



U.S. Department of Agriculture  
Office of Inspector General  
Great Plains Region  
Audit Report

Farm Service Agency  
Risk Management Agency  
2000 Crop Disaster Program



Report No.  
50099-15-KC  
SEPTEMBER 2003



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



DATE: September 30, 2003

REPLY TO

ATTN OF: 50099-15-KC

SUBJECT: 2000 Crop Disaster Program

TO: James R. Little  
Administrator  
Farm Service Agency

Ross J. Davidson, Jr.  
Administrator  
Risk Management Agency

ATTN: T. Mike McCann  
Director  
Operations Review and Analysis Staff  
Farm Service Agency

Michael Hand  
Deputy Administrator  
for Compliance  
Risk Management Agency

**SUMMARY:**

The objectives of our review were to assess the Farm Service Agency's (FSA) administration of the 2000 Crop Disaster Program (CDP) and determine the propriety of program payments made to CDP participants. The results of our review indicated that the county offices (CO) visited were generally administering the program in accordance with program procedures. Therefore, we terminated our work after completing reviews of 30 selected producers in 2 judgmentally selected States.

However, we did note that one FSA CO did not properly establish a unit structure and three producers received excessive disaster program payments because of overstated crop insurance indemnities. The review was designed to assess FSA's administration of the 2000 CDP and determine the propriety of program payments made to CDP participants. During the review, we provided Statements of Conditions to the North Dakota and Kansas State FSA offices and three reinsured companies (American Farm Bureau Insurance Services, Inc., American Growers Insurance Company, and

Fireman's Fund) reporting administrative weaknesses, an improper unit structure, and improper crop insurance indemnities. Responses to the Statements of Conditions were considered in preparing this report. Exhibit A presents a summary of monetary results.

In their written comments to the draft report (see exhibits B and C) the agencies generally agreed with the audit findings and recommendations and have initiated corrective action. Based on the information provided in the responses, we were unable to accept the management decisions for any of the recommendations contained herein. Management decisions can be reached when FSA and Risk Management Agency (RMA) provide the additional information and/or action outlined in the OIG Position sections of the report.

### **BACKGROUND:**

The Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act 2001 (the Act) (Public Law 106-387), dated October 28, 2000, authorized the fiscal year (FY) 2000 CDP and the Quality Loss Program (QLP) for quality losses not covered by the 2000 CDP. The 2000 CDP already included quality loss payments for many crops; however, QLP was a supplemental quality program for those situations where the quality loss payments were inadequate or nonexistent. The QLP-apples/potatoes (QLP-AP) provided coverage for apple and potato producers who were not covered under the 2000 CDP. The legislation also authorized FSA county committees (COC) to make changes to data provided by RMA.

The objective of CDP was to assist farmers who suffered losses to 2000 crops due to natural disasters. Producers were eligible for CDP participation if they had suffered losses exceeding 35 percent of historic yields. The 2000 CDP is based, in part, on 2000 crop insurance indemnities. Eligible producers were compensated at 65 percent of crop insurance market price elections for insured crop losses, 60 percent of the crop insurance market price elections for uninsured crop losses, or 65 percent of the 5-year average price for noninsurable crop losses.

FSA developed program regulations and procedures and delivered the program through its network of field offices. As of March 1, 2002, CDP disbursements totaled about \$1.9 billion and QLP payments totaled about \$131.6 million. Funding for the QLP-AP was \$38 million, while funding for the CDP and QLP was unlimited.

### **OBJECTIVES:**

Our primary objectives were to assess FSA's administration of the 2000 CDP, the propriety of 2000 CDP and QLP payments made to the sampled producers, the propriety of COC changes to RMA data, and the effectiveness of reconciliation reports to monitor CO changes to data.

**SCOPE AND METHODOLOGY:**

Our review was performed in North Dakota and Kansas at 23 FSA CO's. At the FSA CO's, we reviewed CDP applications for 30 selected producers. We also reviewed crop insurance loss information from eight reinsured companies for these sampled producers that received a CDP payment based on a 2000 crop insurance indemnity.

