

**RISK MANAGEMENT AGENCY  
1994 REINSURED RAISIN LOSSES  
IN CALIFORNIA  
AUDIT REPORT NO. 03099-3-SF**

**SEPTEMBER 1996**

**UNITED STATES DEPARTMENT OF AGRICULTURE  
OFFICE OF INSPECTOR GENERAL - AUDIT  
WESTERN REGION  
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UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

DATE: September 30, 1996

REPLY TO

ATTN OF: 03099-3-SF

SUBJECT: 1994 Reinsured Raisin Losses in California

TO: Kenneth D. Ackerman  
Acting Administrator  
Risk Management Agency

This report presents the results of the subject audit. Your September 27, 1996, response to the draft report has been incorporated into applicable sections of the report and the complete text of the response is included as exhibit C. Excerpts from your response and our position are set forth in relevant sections of the report.

We have accepted your management decision for all findings and recommendations in the report.

We appreciate the cooperation and assistance you and your staff provided to us during our review. We especially appreciate the contribution and technical assistance provided by your Sacramento Risk Compliance Office staff in this joint review effort.

JAMES R. EBBITT  
Assistant Inspector General  
for Audit

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**EXECUTIVE SUMMARY**

**RISK MANAGEMENT AGENCY**  
**1994 REINSURED RAISIN LOSSES**  
**IN CALIFORNIA**  
**AUDIT REPORT NO. 03099-3-SF**

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**PURPOSE**

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We evaluated the reinsured raisin program, administered by the Risk Management Agency (RMA), to determine the propriety of indemnity payments made by four reinsured companies in California for raisins laid down for drying in 1994. The raisin insurance program was designed to provide insurance protection to producers against unavoidable losses caused by rain when the raisins are lying in vineyards for drying. Our audit objectives were to evaluate RMA controls over the raisin crop insurance program and to identify any potential abuse of the raisin program committed by producers, loss adjusters, sales agents, or other reinsured company personnel.

Our review of the raisin program was performed because of concerns raised by RMA Risk Compliance staff and because of indications, disclosed during our audit of the 1994 Disaster Assistance Program in Fresno County, California (Audit No. 03006-2-SF), that raisin production for insured producers may have been overstated or inflated. In 1994, raisin indemnity payments totaling \$30.2 million were paid by companies reinsured by the Federal Crop Insurance Corporation (FCIC) to insured producers.

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**RESULTS IN BRIEF**

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We reviewed 1994 raisin indemnity payments totaling \$20.9 million that were paid to producers by four FCIC-reinsured companies. We identified a number of weaknesses in the current raisin insurance policies and procedures that rendered the program susceptible to abuses by reinsured companies. Based on our review results, the United States Department of Justice (DOJ) is reviewing the activities of the reinsured companies involving the 1994 raisin program. Upon completion of the DOJ review, we will issue a separate report covering the reinsured companies. This report is limited to areas of the raisin insurance program susceptible to abuse where RMA needs to strengthen its controls.

Unlike other crop policies, the raisin policy does not limit insured production to a producer's history of production. In addition, the insured liability for raisins is not established until the raisin crop is delivered or the loss is adjusted (after damage has occurred). As a result, insured raisin producers may be able to inflate insured production in loss years to maximize indemnity payments, and underreport insured production in non-loss years to minimize premium payments.

Controls also need to be strengthened to ensure that rain-damaged raisins are reconditioned<sup>1</sup> by insured producers whenever feasible. Reconditioned raisins may be sold at market prices, but because reconditioning costs are borne by the producer if most of the crop becomes marketable, the producer has greater incentive to sell his raisins as salvage material and ensure himself of a larger indemnity payment. Also, the "reconditioners" who can profit from buying raisins at salvage prices and reconditioning them for resale are the same ones who determine if a raisin crop is fit only for salvage. Some adjusters were releasing raisins as salvage even though the raisins may have been reconditionable. We estimate that if salvage raisins had been reconditioned, the indemnities we reviewed could have been reduced by as much as \$8 million.

