United States Department of Agriculture
Office of Inspector General

RMA: Federal Crop Insurance Organic Crops

Audit Report 05601-0006-KC
February 2013

RMA: Federal Crop Insurance – Organic Crops

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What Were OIG's Objectives

We assessed whether RMA's controls over the organic crop insurance process were adequate to ensure underwriting information, premiums, and indemnity payments were proper and accurate, including whether insured producers followed good organic farming practices.

What OIG Reviewed

To assess the controls, we reviewed a sample of 76 organic crop insurance policies held by 33 insured producers across 6 States. From crop years 2008 through 2010, premiums for these policies totaled $4.0 million and indemnities for the 48 policies with losses totaled $4.26 million.

What OIG Recommends

RMA should reduce transitional yields for crops produced using organic farming practices. RMA should also reiterate that loss adjusters should carry out additional loss adjustment requirements for crops produced using organic farming practices, and require them to maintain supporting documents.

OIG evaluated RMA's controls over Federal crop insurance coverage for organically produced crops.

What OIG Found

The Office of Inspector General (OIG) determined that the Risk Management Agency (RMA) needs to strengthen controls over Federal crop insurance coverage for crops produced through organic farming practices. Based on reviews of 3 years of organic crop insurance policies, we found that transitional yields offered to organic producers overstated actual production capabilities of farmers producing crops using organic farming practices. This resulted in excessive insurance coverage and higher indemnity payments for 35 of 48 crop policies with losses. Because the policy guaranteed yields it underwrote were excessive, RMA paid at least $952,000 of $2.56 million in additional indemnities to insured producers for these policies. In addition, insured producers with organic crops had a loss ratio of 105 percent. In contrast, insureds with conventional crops had a loss ratio of only 67 percent.

In addition, we concluded that RMA needs to reiterate loss adjustment procedures to the approved insurance providers (AIP) that it partners with to administer the Federal crop insurance program. AIPs are required to carry out specific loss adjustment standards specific to organic crop claims. We found that contrary to RMA policy, AIPs did not require their adjusters to use the insureds' organic crop documents to assess good organic farming practices. Nor were AIPs required to maintain documentation supporting their determinations that producers used good organic farming practices. AIPs paid $4.26 million in claims to insureds who held 48 policies without verifying loss information and ascertaining whether insureds were carrying out good organic farming practices.

RMA agreed with our two recommendations.

United States Department of Agriculture

Office of Inspector General

Washington, D.C. 20250

DATE: February 22, 2013

AUDIT NUMBER: 05601-0006-KC

TO: Brandon C. Willis
Acting Administrator
Risk Management Agency

ATTN: Michael Hand
Deputy Administrator for Compliance

FROM: Gil H. Harden
Assistant Inspector General for Audit

Gil H. Harden

SUBJECT: RMA: Federal Crop Insurance – Organic Crops

This report presents the results of the subject audit. Your written response, dated January 24, 2013, to the official draft report is included, in its entirety, at the end of this report. Excerpts from your response and the Office of Inspector General's position are incorporated into the relevant sections of the report. Based on your written response, we are accepting your management decisions for all audit recommendations in the report, and no further response to this office is necessary.

Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer. In accordance with Departmental Regulation 1720-1, final action needs to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions.

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Background and Objectives

Background

Within the United States Department of Agriculture (USDA), Risk Management Agency (RMA) administers the Federal crop insurance programs, which helps producers offset the costs of potential crop failures due to natural disasters or commodity price declines. RMA administers the program through a cooperative effort with approved insurance providers (AIP) in which AIPs sell and service crop insurance policies.

RMA allows AIPs to offer producers several different insurance products based on an individual producer's actual production history (APH). An APH yield is an individual producer's actual crop yield averaged across a 4 to 10-year period. Using APH as a basis for calculations allows a producer's history of success or failure with a crop to influence the premium the producer pays for a policy and any potential indemnity payment the AIP would make to the producer if the producer suffers a loss. Since not all producers have grown crops for the number of years required in order to complete an APH yield, the Federal Crop Insurance Act provides additional methods for determining the yields to use as the basis for calculations.[1] Essentially, if a producer does not have an acceptable number of years of production records, these methods are used to calculate the APH of a producer using a transitional yield.[2] These are benchmark production and yield levels the insureds must be able to realistically attain.[3] As producers establish more years of actual yield production records, the approved APH yields begin to more accurately reflect the yield potential.