We obtained the 2000 CDP payments from FSA's Producer Payment Reporting System (PPRS) and determined that 14 States had over 75 percent of the program payments. We selected a sample of 211 producers in the 14 States for review. We initiated our review in only two States to determine if preliminary results warranted completing additional reviews.

We conducted our review by gaining an understanding of applicable regulations, policies, procedures, manuals, and instructions. To accomplish our objectives, we reviewed CDP applications and supporting documentation, changes made to RMA data, and changes listed on FSA's reconciliation reports for our sample producers. We also interviewed CO personnel, warehouse operators, and producers, as necessary, to meet the review objectives. Prior to our fieldwork at the FSA CO's, we obtained and reviewed crop insurance claims data from applicable reinsured companies for our sample producers to assess the reasonableness of the production to count, actual production history, reported cause(s) of loss, and to determine if the indemnity was adequately supported and correct.

CDP fieldwork was performed at 9 FSA CO's in North Dakota and in 14 FSA CO's in Kansas from October 2002 through January 2003. At the CO's in North Dakota, we reviewed 15 insured sample producers. At the CO's in Kansas, we reviewed 13 insured and 2 non-insured sample producers.

Exhibit A presents the summary of monetary results for the review. The audit was conducted in accordance with Government Auditing Standards.

**AUDIT RESULTS:**

Our review in the two cited States showed that the FSA CO's analyzed generally administered the CDP in accordance with program procedures. Based on our initial results, we discontinued our review of the 2000 CDP after completing analysis of 30 producers in the 2 States.

**FSA:**

Our review showed that (1) CDP payments were generally made in accordance with program procedures, (2) COC changes to RMA data were properly supported, (3) reconciliation reports were reviewed by FSA personnel to monitor changes made to program data, (4) one related QLP payment was incorrect because of an improper crop share received from RMA's crop insurance program database, (5) 3 of 28 CDP

payments were, in part, incorrect because of erroneous crop insurance indemnities, and (6) CO and producer errors<sup>1</sup> were generally administrative in nature and, in only one instance, resulted in an overpayment of \$400 because the producer's share in an alfalfa crop was overstated by 33.3 percent on one unit. This occurred because the Jewell County, Kansas, CO did not properly determine the unit structure. On April 16, 2003, the Kansas State FSA office agreed with the cited condition and stated that the unit structure would be corrected and any overpayments reviewed for potential collection.

### **RMA:**

Our review of 28 of 30 selected producers who were insured disclosed that 3 indemnities received were in error. This occurred because one reinsured company improperly changed the cause of loss of wheat irrigated land and the loss adjustor used the wrong production to establish the production to count, one reinsured company incorrectly entered the producer's share, and a loss adjustor made a computation error. As a result, the insured producers received improper and/or excessive crop insurance indemnities.

### **Insured Producer A - American Farm Bureau Insurance Services, Inc. - Kansas Farm Bureau Insurance Company:**

Our review of production worksheets for insured Producer A, Unit Numbers 100, 700, and 801, showed that on August 2, 2000, the loss adjustor determined the primary cause of loss on wheat as drought (50 percent) and a secondary cause of loss as freeze (50 percent) on irrigated land. According to the RMA Loss Adjustment Manual, drought is not an acceptable cause of loss on irrigated land. However, the Initial Proof of Loss, also dated August 2, 2000, and completed by the loss adjustor, showed the primary cause of loss for the units as insects. On August 21, 2000, the Final Proof of Loss was prepared by the company and it showed the primary cause of loss as insects and the secondary cause of loss as freeze. We contacted the loss adjustor and were advised that any changes made on the initial Proof of Loss would have been initialed by the loss adjustor and the change seemed questionable since it had not been initialed by the loss adjustor. The Regional Claims Manager stated that there was no additional documentation to support the change in the primary cause of loss on the Final Proof of Loss. The Director of Claims stated that even though the loss file did not contain documentation supporting the change in the cause of loss from drought to insect damage, the change was viable, based on office staff knowledge of crop conditions and acceptable causes of loss for any certain area and farming practice. In addition, our review of insured Producer A showed that the production to count for wheat was understated by 236.1 bushels for Unit Number 801 and overstated by 86.3 bushels on Unit Number 802. This occurred because the loss adjustor used the wrong production to establish the production to count on the units. As a result, the insured was overpaid \$498 on Unit Number 801 and underpaid \$182 on Unit Number 802. The Director of