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## KEY RECOMMENDATIONS

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To strengthen controls over the raisin insurance program, we recommend that (1) insured tonnage be limited to a producer's history of production, (2) insured liability be established prior to loss adjustment, (3) reconditioning costs be insured as part of the raisin policy, and (4) a methodology be developed to value raisins sold as salvage using historic data.

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## AGENCY POSITION

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In its September 27, 1996, written response to the draft report, RMA generally agreed with our audit results and recommendations. The response included RMA's proposed corrective actions to address the recommendations and timeframes for implementation.

Applicable portions of RMA's response are incorporated, along with our position, in the Findings and Recommendations section of this report. The full text of the RMA response is included as exhibit C of the audit report.

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<sup>1</sup>Reconditioning is a washing and/or drying process used to remove any defects the raisins may have such as excess moisture, mold, microcontamination, or embedded sand.

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# INTRODUCTION

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## BACKGROUND

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The Risk Management Agency (RMA) was established by the Federal Agriculture Improvement and Reform Act of 1996, enacted April 4, 1996. RMA is responsible for supervision of the Federal Crop Insurance Corporation (FCIC), administration and oversight of programs authorized under the Federal Crop Insurance Act, and programs involving revenue insurance, risk management savings accounts, and other programs designed to manage risk and support farm income.

FCIC, as a corporation, continues to exist as the entity authorized to carry out the crop insurance program. FCIC is a wholly-owned government corporation which provides multi-peril and catastrophic crop insurance protection against losses because of unavoidable causes.

Crop insurance is offered to producers either directly through agents of FCIC (direct contracts) or through companies reinsured by FCIC. The reinsured companies offer insurance contracts to producers containing substantially the same terms and conditions as the FCIC contracts. Reinsured companies enter into a Standard Reinsurance Agreement with FCIC which establishes the terms and conditions under which FCIC reinsures the crop insurance contracts sold by the company. The reinsured company is protected against most of the risk that could result from losses incurred in selling the insurance contracts. In 1994, all raisin policies in California were sold and serviced by companies reinsured by FCIC.

### Raisin Program:

Raisins is one of the many crops for which FCIC provides insurance coverage. The insurance provided by FCIC is against unavoidable loss of production resulting from rain while the raisins are drying on trays<sup>2</sup> in the vineyard. The amount of insurance for raisins is determined by multiplying the insured tonnage times the amount of insurance per ton. The insurance amount per ton is a maximum of 75 percent of the designated market value (\$675 per ton in 1994 -- 75 percent of market value of \$900 per ton). Insured tonnage includes all insurable raisins laid down for drying before the cutoff date (September 20 in most cases) and is determined by adding delivered tons (based on packer records) to any verifiable loss of production due to rain damage in the vineyard (based on appraisals). An indemnity is paid to the insured producer when the amount of insurance exceeds the value of the production to be counted.

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<sup>2</sup>Grapes are harvested and laid on standard paper trays in the vineyard for drying into raisins.

Indemnity payments result when production is valued at less than the insurance amount. Maximum payments occur when rain-damaged production is left in the field (field loss -- valued at \$0 or the salvage value) or when raisins are sold as salvage or to a winery or distiller for use in making distilled beverages (distillery material) at less than the insurance amount.

Reinsured company loss adjusters are responsible for verifying that (1) raisins were derived from an insurable variety of grapes, (2) raisins were not made from table grape strippings<sup>3</sup>, (3) raisins were laid on trays within the specified dates, (4) the cause of loss was rain occurring within the insurance period, (5) the insured tonnage was appropriate, and (6) the vineyard was capable of producing the appraised tons per acre and that the tons were in line with past production history.

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## OBJECTIVES

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Our audit objectives were to evaluate RMA controls over the raisin crop insurance program. Specifically we determined whether 1994 raisin claims were adjusted in accordance with FCIC-approved procedures and whether FCIC reinsurance procedures or requirements were adequate to prevent or detect abuse.

