantage of the program by planting corn for the insurance.

Indemnities of $2,269,835 have been paid as of October 28, 1998, to 80 policyholders in the county. Prior to 1998, there were only seven producers in the county who carried crop insurance coverage for corn. In 1998, there were 19,077 acres of corn reported planted for insurance purposes when there were only about 100 acres planted in any of the past 5 years and that was all irrigated. Irrigation is necessary because the county receives an average of only 20 inches of rain a year. For insurance purposes, the T-yield was set at 48 bushels for the 1997 crop year irrigated coverage for corn. For the 1998 crop year, RMA established a 66-bushel dryland (nonirrigated) T-yield for corn in the county. According to RSO personnel, this yield was established based on NASS district data because there was no county NASS data available. Again, there was nothing documented to justify the yield that was established.

Management Alert Issued Recommending That Coverages Be Terminated

We issued a management alert dated July 10, 1998, to provide RMA advance notice of our findings that nonirrigated producers were not viable and that we concurred with RSO officials who recommended termination of crop insurance coverage for nonirrigated crops in these areas effective for the 1999 crop year. The RMA provided us with a response to the management alert showing that the insurance coverage was terminated in the three areas covered by the audit.

The response to the management alert also stated that RMA and industry representatives made an analysis of the method used to set T-yields and, based on the analysis, a decision was made to replace all T-yields in the data base. Starting with the 1998 crop year, T-yields were based on NASS county type and practice yields for the last 10 years. When such data was not available, yields were determined based on a multiple county or a crop reporting district, or State level, in that order. The RSO's were given the responsibility to review the yield data and provide alternatives based on their knowledge of the production potential for the area. In the case of pima cotton, the preliminary yields were 713 pounds (Glasscock and Midland) and 687 pounds (Reagan and Upton) based on the State nonirrigated average and the crop reporting district nonirrigated average, respectively. The RMA stated the published average nonirrigated yields of 286 and 343 pounds, respectively, for the areas were the results of this process.

The RSO officials at the Oklahoma City office provided us information showing that, based on their review of 1998 yields for corn in Tom Green County (NASS district data used to reach a 66-bushel figure), they requested that the actuarial division staff use a different district to calculate a T-yield closer to the 30-bushel range for dryland corn normally expected for this county. However, we were not provided information showing why the actuarial division did not apply this RSO-provided information.

The RMA's action to terminate the dryland crop insurance coverage for the 1999 crop year in the three areas covered by our review will correct future abuse in these areas. However, RMA needs a better system to determine T-yields in areas without production history. Without production history, NASS would not have reliable information about yields in areas where insured crops had not been grown. At a minimum, information needs to be obtained from the ES and other agencies, such as the NRCS, about the feasibility of producing a particular crop in areas with little past production history.

10-Percent Cup Provisions

In our opinion, action is also necessary to eliminate the 10-percent cup provisions (adjustments limited to 10 percent) in cases where T-yields are incorrectly established by RMA. This provision may be necessary as protection for insureds with APH yields as disaster losses could have a marked impact on such yields. However, RMA should not be prevented from adjusting T-yields that are substantially in error as in the Rio Grande Valley where the 1998 popcorn yields were not adjusted more than 10 percent for insureds with prior coverage.

Reinsured Company Responsibility

Insurance agents who sold the crop insurance should have known that the yields were unreasonable and the potential for abuse. However, there is little incentive for them to report potential indicated abuses because of the premium income generated by such sales and limited liability of the insured companies for any crop losses that are incurred. Premium income generated in these areas amounted to over $5.7 million (1997 crop year popcorn and 1998 crop year pima and corn) of which $2.3 million was subsidized by RMA. Of the total premium income, the reinsured company's share was about $1.5 million for administrative costs, and they incurred only a small amount of the loss, with most of it being paid by RMA. The reinsured company's share of the 1997 popcorn losses was only $651,000 of the $5.5 million paid the producers, as the insurance was placed in assigned risk and development pools where the companies share very little of the loss. All of the 1998 crop year claims had not been paid, and for this reason we did not determine the insured companies' costs relating to these losses. The large increase in sales should also have been an indicator of the potential abuse of the program in the three areas covered by our review.