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<sup>1</sup> COC's did not always delegate authority to CO's to administer the CDP, producers did not always indicate the cause of loss on the CDP applications, and the CO, in one instance, did not properly establish a unit structure.

Claims agreed that the insured was overpaid \$316. We concluded that the insured received an improper indemnity, totaling \$8,376, based, in part, on an unsupported cause of loss.<sup>2</sup>

In order to ascertain whether the cited reinsured company had changed reported ineligible causes of loss on irrigated land to eligible losses for others of its insureds, we identified 10 additional Kansas Farm Bureau Insurance Company crop insurance policies that showed insects as a cause of loss on irrigated land from RMA records. We determined that 5 of the 10 policies actually had drought listed as a part or all of the cause of loss prior to the completion of the Final Proof of Loss by the reinsured company. Based on our review, the five policyholders received questionable indemnities of \$8,979.

The action taken by the Kansas Farm Bureau Insurance Company on these cases was referred to the Office of Inspector General – Investigations for its determination as to whether a criminal investigation was warranted. The amount of questionable indemnities received by the cited six insureds totaled about \$17,355. On April 28, 2003, the Office of Inspector General – Investigations advised that an investigation would not be scheduled due to the monetary amount involved and that the matter be referred to RMA Compliance Division for further evaluation, examination, and/or administrative remedy. Information concerning these cases has been provided to RMA Compliance for its reviews and determinations.

### **Insured Producer B – American Growers Insurance Company:**

Our review of the production worksheet, dated November 17, 2000, for a barley loss on Unit Number 101 for the 2000 crop year, showed that the loss adjustor determined a 33.3 percent crop share for the producer. On November 20, 2000, the producer certified that the information on the production worksheet was correct, and the claim information was submitted to the company for payment. However, the Crop Claims Worksheet (used by the company to determine the indemnity), dated November 27, 2000, showed a 100 percent share for the producer was used to calculate the indemnity on Unit Number 101. We concluded that the loss adjustor correctly reported the producer's share in the crop as 33.3 percent, but the producer received excessive indemnity payments totaling \$2,254,<sup>3</sup> based on 100 percent share of the production. In addition, two other producers each received a 33.3 percent share of the indemnity for the same production loss under different crop insurance policies.

On March 10, 2003, the reinsured company agreed with our finding and on April 30, 2003, the RMA Northern Compliance Office advised that RMA accounting records for the insured were corrected to reflect the overpaid indemnity.

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<sup>2</sup> Pending a determination by RMA to disapprove all or part of the indemnity, based on the unsupported cause of loss, RMA may need to collect the overpaid indemnity of \$316.

<sup>3</sup> \$3,108 indemnity less \$854 premium.

**Insured Producer C – Fireman’s Fund:**

Our review of production worksheet for Unit Number 103, dated November 8, 2000, showed that the loss adjustor determined 1,834.4 bushels of gross production. We reviewed the calculations and determined 1,913.6 bushels as the correct gross production. After adjustments were made to the gross production, we determined the production to count was overstated by 11 bushels. We concluded that the insured was overpaid \$40 (11 bushels times \$3.67).

On February 21, 2003, the reinsured company agreed with our finding but stated that no further action would be taken, due to their monetary variance tolerance.