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## SCOPE

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This audit was performed jointly by the Office of Inspector General (OIG) - Audit and the RMA Risk Compliance Office in Sacramento, California. The 1994 raisin program was reviewed because of concerns raised by RMA Risk Compliance management and indications of possibly overstated production disclosed during our audit of the 1994 Disaster Assistance Program in Fresno County, California (Audit No. 03006-2-SF).

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<sup>3</sup>Table grape strippings are undersized bunches or small grapes that are picked out and left in the vineyard during the harvesting of grapes produced for sale as fresh table grapes.

In 1994, raisins were insured by five reinsured companies in California. The following chart shows a breakdown of 1994 raisin policy sales and indemnities by reinsured company:

Reinsured Company	No. of Policies	No. of Indemnified Policies	Total Premiums	Percent of Premiums	Total Indemnities	Loss Ratio
Continental Insurance Co.	17	1	\$55,681	0.4%	\$784	0.0141
Rural Community Insurance Serv.	871	140	\$4,026,414	29.5%	\$4,384,292	1.0889
Great American Insurance Co.	159	17	\$796,598	5.8%	\$319,291	0.4008
Rain & Hail Insurance Serv.	886	296	\$7,343,310	53.9%	\$22,955,051	3.1260
Redlands Insurance Co.	197	40	\$1,418,117	10.4%	\$2,523,302	1.7793
<b>Totals</b>	<b>2,130</b>	<b>494</b>	<b>\$13,640,120</b>	<b>100%</b>	<b>\$30,182,720</b>	<b>2.2128</b>

We reviewed claims adjusted by four of the five companies (we excluded Continental Insurance Company because it paid only one raisin indemnity in 1994).

We judgmentally selected a total of 148 raisin claim files for review adjusted by the 4 companies in 1994 (see exhibit B). The 148 indemnity payments totaled \$20,958,849 (69.4 percent of the total indemnities paid for raisins in 1994). The claims were primarily selected for review based on the dollar amount of indemnity, the amount of production that was lost in the vineyard, or the amount of production sold as salvage as indicated on the claim forms. Claims were also selected based on information disclosed during our 1994 disaster assistance audit in Fresno County, and as a result of the RMA Risk Compliance staff's ongoing review of Rain and Hail Insurance Services, Inc., and Redlands Insurance Company.

Our review was limited primarily to a file review of each selected claim. However, we also obtained supporting information from Farm Service Agency (FSA) county offices and the Agricultural Marketing Service (AMS) Marketing Field Office in Fresno, California.

We performed audit fieldwork from September 1995 to March 1996, at the RMA Risk Compliance Office in Sacramento, California, at three reinsured company offices in Fresno and Davis, California, at various FSA county offices in California, and at AMS in Fresno, California (see exhibit A). The audit was conducted in accordance with generally accepted government auditing standards.



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## METHODOLOGY

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To accomplish our audit objectives we performed the following steps and procedures.

- We obtained and analyzed 1994 raisin policy information from the RMA Risk Compliance Office in Sacramento, California. Risk Compliance accessed this information from the FCIC data base files in Kansas City, Missouri.
- At the reinsured company offices, we discussed our audit scope and procedures with company personnel and we selected and obtained copies of the sample files for review. We also discussed and obtained opinions regarding the raisin program with company personnel. (Note: Risk Compliance personnel obtained files and interviewed staff at Redlands prior to the start of our audit).
- At the FSA county offices, we obtained acreage reports, farm entitlement reports, and other documentation as needed to compare with information obtained from the insurance companies.
- At AMS, we obtained copies of applications for limited inspections pertaining to the producers included in our sampled claims. We compared the AMS documents with documents included in the claim files to determine whether the claim file documents agreed with AMS records.
- We performed a desk review of all sampled claims. The reviews included comparing data in the files with data obtained from FSA county offices and AMS, reviewing the accuracy of appraisal forms, reviewing procedures used by the companies for salvage sales, and ensuring the files contained proper documentation.