Organic Farming Practices

Organic farming is the form of agriculture that relies on techniques such as crop rotation, green manure, compost, and biological pest control. Soil fertility and crop nutrients are managed through tillage and cultivation practices, crop rotations, and cover crops, and are supplemented with animal and crop waste materials and allowed synthetic materials. Crop pests, weeds, and diseases are controlled primarily through management practices including physical, mechanical, and biological controls. Farming operations must use organic seeds and other planting stock when available. The use of genetic engineering, ionizing radiation, and sewage sludge is prohibited. Organic farming standards require that land must have had no prohibited substances applied to it for at least 3 years before the harvest of an organic crop.

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[1] Public Law 103-66, Title I, *Agricultural Reconciliation Act of 1993.*
[2] Federal Crop Insurance Corporation (FCIC) 18010, *Crop Insurance Handbook*, section 3, "Definitions," June 26, 2006, defines a transitional yield as an estimated yield provided by RMA to use in calculating approved APH yields when less than 4 years of actual, temporary, and/or assigned yields are available on a crop by county basis.
[3] FCIC 18010, *Crop Insurance Handbook*, section 3, "Definitions," June 26, 2006, defines good farming practices as the 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. Good organic farming practices are those generally recognized by the organic agricultural industry for the area or contained in the organic plan that is in accordance with the National Organic Program published in 7 Code of Federal Regulations (CFR), part 205.

Organic farming has become one of the fastest growing segments of United States agriculture. According to USDA's Economic Research Service, United States organic production has more than doubled since the late 1990s, and the consumer market has grown even faster. Organic food sales have more than octupled, increasing from $3.6 billion in 1997 to $31.4 billion in 2011.

Federal Crop Insurance for Organic Farming Practices

Prior to the *Agricultural Risk Protection Act of 2000* (ARPA), Federal crop insurance was only available to farmers growing crops using conventional farming practices. ARPA required organic farming practices to be recognized as good farming practices.[4] In 2001, farmers could insure their crops grown using organic farming practices with a written agreement.[5] Beginning in 2004, producers of organic crops could generally insure crops grown using organic farming practices without obtaining a written agreement. Since 2004, crop policies with organic farming practices have more than tripled from 1,459 to 4,928 policies in 2011.

RMA provides insurance coverage for certified organic acreage, transitional acreage (land on which organic farming practices are being followed that does not yet qualify to be designated as certified organic acreage),[6] and buffer zone acreage (land that separates acreage to support organic practices).[7] For certified organic acreage, the insured must have a current organic plan and a recent written certification in effect from a certifying agent.[8] For transitional acreage, the insured must have a certificate, or written documentation, from a certifying agent showing that an organic plan is in effect. For both transitional and certified acreage, the insured must have records from the certifying agent showing the specific location of each field of certified organic, transitional, and buffer zone acreage, and acreage maintained and not maintained under organic farming practices. In addition, separate APH databases for conventional, transitional, and certified organic acreage must be established and maintained by the AIP.[9] Buffer zone acreage production must be added to the acreage that it buffers. Any loss due to failure to comply with the organic standards is considered an uninsured cause of loss.

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[4] Public Law 106-224.
[5] An agreement that alters the designated terms of an additional coverage policy and that is authorized under the basic provisions, the crop provisions, or the special provisions for the insured crop.
[6] If any acreage qualified as certified organic or transitional acreage on the acreage reporting date, such acreage will remain insured under the transitional or certified organic practice.
[7] FCIC 18010, *Crop Insurance Handbook*, Exhibit 38 (1), June 26, 2006, defines a buffer zone as a parcel of land, as designated in the insured's organic plan, that separates agricultural commodities grown under organic practices from agricultural commodities grown under non-organic practices, and is used to minimize the possibility of unintended contact by prohibited substances or organisms.
[8] FCIC 18010, *Crop Insurance Handbook*, Exhibit 38 (1), June 26, 2006, defines an organic plan as a written plan, in accordance with the National Organic Program published in 7 CFR part 205, that describes the organic farming practices that the insured and a certifying agent agree upon annually or at such other times as prescribed by the certifying agent.
[9] FCIC 18010, *Crop Insurance Handbook*, section 3, "Definitions," June 26, 2006, defines an APH yield as a yield calculated and approved by the AIP used to determine the production guarantee by summing the yearly actual, assigned, adjusted, or unadjusted transitional yields and dividing the sum by the number of yields contained in the database, which will always contain at least four yields. The database may contain up to 10 consecutive crop years of actual or assigned yields. The approved yield may have yield adjustments elected under applicable policy provisions, yield revisions/reductions, or other limitations according to FCIC-approved procedures applied when calculating the approved yield.