**RECOMMENDATIONS TO THE RMA ADMINISTRATOR:**

1. Perform an Operations Review of Kansas Farm Bureau Insurance Company’s operations for the 2000, 2001, and 2002 crop insurance years to determine if other ineligible causes of loss for claims were improperly changed without supporting documentation. Recover any ineligible indemnity amounts disclosed by the review and report the monetary amounts collected to us.

**RMA RESPONSE:**

In its written response to the draft report (see exhibit C), RMA concurred with the recommendation and stated that the Central Regional Compliance Office (CRCO) has been requested to schedule an Operations Review of the Kansas Farm Bureau Insurance Company. RMA will notify us when a date has been chosen for completing the review.

**OIG POSITION:**

We concur with the proposed corrective action. To reach management decision, we need to be provided the timeframe for completing the planned Operations Review. Also, we will need documentation showing the details of RMA’s planned review and, for each overpayment identified, evidence that a bill for collection has been sent, the amount entered as a receivable in the agency’s accounting records, or documentation that the overpayment has been collected.

2. Conduct a review of the six indemnities cited in this report under Insured Producer A and determine if the causes of loss were improperly changed without supporting documentation. Recover any ineligible indemnity amounts disclosed by the review and report the results to us.

**RMA RESPONSE:**

In its written response to the draft report (see exhibit C), RMA conditionally concurred with the recommendation and stated that CRCO will review and

validate the OIG findings and issue findings to the responsible insurance provider. Copies of the findings and determinations will be provided as they are issued.

**OIG POSITION:**

We concur with the proposed corrective action. To reach management decision, we need documentation showing the results of RMA's review whether the causes of loss were improperly changed for the six indemnities cited in the report. We will also need documentation for each overpayment that a bill for collection has been sent, the amount entered as a receivable in the agency's accounting records, or evidence that the overpayment has been collected. We will also need to be provided the timeframe for completing the planned actions.

3. Report the corrected indemnity amounts to FSA for appropriate corrective action.

**RMA RESPONSE:**

In its written response to the draft report (see exhibit C), RMA conditionally concurred with the recommendation and stated that determination issued as a result of Recommendation No. 2 will be reported to FSA and RMA will provide us with any notifications sent to FSA.

**OIG POSITION:**

We do not agree with the proposed corrective action since it does not address forwarding to FSA the determinations made by RMA's CRCO under Recommendation No. 1. To reach management decision, we need documentation showing that FSA will be notified of any improper indemnities identified by the actions for both Recommendations Nos. 1 and 2. Also, we need to be provided a timeframe for completing the planned actions.

**RECOMMENDATIONS TO THE FSA ADMINISTRATOR:**

4. Instruct the affected CO's to determine if the six producers cited under Producer A received CDP payments, based on eligible causes of loss, and correct any improper CDP payments.

**FSA RESPONSE:**

In its written response to the draft report (see exhibit B), FSA concurred with the recommendation and stated that loss due to insects had not been determined to be an eligible cause of loss for the 2000 CDP. The CO's are continuing their research and will provide feedback to the FSA National office as soon as possible.



**OIG POSITION:**

We concur with the proposed corrective action. To reach management decision, we need documentation showing the action taken by the applicable CO's for the six cited producers and, for each overpayment, that a bill for collection has been sent, the amount entered as a receivable in the agency's accounting records, or evidence that the overpayment has been collected. Also, we need to be provided a timeframe for completing the planned actions.

5. Instruct the affected CO to correct applicable CDP and QLP payments made to Producer B.

**FSA RESPONSE:**

In its written response to the draft report (see exhibit B), FSA concurred with the recommendation and stated that the North Dakota State office has instructed the CO to collect the CDP overpayment made to the cited producer.

**OIG POSITION:**

We concur with the proposed corrective action. To reach management decision, we need documentation showing that a bill for collection has been sent, the amount entered as a receivable in the agency's accounting records, or evidence that the overpayment has been collected. Also, we need to be provided a timeframe for completing the planned actions.

6. Followup with the Kansas State FSA office to ensure that the unit structure was corrected and any overpayment collected for the producer cited in the Statement of Condition provided to the Kansas State FSA office.