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# FINDINGS AND RECOMMENDATIONS

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<b>I. RMA NEEDS TO STRENGTHEN ITS CONTROLS OVER THE RAISIN INSURANCE PROGRAM</b>
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FCIC's raisin insurance policy and loss adjustment procedures need to be strengthened to minimize the opportunity for abuse of the program. Unlike other crop policies, the raisin policy does not limit insured production to a producer's history of production. In addition, the insured liability for raisins is not established until the raisin crop is delivered or the loss is adjusted (after damage occurs to the crop). As a result, insured raisin producers may be able to inflate insured production in loss years to maximize indemnity payments, and underreport insured production in non-loss years to minimize premium payments.

Controls also need to be strengthened to ensure that rain-damaged raisins are reconditioned by insured producers whenever feasible to reduce indemnity payments resulting from salvage sales of raisins. The current methodology contained in the raisin handbook to determine if damaged raisins are reconditionable is, in our opinion, cumbersome, inefficient, and unreliable. The current policy provides little incentive to encourage the insured producers to recondition their crop. Reconditioning costs are borne by the producer unless an indemnity is paid, thus encouraging the producer to sell the crop as salvage material and receive an indemnity payment. Further, the procedure to determine whether raisins are reconditionable relies on the judgement of "reconditioners," who have a vested interest in the crop, to make this determination.

To improve controls over the raisin insurance program, we suggest that (1) insured tonnage be limited to a producer's history of production, (2) insured liability be established prior to loss adjustment, (3) reconditioning costs be insured as part of the raisin policy, and (4) a methodology be developed to value raisins sold as salvage using historic data.

RMA is in the process of revising the raisin insurance policy. On March 28, 1996, we discussed our suggested changes to the raisin policy and procedures with the director of the Sacramento Risk Management Service Office. He was receptive to our proposed changes, and some of the issues were discussed on April 11, 1996, at a meeting with the crop insurance industry and Risk Management staff involved in revising the raisin crop provisions.

During our review, we identified a number of weaknesses in FCIC's raisin insurance policy and procedures that render the program susceptible to abuses by reinsured companies. The U.S. Department of Justice is currently conducting a review of these activities by the reinsured companies involving the 1994 raisin program. Upon completion of this legal review, we will issue a separate report covering the activities of the reinsured companies.

The following two findings provide details of the areas that need to be strengthened in the raisin policy and procedures.

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## **FINDING NO. 1**

### **INSURED PRODUCTION FOR RAISINS SHOULD BE LIMITED TO HISTORICAL AMOUNTS**

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In 1994, a loss year, insured raisin production increased significantly over prior non-loss years. Because the raisin policy does not limit the amount of insured production to a producer's history of production, producers and loss adjusters are potentially able to inflate insured tonnage in loss years. In loss years, producers are motivated to demand

higher insured tonnages when their claims are adjusted to receive higher indemnity payments. And loss adjusters may be pressured by sales agents and company management to allow higher tonnages to keep the insured producers happy.

For raisins, the amount of insurance for each farm unit is determined by multiplying the insured tonnage times the amount of insurance per ton (\$675 maximum in 1994). Insured tonnage is determined for rain-damaged raisins by adding raisins sold to a packer or salvage buyer (delivered tons) to any verifiable loss of production due to rain damage in the vineyard.<sup>4</sup> Indemnities are paid based on the difference between the amount of insurance and the total value of the insured tonnage.<sup>5</sup> When raisins are damaged by rain, high insured tonnages result in high indemnity payments.