Potential Savings

As stated above, over $20 million in losses was incurred for the three crops in 1998 as shown in the table below.

CROP	AMOUNT
Nonirrigated Pima Cotton	$14,900,00
Nonirrigated Popcorn	3,000,000
Nonirrigated Corn	2,300,000
Total as of October 28, 1998	**$20,200,00**

Using these actual losses for 1998, if the same conditions occurred in 1999 (e.g., same amount of acres, same crops, all were insured, and losses were claimed), additional losses of $20 million would occur again in 1999. In response to our August 1998 management alert, the 1999 insurance coverage for these three crops was terminated in the cited counties, thereby saving the potential indemnities of about $20 million (see exhibit A).

RECOMMENDATION NO. 1a

In establishing T-yields in areas without prior production history, use information from sources such as the ES and NRCS to arrive at yields that better equate to the production potential for the area.

RMA Response

The RMA concurred with the audit recommendations. In areas where production dates are scarce and NASS data is limited, RMA agreed that information from other sources should be obtained. The RMA will incorporate references and use of these data sources at more local levels as crop programs are added and T-yields are revised and updated in the normal business cycle. (See exhibit B for the complete text of RMA’s response.)

OIG Position

We agree with the stated corrective action. To reach a management decision, we need information showing that procedures will be developed that require use of other data when the NASS data is limited, and a timeframe showing when such procedures will be issued.

RECOMMENDATION NO. 1b

Require that the actuarial files be documented to show how T-yields are established and that such files contain data and correspondence necessary to justify such yields.

RMA Response

The RMA concurred that in counties with limited data, deviations from approved procedures are necessary to determine actuarial sound yields, and that files should be maintained within RMA’s Actuarial Division which contained data, standard procedures, and processes used to calculate current T-yields. As T-yields are revised or established, related documentation will be reviewed, updated, and organized in such a way that this information would be easily accessible by outside parties. Also, the regional service offices will be advised to maintain documentation for T-yield determinations that deviate from standard procedures (see exhibit B).

OIG Position

We accept the management decision.

RECOMMENDATION NO. 1c

Eliminate the 10-percent "cup" adjustment provision for T-yields that are incorrectly or improperly established.

RMA Response

The RMA concurred with the recommendation. Section 6, paragraph 1(6)(d)7 of the 1998 FCIC 18010 Crop Insurance Handbook, which has been amended for use through 1999, states that cups or caps do not apply if previously approved APH yields are correct/changed (see ehxibit B).

OIG Position

We accept the management decision.

RECOMMENDATION NO. 1d

Establish a mechanism to obtain industry feedback on the reasonableness and viability of newly established yields and rates for crops/practices not previously produced in an area.

RMA Response

The RMA concurred with the recommendation. During the initial review process for areas where production data is scare, RMA will consider utilizing information from other sources, including industry feedback in T-yield determinations. The RMA has requested industry feedback as to crop yield situations that need further evaluation. Specifically, RMA obtained information and suggestions from National Crop Insurance Services regarding the determinations of crop T-yields for the 1998 crop year (see exhibit B).

OIG Position

We agree with the planned corrective. To reach a management decision, we need evidence that procedures have been established to obtain the industry feedback or a timetable for when such procedures will be issued.

EXHIBIT A - SUMMARY OF MONETARY RESULTS

FINDING NUMBER	DESCRIPTION	AMOUNT	CATEGORY
1	Estimated Crop Year 1999 indemnities saved due to termination of crop insurance coverage for crops which were not viable and yields not realistic for selected counties in Texas.	$20,000,000	Funds to be put to better use. Management or operating improvements/ savings.
	TOTAL	**$20,000,000**	

EXHIBIT B - RMA RESPONSE TO THE DRAFT REPORT

USDA

United States Department of Agriculture

Farm and Foreign Agricultural Services
Risk Management Agency

TO: James R. Ebbitt
Assistant Inspector General for Audit
Office of Inspector General

FROM: Kenneth D. Ackerman
Administrator APR 7 1999

SUBJECT: Office of Inspector General's (OIG) Audit Report 05001-2-Te: Crop Insurance Coverage for Pima Cotton, Popcorn, and Corn in Texas

Outlined below is our response to the recommendations in the subject audit.