RMA underwriting standards for organic farming practices, including the method for determining the approved APH yield that forms the basis of production guarantees, are similar to those used for conventional farming practices.[10] For example, in most cases, RMA allows transitional yields for organic insurance units to be incorporated into the APH calculations that form the basis for production guarantees. Organic insureds are also allowed to have the same yield protections against catastrophic losses that conventional insureds have. Thus, these underwriting procedures have the effect of treating organic farming yield potentials as if they were conventional farming yield potentials.

Changes Since 2008

The 2008 Farm Bill required the Federal Crop Insurance Corporation (FCIC) to contract for the development of improvements in Federal crop insurance policies covering crops produced in compliance with standards issued under the National Organic Program.[11] Specifically, the law required a review of the underwriting, risk, and loss experience of organic crops covered by FCIC, as compared with the same crops produced in the same counties and during the same crop years using nonorganic methods.

The contractor who performed this required review for RMA was unable to document the existence of significant, consistent, and systemic variations in loss history between organic and non-organic commodities on an individual crop basis due to data limitations.[12] However, the risk analysis clearly indicated that inappropriate transitional yields have been a significant source of the higher costs observed for organic practices. The contractor recommended that transitional yields be lowered by 35 percent for insurance plans that use APH yields as the basis for the production guarantee in order to better reflect experience data and lower loss ratios. RMA acknowledges that transitional yields for organic crops are generally too high, but has not implemented the recommendation because it considers the production data currently available to be too "thin" to support a methodology for setting separate transitional yields for organic crops.

To facilitate the reduction in transitional yields, the contractor also recommended that RMA establish organic practices as a separate type of acceptable farming practice. RMA implemented this recommendation for crop year 2011.

Administering Federal Crop Insurance

To mitigate the effect of catastrophic years on APH yields, RMA established yield limiting standards referred to as yield cups and floors.[13] The yield cup limits how much a producer's

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[10] FCIC 18010, *Crop Insurance Handbook*, section 3, "Definitions," June 26, 2006, defines production guarantee as the number of pounds, bushels, tons, cartons, or other applicable units of measure determined by multiplying the approved APH yield per acre by the coverage level percentage elected.
[11] Public Law 110-246.
[12] "Organic Crops Deliverable, Revised Written Rating Report," February 1, 2010.
[13] FCIC 18010, *Crop Insurance Handbook*, section 6(i), defines cups and floors as yield limitations that are designed to mitigate the effect of catastrophic years on APH yields.

APH yield can decrease in one year, while the yield floor sets the lower limit an insured's APH yield can reach.[14]

Annually, RMA identifies county transitional yields for review and modifies them when yield trends change for the crops. However, since 2001, transitional yields for crops produced using organic farming practices have used the same transitional yields as crops produced using conventional farming practices because insufficient production data exist to establish separate transitional yields for organic crops.

RMA loss adjustment standards require loss adjusters to perform certain procedures. The procedures to adjust organic claims include obtaining copies of certain organic records, such as the organic certificate and inspection reports, to verify pertinent information from these records such as insurability, organic acreage locations, and whether good organic farming practices were carried out. The insured must also keep separate records of acreage and production for the farming practices used. In instances where questionable causes of loss are involved, the AIP should verify the cause of loss with sources in the organic agricultural industry.

Objectives

Our overall objective was to assess whether RMA established adequate controls over AIPs that provide Federal crop insurance coverage for organically produced crops. Specifically, we identified and assessed controls over underwriting and servicing policies and adjusting claims for organically insured crops to ensure the propriety and accuracy of premiums and indemnity payments.[15] We also assessed controls over determining whether underwriting information was accurate, including whether insured producers followed good organic farming practices.

[14] For 1 year of actual yields the yield floor is 70 percent, 2 to 4 years of actual yields 75 percent, and 5 or more years of actual yields 80 percent.
[15] In assessing the propriety of premiums and indemnities, we compared and analyzed the producers' history of production to the production and APH yields at which they were insured.

Section 1: RMA's Controls Over Crop Insurance Coverage Need To Better Reflect Production Averages of Organic Crops

Finding 1: Transitional Yields Offered for Organic Crops Exceed Production Capabilities

We found that insured producers for 35 of 48 organic crop policies with losses did not have production histories supporting that they could grow the insured crops to reach the yields used to determine the production guarantee or amount of insurance.[16] This occurred because RMA directs AIPs to apply transitional yields and underwriting standards established for crops produced using conventional farming practices to crops produced using organic farming practices. As a result, at least $952,000 of $2.56 million in indemnities that RMA underwrote were excessive. In addition, insured producers with organic crops experienced a programwide loss ratio of 105 percent.[17] In contrast, insureds with conventional crops experienced a loss ratio of only 67 percent.