Unlike other crop coverage, insurance for raisins is not limited to the producer's history of production. Most other crops are insured based on a guaranteed coverage of up to 75 percent of the producer's 10-year actual production history yield, if available. For example, a wheat farmer with an average yield of 100 bushels per acre insured at a 75 percent guarantee would be eligible for an indemnity payment if production fell below 75 bushels per acre. To translate a yield loss into a dollar loss, participants also select a commodity price level -- from 30 to 100 percent of the crop's expected market price.

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<sup>4</sup>Multiple Peril Crop Insurance, Special Provisions-Raisins, 1990, Paragraph 5.

<sup>5</sup>Multiple Peril Crop Insurance, Special Provisions-Raisins, 1990, Paragraph 7.d.

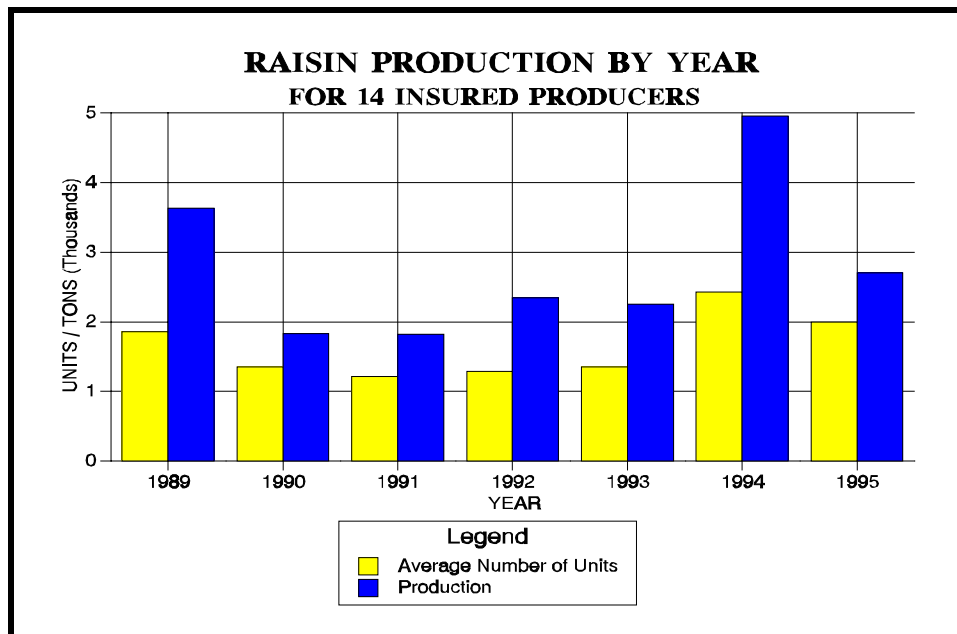
Insurance for raisins is based on the total tons of insurable varieties of raisins laid down for drying by the deadline established in the raisin policy. The insurance amount is not limited to a producer's past yield. FCIC-approved loss adjustment procedures for reinsured companies are contained in the National Crop Insurance Service (NCIS) raisin handbook. Insured tons are derived by adding the total tons delivered plus the amount of tonnage left in the vineyard (appraised field loss). The raisin handbook provides methodologies for appraising field loss based on samples of raisins left in the vineyard; however, because insurance for raisins is not limited to the producer's history of production, loss adjusters and insured producers can manipulate appraised production to inflate insured tonnages and indemnity payments.

The handbook does state that the loss adjuster is responsible for verifying that the vineyard is capable of producing the appraised tons per acre and that the appraised tons are in line with production history; however, the handbook gives no further guidance on how to accomplish this or how this information should be documented in the insurance file.

Although the procedure to verify insured raisin producers' production history was included in the raisin handbook, this procedure was generally not being followed by reinsured company adjusters. For 124 of the 148 claims reviewed (84 percent), we found no evidence in the file to indicate that the loss adjusters had attempted to verify the production history of the insured raisin producers.