**FSA RESPONSE:**

In its written response to the draft report (see exhibit B), FSA concurred with the recommendation and stated that the CO has been instructed to review the producer's application and take necessary corrective action to collect the overpayment.

**OIG POSITION:**

We concur with the proposed corrective action. To reach management decision, we need documentation showing that a bill for collection has been sent, the amount entered as a receivable in the agency's accounting records, or evidence that the overpayment has been collected. Also, we need to be provided a timeframe for completing the planned actions.

**CONCLUSION AND REQUIRED AGENCY ACTION:**

The FSA and the RMA responses to the official draft, dated September 22 and September 15, 2003, respectively, are included in their entirety as exhibits B and C, with excerpts and the Office of Inspector General's position incorporated into the report.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days showing the requested information and the timeframes for implementation of the recommendations for which management decisions have not yet been reached. Please note that the regulation requires that management decisions be reached on all findings and recommendations within a maximum of 6 months from the date of report issuance, and final action to be taken within 1 year of each management decision.

*/s/*

RICHARD D. LONG  
Assistant Inspector General  
for Audit

**EXHIBIT A – SUMMARY OF MONETARY RESULTS**

<b>Finding No.</b>	<b>Description</b>	<b>Amount</b>	<b>Reference</b>
1	Overpaid indemnities	\$19,649	1/
	Incorrect Unit Structure	\$400	1/

1/ Questioned Costs, Recovery Recommended.

## EXHIBIT B – FSA’S RESPONSE TO THE DRAFT REPORT



**United States  
Department of  
Agriculture**

Farm and Foreign  
Agricultural  
Services

Farm Service  
Agency

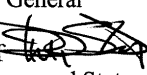
Operations Review  
and Analysis Staff

Audits,  
Investigations and  
State and County  
Review Branch

1400  
Independence  
Avenue, SW  
Stop 0540  
Washington, DC  
20250-0540

SEP 22 2003

**TO:** Director, Farm and Foreign Agriculture Division  
Office of Inspector General

**FROM:** Philip Sharp, Chief   
Audits, Investigations, and State and County Review Branch

**SUBJECT:** Response to Audit No. 50099-15-KC, 2000 Crop Disaster Program (CDP)

Enclosed is a copy of a memorandum from the FSA's Deputy Administrator for Farm Programs, which responds to your August 5 official draft report regarding the subject audit.

Please address any questions to Karren Fava 720-6152.

Enclosure



United States  
Department of  
Agriculture

Farm and Foreign  
Agricultural  
Services

Farm Service  
Agency

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Washington, DC  
20250-0517

USDA'S OFFICIAL INFORMATION  
POLICY

2003-09-16 10:03:00

*Handwritten initials and date: JM, MK, 9-22-03*

**TO:** Philip Sharp  
Chief, Audits, Investigations, State and County Review Branch

**FROM:** *[Signature]*  
John A. Johnson SEP 17 2003  
Deputy Administrator for Farm Programs

**SUBJECT:** Response to OIG Official Draft Audit Report No. 50099-15-KC,  
2000 Crop Disaster Program (CDP)

This is in response to your memorandum dated August 6, 2003, requesting written comments on OIG Official Draft Audit Report No. 50099-15-KC, 2000 CDP.

Provided below are comments to the three recommendations to the FSA Administrator provided in the subject draft audit report.

**Recommendation #4:** Instruct the affected CO's to determine if the six producers cited under Producer A received CDP payments based on eligible causes of loss and correct any improper CDP payments.

**Comments to #4:** We concur with recommendation #4 with respect to the six producers cited under Producer A that received 2000 CDP payments based on insects as the cause of loss. The Kansas State FSA Office has contacted the six counties involved in this case. Currently, a loss due to insects has not been determined to be an eligible cause of loss for 2000 CDP in the affected counties. The county offices are continuing their research and will provide feedback to the National office as soon as possible.