The basic provisions of the crop insurance policy state that the insured producer must be able to use acceptable farming practices to grow a crop that will reach the yield used to determine the production guarantee or amount of insurance.[18] RMA sets transitional yields that AIPs use in calculating yields used in the insurance process when an insured producer has less than 4 years of actual history available for a crop in a given county.[19]

The 2008 Farm Bill mandated that RMA enter into a contract to review the actuarial appropriateness of RMA's organic crop rates and organic crop pricing arrangements. The resulting study identified a number of examples that demonstrate in aggregate, and for major crops, that transitional yields offered for organic crops are generally too high.[20] Specifically, it found that both in the aggregate and for the major crops, the average of actual organic yields certified by producers is approximately 65 percent of the reference yields. Observing that "risk analysis clearly indicates that inappropriate transitional yields are a significant source of the higher loss costs observed for the organic practice," the study recommends transitional yields be reduced by 35 percent. The study found that crops for which APH procedures provide the basis for guarantees need an alternate approach, and that this approach should be implemented long enough to provide sufficient data before any premium rate differentials between organic and

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[16] We reviewed a total of 76 crop policies, including 48 policies with losses and 28 policies without losses for crop years 2008 through 2010.
[17] The loss ratio is calculated by dividing total indemnities by total premium.
[18] FCIC 18010, *Crop Insurance Handbook*, section 3, "Definitions," June 26, 2006, 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. The definition specifically identifies conventional or sustainable farming practices and organic farming practices as acceptable farming practices.
[19] Specifically, based primarily on data from the National Agricultural Statistics Service, RMA sets transitional yields that approximate the county average yield over 10 years.
[20] The contractor performing the study determined that instabilities in the data and limitations in their breadth and depth prevented the study from providing support for blanket recommendations for all organic crops and provided limited data to support specific recommendations for individual crops.

conventional production are implemented. RMA acknowledges that transitional yields for organic crops are generally too high and has taken steps to implement certain of the contractor's recommendations. However, RMA has not implemented the recommendation on transitional yields because it considers the production data currently available to be too "thin" to support a methodology for setting separate transitional yields for organic crops.

We performed analysis on the production histories and claims for the 48 organic crop policies in our sample with losses. We identified that 35 of these organic crop policies had average actual yields less than 80 percent of transitional yields, and below the yield floor, which indicates production guarantees for these policies were excessive. To assess the impact of these excessive production guarantees on indemnities, we recalculated claims paid for the 35 crop policies, which received $2.56 million in indemnity payments for crop years 2008 through 2010. Based on the contractor's report that recommended transitional yields for organic crops be reduced by 35 percent, we used 65 percent of the applicable transitional yields as the basis for the production guarantee instead of the approved APH yields.[21] We determined that using 65 percent of the transitional yield as the basis for the production guarantee would reduce indemnity payments from $2.56 million to $1.61 million, or about $952,000 in excessive insurance coverage. We also recalculated the losses using the average actual yields as the basis for the production guarantee. Using the average actual yields would reduce indemnity payments from $2.56 million to about $764,000, or about $1.80 million in excessive insurance coverage.[22]

Further, we evaluated the actual production histories of organic crop policies to identify differences between reported actual yields, transitional yields, and approved APH yields. Specifically, we selected three major crops (corn, soybean, and wheat), and identified that 37 of the 76 organic crop policies in our sample were for one of these crops. We found significant differences between approved APH yields, transitional yields, and actual yields for 30 of these 37 policies. The following shows the differences in these yields by crop:

- Eight of eight soybean crop policies in our sample had an average of 8.9 years of reported actual yields. These yields averaged 61 percent of the approved APH yields and 51 percent of the transitional yield for the county.

- Ten of 11 corn crop policies in our sample had an average of 7.7 years of reported actual yields. These yields averaged 56 percent of the approved APH yields and 47 percent of the transitional yield for the county.

- Twelve of 18 wheat crop policies in our sample had an average of 4.1 years of reported actual yields. These yields averaged 47 percent of the approved APH yields and 41 percent of the transitional yield for the county.