As part of our review, we attempted to compare insured tons in 1994 with tonnages insured in prior years. We obtained the insured producers' 1989 to 1994 insurance histories from the Risk Compliance Office in Sacramento, California, to make this comparison. The information obtained from RMA included insured tons by unit for each insured producer; however, since raisin acreage is not required to be reported by the insured producer or entered into the FCIC data base, we could not accurately verify the prior years' tons per acre for each sampled producer. We were, nevertheless, able to identify policies where insured units and insured tonnages had increased significantly in 1994 from prior non-loss years.

Risk Compliance staff provided data for 14 producers who were insured in each year from 1989 to 1995. Our review of the production history for the 14 insured producers indicated a significant increase in both insured units and production in 1989 and 1994. Rains occurred in both 1989 and 1994 during the period raisins were drying in the vineyards, resulting in losses during these years. The intervening years were non-loss years for raisins. The chart below shows a comparison of insured units and insured production for the 14 producers from 1989 to 1995.



As indicated by the chart, insured production more than doubled from 1993 to 1994 for the 14 producers. In 1993, the producers insured a total of 2,253 tons, while in 1994, the insured production increased to 4,956 tons. In 1995, a non-loss year, the insured production decreased to 2,702 tons. The number of insured units showed a similar trend -- the average number of units insured for the 14 producers in 1993 was 1.36. This increased to 2.43 in 1994 and was reduced to 2.0 in 1995.

The above analysis demonstrates that in loss years insured production tends to increase. For the 14 producers used in this analysis, this increase was dramatic -- more than doubling from 1993 to 1994. We believe that loss adjusters are pressured to inflate insured tonnage amounts in loss years, thereby allowing insured producers to receive higher indemnity payments in these years. In non-loss years, producers would want to keep their production lower, which in turn would lower their premium payments.

The increase in the number of units insured during loss years is also significant. For raisins, the insurance company's (reinsured by FCIC) liability for the crop insurance is not established until the loss is adjusted. For most crops, the liability is established at the time of acreage reporting (prior to a loss on the crop). For example, the wheat

producer described above must report his planted acreage by the acreage reporting date. If he planted 100 acres and selected a price election of \$2 per bushel, the maximum liability assumed by the insurance company would be \$15,000.<sup>6</sup> In other words, if the farmer had a total loss in production on his crop, the maximum amount of his indemnity payment would be \$15,000.

For raisins, insurance liability is not established until the crop is delivered or the loss is adjusted. In loss years, the loss adjuster must establish the liability based on delivered tonnages and any appraised production left in the vineyard or delivered as salvage. Because this liability is not established until the crop has been damaged, producers have the opportunity to add more tonnage to their policy when they become aware that damage has occurred or is imminent. The raisin policy requires producers to insure all insurable production in which they have a share. Therefore, if an insured producer purchases another producer's grapes and lays them down for drying, these raisins must be included as part of the insured producer's tonnage. If damage occurs or is imminent, an insured producer could include a noninsured producer's production on his policy as a favor to the noninsured producer. Furthermore, if the insured producer owned or leased multiple vineyards, he would also want to ensure that all of his tonnage is included as insured production in loss years while in non-loss years he would be inclined not to report all production to lower his premium payments.

We believe that controls need to be implemented by RMA to limit insured raisin production to a producer's history of production in non-loss years. We also believe that the insured maximum liability for raisins must be established prior to loss adjustment. By implementing these controls, producers would not be able to inflate insured tonnages and indemnity payments in loss years.

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<sup>6</sup>100 acres x yield of 100 bushels per acre x 75 percent coverage level x \$2 per bushel price election = \$15,000 maximum liability.

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## RECOMMENDATION NO. 1a

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Add a provision to the raisin insurance policy to limit insured tonnage to an amount that does not exceed the average tons per acre produced by the insured raisin producer in any one of the last 3 non-loss years.