RECOMMENDATION NO. 1a

In establishing T-yields in areas without prior production history, use information from sources such as the Extension Service and Natural Resources Conservation Service to arrive at yields that better equate to the production potential for the area.

Risk Management Agency (RMA) Response:

RMA concurs. RMA's current T-yield methodology works well where adequate National Agricultural Statistics Service (NASS) data exists and should not be modified at this time. However, in areas where production data is scarce and NASS data is limited, RMA agrees that information from other sources, including but not limited to the Extension Service and Natural Resources Conservation Service (NRCS), should be obtained, evaluated, and utilized in determining the feasibility of producing a crop in a particular area. Information from such alternative sources may also be useful in verifying the reasonableness of recommended T-yields. RMA will incorporate reference to, and use of these data sources at more local levels as crop programs are added and T-yields are revised and updated in the normal business cycle.

RMA requests management decision be reached on recommendation 1a.

RMA

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RECOMMENDATION NO. 1b

Require that the actuarial files be documented to show how T-yields are established and that such files contain data and correspondence necessary to justify such yields.

RMA Response:

RMA concurs. A standardized procedure for calculating T-yields was established and approved by RMA's management. However, for counties with limited data, deviations from the approved procedure are necessary to determine actuarially sound yields. Files are currently maintained within RMA's Actuarial Division which contain the data, standard procedures, and processes used to calculate current T-yields. RMA agrees that appropriate and necessary documentation must be maintained, especially when calculations of T-yields deviate from the approved procedure due to scarce data. As T-yields are revised or established, related existing documentation will be reviewed, updated, and organized in such a way so that this information would be more easily accessible to outside parties, as appropriate. In addition, Regional Service Offices' (RSO) will be advised to maintain documentation for T-yield determinations that deviate from the standard procedures, as applicable.

RMA requests management decision be reached on recommendation 1b.

RECOMMENDATION NO. 1c

Eliminate the 10-percent "cup" adjustment provision for T-yields that are incorrectly or improperly established.

RMA Response:

RMA concurs. If such T-yields are used to calculate approved APH yields. No action is required because the procedure that accomplished what OIG recommends has been in place for a number of years. Section 6, par. I(6)(d)7 of the 1998 FCIC 18010 Crop Insurance Handbook (CIH), which has been amended for use through 1999, states, "Cups or Caps do not apply if previously approved APH yields are corrected/changed. These include: The published "T" yield increases or decreases 10 percent or more and the "T" yield are required to calculate the approved APH yield."

For the 1999 crop year, if published T-yields were corrected/changed when compared to the previous year's published T-yields, cups/caps do not apply if the change was 10 percent or more.

RMA requests management decision be reached on recommendation 1c.

EXHIBIT B - RMA RESPONSE TO THE DRAFT REPORT

RECOMMENDATION NO. 1d

Establish a mechanism to obtain industry feedback on reasonableness and viability of newly established yields and rates for crop/practices not previously produced in an area.

RMA Response:

RMA concurs. The development of actuarially sound yields and rates using approved methodologies and review processes (including RSO review) requires objectivity from a disinterested third party, in this case RMA. However, during the initial review process for areas where production data is scarce, RMA will consider utilizing information from other sources, including industry feedback, in T-yield determination. RMA will consult with industry trade associations such as National Crop Insurance Services (NCIS) to determine the best mechanism for industry involvement in this process without causing significant actuarial delays. RMA has requested, informally and through various meetings, industry feedback as to crop yield situations that need further evaluation. RMA has followed up accordingly on feedback received. Specifically, RMA obtained information and suggestions from NCIS regarding the determination of crop T-yields for the 1998 crop year. Several of the suggestions from NCIS were utilized for developing these yields.

RMA requests management decision be reached on recommendation 1d.

If there are any questions, please contact Alan Sneeringer on (202) 720-8813 or Tracey Mock on (202) 690-6020.

Risk Management Agency