With reported actual yields averaging significantly less than the approved and transitional yields at which the policies were insured, these corn, soybean, and wheat policies demonstrate the significant disparity between approved APH yields, transitional yields, and actual yields. They

[21] "Organic Crops Deliverable, Revised Written Rating Report," February 1, 2010, page 131.
[22] Actual yields were aggregated by crop policy for each insured producer without regard to unit structure.

also demonstrate how the combination of excessive transitional yields and underwriting standards established for conventionally produced crops artificially inflates production guarantees. Inflated production guarantees lead to excessive indemnities and the potential for adverse selection and program abuse.

RMA was required to recognize organic farming practices as good farming practices beginning in crop year 2001. Without sufficient data about organic production levels, RMA relied on transitional yields intended for conventional insureds when it set approved APH yields for organic insureds. When implementing insurance options for organic farmers, RMA also applied underwriting standards established to protect farmers of conventionally produced crops against catastrophic loss. This standard (known as the "yield floor") is intended to mitigate the impact that an exceptionally poor crop yield would have on a producer's APH yield. Because of the differences in production capabilities between organic and conventional farming practices, the transitional yields and yield floors used to calculate insurance for conventional crops should not be used to calculate insurance for crops produced using organic farming practices. Using them inflates the APH yield and resulting production guarantee for organic crops.

The availability of production and yield data for crops produced using organic farming practices is not only very limited, but also sporadic. The resulting data limitations have hindered RMA's ability to establish transitional yields for organic crops on a county or regional basis. Even though participation in organic crop insurance is steadily increasing, we do not believe that sufficient production data that RMA could use to establish separate transitional yields by county or region, as it does now for crops produced using conventional farming practices, will be available for several years. However, given that RMA acknowledges that transitional yields are generally set too high for organic crop policies, RMA could implement a general reduction.

We concluded that RMA should implement the contractor's recommendation to reduce transitional yields by 35 percent for crops produced using organic farming practices in order to better align insurance coverage with what organic farmers can produce. In the future, RMA should monitor the availability of production and yield data and develop transitional yields for crops produced using organic farming practices when sufficient data become available.

Recommendation 1

Implement the contractor's recommendation to reduce transitional yields for crops produced using organic farming practices by 35 percent or by an appropriate percentage as determined by RMA.

Agency Response

RMA agrees with the recommendation to reduce transitional yields by an appropriate percentage as determined by RMA, and based on the following requests management decision. For a number of crops, RMA data indicates that the organic practice tends to yield less than the conventional practice, which supports the recommendation to decrease the organic transitional yield. For the 2014 reinsurance year, RMA will establish a differential insurance offer for the organic practices where supported by the data. This includes:

- Introducing transitional yields that reflect the difference in yields between organic and conventional production as observed in RMA's historical data.

- Removing the 5-percent surcharge above the conventional practices premium that is currently applied to organic producers.

- Issuing organic-specific price elections as sufficient data become available.

The county organic transitional yields will be determined as a percentage, or factor, of the corresponding conventional transitional yield based on sufficient data of actual yields as reported to RMA. The percentage or factor will be the ratio of yields of organic commodities to yields of corresponding conventional commodities. In subsequent correspondence, RMA agreed to implement this recommendation by January 31, 2014.

OIG Position

We accept management decision for this recommendation.

Section 2: Controls Over Loss Adjustment for Organic Crops

Finding 2: AIP Loss Adjustment Activities for Insured Organic Crops Need Strengthening

For the 48 policies we reviewed that received indemnities, we found that loss adjusters for the 6 AIPs that serviced the policies did not carry out RMA-required loss adjustment policies and procedures when adjusting claims for crops produced using organic farming practices. This occurred because AIPs did not implement the additional policies and procedures RMA established for crops produced using organic farming practices. In addition, because organic participation is sparse and relatively small when compared to the overall scope of the crop insurance program, loss adjusters were not always aware of the additional loss adjustment requirements for organic crop claims or did not know how to conduct them. As a result, AIPs paid $4.26 million in organic crop claims without verifying loss information and ascertaining whether good organic farming practices were being carried out by the insureds.

Producers that want to become certified organic producers must apply for organic certification through the National Organic Program. The producer must develop an organic production system plan that is agreed to by an accredited organic certifying agent. Producers must abide by numerous farming practice standards regarding soil fertility, crop nutrient management, seeds, crop rotations, crop pests, weeds, and diseases. This organic plan must include, for instance, a description of practices and procedures to be performed.[23] To ensure compliance with the Act, certified organic farming operations receive an initial inspection by an agent from an organic certifying agency, and annual inspections thereafter.[24] These inspections must be conducted at a time when the inspector can observe the producer's land, facilities, and activities, and determine whether or not the farming operation and organic plan accurately reflect the practices used.