**Recommendation #5:** Instruct the affected CO to correct applicable CDP and QLP payments made to Producer B.

**Comments to #5:** We concur with recommendation #5 with respect to a 2000 CDP overpayment made to Producer B for a barley loss on unit number 101 in Traill County, North Dakota. The \$981 CDP overpayment made to Producer B was due to excessive indemnity payments made based on an incorrect producer's share of 100 percent on unit number 101. As determined by OIG and the RMA Northern Compliance Office, Producer B's corrected share of unit number 101 is 33.3 percent. Therefore, the North Dakota State FSA Office has instructed Traill County to begin procedure to collect the \$981 CDP overpayment made to Producer B.

Philip Sharp  
Page 2

**Recommendation #6:** Followup with the Kansas State FSA Office to ensure that the unit structure was corrected and any overpayment collected for the producer cited in the Statement of Condition provided to the Kansas State FSA Office.

**Comments to #6:** We concur with recommendation #6 to collect a \$400 2000 CDP overpayment made to an alfalfa producer due to an establishment of an incorrect unit structure. The National office has contacted the Kansas State FSA Office concerning the collection of the 2000 CDP overpayment. The Jewell County Office was instructed in a September 5, 2003, memorandum from the State office to review the producer's application, and take the necessary action to collect the \$400 overpayment made to \_\_\_\_\_ on his 2000 alfalfa CDP application.

## EXHIBIT C – RMA’S RESPONSE TO THE DRAFT REPORT

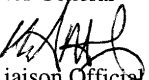


United States Department of Agriculture

Farm and Foreign Agricultural Services  
Risk Management Agency

SEP 15 2003

TO: Richard D. Long  
Assistant Inspector General for Audit  
Office of Inspector General

FROM: Michael Hand   
Agency Audit Liaison Official

SUBJECT: OIG Official Draft Audit Report 50099-15-KC, 2000 Crop Disaster Program

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

### **RECOMMENDATION NO. 1**

*Perform an Operations Review of Kansas Farm Bureau Insurance Company’s operations for the 2000, 2001, and 2002 crop insurance years to determine if other ineligible causes of loss for claims were improperly changed without supporting documentation. Recover any ineligible indemnity amounts disclosed by the review and report the monetary amounts collected to us.*

### **RMA Response:**

Concur. The Central Regional Compliance Office (CRCO) has been requested to schedule an Operations Review of the Kansas Farm Bureau Insurance Company (Farm Bureau Mutual Insurance Company). We will notify your office once a date has been chosen for completing the review.



•1400 Independence Ave., SW•Stop 0801•Washington, DC 20250-0801

The Risk Management Agency Administers and Oversees  
All Programs Authorized Under the Federal Crop Insurance Corporation

An Equal Opportunity Employer

Richard D. Long

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**RECOMMENDATION NO. 2**

*Conduct a review of the six indemnities cited in this report under Insured Producer A and determine if the causes of loss were improperly changed without supporting documentation. Recover any ineligible indemnity amounts disclosed by the review and report the result to us.*

**RMA Response:**

Conditionally concur. The CRCO will review and validate the OIG findings associated with this recommendation and issue findings to the responsible insurance provider where appropriate. We will provide copies of findings and determinations to your office as they are issued.

**RECOMMENDATION NO. 3**

*Report the corrected indemnity amounts to FSA for appropriate corrective action.*

**RMA Response:**

Conditionally concur. Any determinations issued as a result of recommendation number 2 will be reported to FSA. We will provide your office with a copy of any notifications sent to FSA.

If you have any questions regarding this audit response, please contact Alan Sneeringer at (202) 720-8813.



Informational copies of this report have been distributed to:

Administrator, RMA	(3)
Administrator, FSA	(3)
Agency Liaison Officer, RMA	(3)
Agency Liaison Officer, FSA	(3)
General Accounting Office	(1)
Office of Management and Budget	(1)
Office of the Chief Financial Officer	
Director, Planning and Accountability Division	(1)