Loss adjusters are required to use any certifying agent's field inspection reports to verify whether insureds followed good organic farming practices. In addition, loss adjusters are required to obtain organic plans and inspection reports to verify insurability; exact field locations of certified organic, transitional, and buffer zone acreage; and any acreage not maintained under organic management.[25]

Our review of the 48 policies with loss claims disclosed that the 39 loss adjusters associated with these loss claims did not document in the claim files any review of the insureds' organic plans and inspection reports. We interviewed the 39 loss adjusters to ascertain what organic crop documents they reviewed when they adjusted claims. All 39 loss adjusters stated that they did not obtain or review organic crop inspection reports to determine whether insureds followed

[23] The plan must also include a list of all substances to be used as a production input, a description of the monitoring practices and procedures to be performed and maintained, a description of the recordkeeping system implemented to comply with standards, and a description of the management practices and physical barriers established to prevent commingling of organic and non-organic production on a split operation and to prevent contact of organic production operations with prohibited substances.
[24] Public Law 101-624, *Food, Agriculture, Conservation, and Trade Act of 1990*.
[25] FCIC 25010, *Loss Adjustment Manual*, section 43C, October 31, 2007.

good organic farming practices. Only 2 of the 39 loss adjusters claimed to have reviewed the organic plan, although neither documented these reviews in the claim file. When we asked the loss adjusters why they did not review the reports or plans,

- Twenty-two stated that the AIPs do not require them to obtain and/or review the organic plan and inspection report.
- Seven said that the loss adjustment requirements for adjusting crops produced using organic farming practices were no different than for crops produced using conventional farming practices.
- Five stated that the agent and underwriter collected the organic plan and inspection report.
- Five loss adjusters gave varying reasons for not obtaining and reviewing the organic plans and inspection reports.

Generally, loss adjusters were not aware of the importance of reviewing the organic plan and the inspection report when they conducted loss adjustments.

When we interviewed officials from four AIPs, they were either unsure of the specific loss adjustment standards for organic crops, or they were aware of the additional standards but had not developed any internal procedures for loss adjusters to follow. During the course of our review one AIP established standard operating procedures for loss adjusters to follow when adjusting claims involving organic crops. The standard operating procedures developed by the one AIP require the loss adjuster to review the organic plan and perform an on-the-farm assessment of crop and fertility management. The organic plan is essential to adjusting claims for organic crops because it describes the practices to be implemented and identifies the locations of certified organic, transitional, and buffer zone acreage.

We concluded that because of issues with awareness and the need to emphasize the adjusting of claims for organic crops, RMA should provide additional guidance to AIPs that emphasizes the additional loss adjustment requirements to be carried out by loss adjusters for organic crops..

Recommendation 2

Issue a bulletin to AIPs that reiterates the additional loss adjustment requirements to be carried out for crops produced using organic farming practices and require AIPs to maintain documentation supporting their determinations made at the time of loss regarding good organic farming practices.

Agency Response

RMA agrees with the recommendation and based on the following requests management decision. On January 15, 2013, RMA issued Manager's Bulletin MGR-12-022.1, "Loss Adjustment Requirements for Crops Grown under an Organic Farming Practice." This bulletin addresses the requirements outlined in the above recommendation.

OIG Position

We accept management decision for this recommendation.

Scope and Methodology

Our audit examined Federal crop insurance policies that reported producing the insured crop using organic farming practices. This included insured crops produced on certified and transitional acreage. Using RMA's database systems, we identified about 11,350 crop policies for crop years 2008 through 2010, with premiums totaling about $72.7 million and indemnity payments totaling $76.5 million. We conducted fieldwork between September 2010 and October 2012.

We extracted data from RMA databases pertaining to crop years 2008 through 2011.[26] We selected our sample of insured producers based on the density of organic crop policies within geographical areas, to ensure a range of policies with and without losses, and to ensure a diversity of AIPs. From these 11,350 crop policies reporting crops produced using organic farming practices, we identified 6 States with higher levels of participation. The States selected were: Colorado, Iowa, Minnesota, North Dakota, Texas, and Wisconsin. From these States, we judgmentally selected a sample of 33 insured producers with 76 crop policies using organic farming practices serviced by 6 AIPs. When selecting insured producers for review, we considered the number of organic crops produced, total indemnities paid for the period under review, insured producers with no indemnities, and the location of the insured producers. The 76 crop policies included 48 with losses and 28 crop policies without losses. Total premiums for the 76 crop policies for the 3-year period under review totaled about $4.0 million and indemnities totaled about $4.26 million for the same period.

To accomplish our objectives, we performed the following audit procedures:

- We reviewed applicable laws, regulations, and procedures concerning administration of the Federal crop insurance programs, specifically those provisions pertaining to organic crops. We also reviewed applicable laws, regulations, and procedures concerning administration of the National Organic Program specific to requirements for organic farmers.

- We interviewed officials at RMA's national office in Washington, D.C., and RMA's Office of Product Management in Kansas City, Missouri, to assess controls over underwriting procedures for insured organic crops and to gain an understanding of RMA's expectations of the AIPs in administering insurance products for organic crop producers. We also interviewed officials at the Agricultural Marketing Service's national office in Washington, D.C., to ascertain their roles, responsibilities, and oversight of organic certifying agents.

- We interviewed officials at the RMA Northern Regional Compliance Office in Eagan, Minnesota, and officials at the RMA Regional Office in St. Paul, Minnesota, to gain an understanding of how RMA administers compliance and underwriting issues for crops produced using organic farming practices.

[26] Our review of the 2011 database was limited to yield records that included crop year 2010 production data.

- We used RMA databases to identify organic farming participation. For the 76 policies, we reviewed the supporting documents obtained from the AIPs and matched the data recorded in RMA's databases. We also performed various analyses on associated yields and indemnities to identify inconsistencies between reported APH yields and what underwriting standards allowed AIPs to establish as approved APH yields. We relied on the data contained in RMA's policy databases for this analysis and did not independently review these databases.

- We reviewed information related to six AIPs, and interviewed officials at four AIPs, regarding their roles in the underwriting, loss adjustment, and quality control process specific to policies with organic farming practices.

- We interviewed 33 insured producers, 39 loss adjusters, and 19 agents to verify underwriting and loss information, evaluate program delivery, and ascertain their roles and knowledge of the underwriting and loss adjustment requirements for crops produced using organic farming practices.

- We reviewed acreage reports and maps obtained from the Farm Service Agency county offices to confirm RMA data and documentation obtained from the AIPs.

- We reviewed production records, including organic plans and inspection reports obtained from insureds in our sample, to ascertain whether the insureds met the requirements for insuring crops produced using organic farming practices.

- We reviewed underwriting, loss adjustment, and quality control documents obtained from the AIPs for our sample of insured producers to verify eligibility for insurance coverage of crops reported to be produced using organic farming practices.

We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Abbreviations

APH............................. Actual Production History
AIP .... Approved Insurance Provider
CFR............................. Code of Federal Regulations
FCIC............................ Federal Crop Insurance Corporation
RMA .... Risk Management Agency
OIG .... Office of Inspector General
USDA.......................... United States Department of Agriculture

Exhibit A: Summary of Monetary Results

Finding No.	Recommendation	Description	Amount	Category
1	1	Excessive indemnities paid to organic insureds.	$952,000	Questioned Costs No Recovery
2	2	Indemnities paid without required verifications of loss claim information.	$4,260,000	Funds to Be Put to Better Use Management Improvements

USDA'S
RISK MANAGEMENT AGENCY
RESPONSE TO AUDIT REPORT

United States Department of Agriculture

Farm and Foreign Agricultural Services
Risk Management Agency

TO: Gil Harden
Assistant Inspector General for Audit
Office of Inspector General

January 24, 2013

FROM: Michael Hand /s/ Jared Burnett
Audit Liaison Official

SUBJECT: Office of Inspector General Audit 05601-0006-KC, Draft Report, Organic Crops

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

RECOMMENDATION NO. 1:

Implement the contractor's recommendation to reduce transitional yields for crops produced using organic farming practices by 35 percent or by an appropriate percentage as determined by RMA.

RMA Response:

RMA agrees with the OIG Recommendation to reduce transitional yields by an appropriate percentage as determined by RMA, and based on the following requests management decision.

For a number of crops, RMA data indicates that the organic practice tends to yield less than the conventional practice, which supports the recommendation to decrease the organic T-yield. For the 2014 Reinsurance Year, RMA will establish a differential insurance offer for the organic practices where supported by the data. This includes:

- Introducing T-yields that reflect the difference in yields between organic and conventional production as observed in RMA's historical data.

- Removing the 5% surcharge above the conventional practices premium that is currently applied to organic producers.

Deputy Administrator for Compliance
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- Issuing organic specific price elections as sufficient data becomes available.

The county organic T-yields will be determined as a percentage, or factor, of the corresponding conventional T-yield based on sufficient data of actual yields as reported to RMA. The percentage or factor will be the ratio of yields of organic commodities to yields of corresponding conventional commodities.

RECOMMENDATION NO. 2:

Issue a bulletin to AIPs that reiterates the additional loss adjustment requirements to be carried out for crops produced using organic farming practices and require AIPs to maintain documentation supporting their determinations made at the time of loss regarding good organic farming practices.

RMA Response:

RMA agrees with OIG Recommendation and based on the following requests management decision and closure.

On January 15, 2013, RMA issued the attached Manager's Bulletin MGR-12-022.1, "Loss Adjustment Requirements for Crops Grown under an Organic Farming Practice". This bulletin addresses the requirements outline in the above recommendation.

Should you have any questions or would like additional information concerning this matter, please contact Nicole Smith Lees at (202) 260-8085.

Attachment

United States
Department of
Agriculture

Farm and Foreign
Agricultural
Services

Risk
Management
Agency

1400
Independence
Avenue, SW
Stop 0801
Washington, DC
20250-0801

BULLETIN NO.: MGR-12-022.1

TO: All Approved Insurance Providers
All Risk Management Agency Field Offices
All Other Interested Parties

FROM: Brandon C. Willis *[/s/ Brandon C. Willis]* *1/15/2013*
Acting Administrator

SUBJECT: Loss Adjustment Requirements for Crops Grown under an Organic Farming Practice

BACKGROUND:

The Standard Reinsurance Agreement (SRA) between the Risk Management Agency (RMA) and Approved Insurance Providers (AIPs) states in Section IV (f)(1)(A): "The Company shall verify yields and other information used to establish insurance guarantees and indemnity payments in accordance with the regulations and FCIC procedures."

The Office of Inspector General recently conducted an audit of organic crop insurance policies. The audit identified that AIPs failed to carry out the loss adjustment procedures for organic farming practices in accordance with the FCIC-25010, Loss Adjustment Manual (LAM) Standards Handbook. The audit identified that because organic participation is relatively small in comparison to the overall scope of the crop insurance program, AIP loss adjusters were not always aware of the additional loss adjustment requirements for organic crop claims or knew how to conduct them.

The audit also indicated loss adjusters, when conducting loss adjustment for organic policies, were generally not aware of the importance of reviewing the organic plan and the on-site inspection report completed by an inspector as defined in the National Organic Program standards (Crop Insurance Handbook, Section 11 C. Maintaining Organic Records, (2) Record Specifications).

ACTION:

AIPs are reminded they must inform loss adjusters of the following:

1. For claims involving organic crops, if the AIP has obtained records from the insured in accordance with paragraphs 43 C (2) of the LAM, the AIP must also provide the loss adjuster with a copy of the records required in paragraph 43 B (1) for certified organic acreage and B (2) for transitional acreage.

2. If the AIP does not have copies of the records referenced in item 1 above, the loss adjuster must obtain from the insured, copies of the records listed in paragraph 43 B, C, and G of the LAM. When completing the claim, the loss adjuster must use these records to verify the producer has followed their organic plan and used good organic farming practices.

3. In accordance with paragraph 136 of the LAM, the AIP must make a decision whether the production methods used by the producer constitute good farming practices (GFP) under the Basic Provisions and if the producer carried out those GFPs. In addition, according to paragraph 136, C (4) (d), the GFP decision will be based on "Whether the production method used by the producer will: . . . be generally recognized for the area or is contained in the organic plan, as applicable." The loss adjuster must document on a Special Report the steps taken to determine if a GFP was used, and that the insured has followed a GFP. If an organic agricultural expert helped make this determination, document the name and address of the organic agricultural expert(s) used, and advice or publications provided. Copies of these documents must be retained in the insured's claim file.

4. AIPs must ensure that future loss adjustment includes a reminder of the requirements of the Organic Farming Practice procedures in paragraph 43 of the LAM and contained in this bulletin.

5. USDA's National Organic Program released two online courses that provide information on Organic Agriculture. These courses are available for free to the public and may be used by AIPs when conducting loss adjustment training on organic farming practices. The websites for the courses are as follows:

   Organic 101, Fundamentals of Organic Agriculture (15 min.)
   http://apps.ams.usda.gov/organic/101/

   Organic 201, Organic Plan, Standards, Certification, and Enforcement (30 min.)
   http://apps.ams.usda.gov/organic/201/

DISPOSAL DATE:

December 31, 2013.

Informational copies of this report have been distributed to:

Acting Administrator, Risk Management Agency
Attn: Deputy Administrator, Compliance

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Director, Planning and Accountability Division

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