### **RMA Response**

In its written response to the draft report, dated September 27, 1996, RMA stated that it *"agrees that limiting insured tonnage in loss years would be an effective way to prevent some cases of improper inflation of insured liability in those years. However, the recommendation requires a policy change and . . . cannot be implemented for the 1997 crop year."* Until the recommendation is put in place in 1998, RMA is making *"specific changes to FCIC's handbooks, manuals, and procedures . . . for the 1997 crop year. For example, RMA will continue its monitoring program, which addresses this problem directly. [RMA] believes that the administrative changes will adequately protect the program [in the interim]."*

### **OIG Position**

We accept RMA's management decision for this recommendation.

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## RECOMMENDATION NO. 1b

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Require producers to report all raisins laid down for drying, including acres, locations, and tray counts, by a lay-down date (e.g., September 20). Using the reported information and the producer's past average yield per acre, establish the maximum insured liability prior to the loss adjustment.

### **RMA Response**

In its written response to the draft report, dated September 27, 1996, RMA stated that it

*generally agrees with and intends to implement this recommendation immediately. For 1997, the raisin policy will contain a provision requiring an acreage report by the sales closing date. The following information will be collected: location of the vineyard, number of insurable and uninsurable acres, share, and variety. This report may be amended until the time the insured begins placing raisins on trays. . . This up-front acreage report will significantly address the concern that additional vineyards and acreage are being added in loss years.*

### **OIG Position**

We accept RMA's management decision for this recommendation.

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## FINDING NO. 2

### **CONTROLS SHOULD BE ESTABLISHED TO ENSURE RAISINS ARE RECONDITIONED WHEN FEASIBLE**

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Reinsured company loss adjusters released rain-damaged raisins as salvage material even though the raisins may have been able to be reconditioned and valued at market price for insurance purposes. There was no incentive for the insured producers or loss adjusters to ensure that raisins were reconditioned. As a result, there was little assurance that claims with salvage sales were reasonable.

If the raisins released as salvage material had been reconditioned and valued at the FCIC-established market price of \$900 per ton, indemnities paid on our 148 sampled claims could have potentially been reduced by as much as \$8 million.

When a producer's crop is rain damaged, the loss adjuster must go to the vineyard and assess the extent of damage. If the damage is minimal, the adjuster will usually instruct the producer to send the raisins to his packer where they will hopefully pass inspection upon delivery or after reconditioning. (Reconditioning is a washing and/or drying process used to remove any defects the raisins may have, such as excess moisture, mold, microcontamination, or embedded sand.) For insurance purposes, this is the most desirable disposition of raisins because the raisins that finally meet standards are valued at the FCIC-established market price (\$900 per ton in 1994) or market price less the cost of reconditioning (maximum of actual cost or \$125 for wash-and-dry reconditioning).

If rain damage is severe, it may not be feasible or cost-beneficial for the producer to recondition his raisin crop. The loss adjuster is responsible for determining if raisins cannot be reconditioned. The NCIS Raisin Handbook provides steps to be followed by the loss adjuster to determine if the raisins cannot be reconditioned. The adjuster must obtain a United States Department of Agriculture inspection (performed by AMS) and contact local reconditioners with the results of the inspection to conclude if the raisins can be reconditioned. In addition to these steps, the RMA Risk Management Service Office in Sacramento, California, issued a memorandum on October 13, 1994, to companies writing 1994 raisin policies to provide additional guidance for adjusters in determining if raisins were reconditionable. The memorandum required the adjusters to determine if the estimated tonnage recoverable after reconditioning was less than 50 percent of the insured tonnage on the unit and if the lot would probably not pass inspection after one reconditioning.

After the loss adjuster determines that the raisins cannot be reconditioned, the adjuster must then determine if the raisins have any salvage value. The raisin handbook also provides steps for the adjuster to make this determination. The adjuster must determine the highest obtainable bid available to the insured for the salvage production. The salvage production is then valued at the higher of the value received or the highest obtainable bid. If the raisins have no value as salvage, the adjuster can release the acreage to be destroyed (disked under). However, if the disked raisins have



any value, the raisins should be valued at the higher of \$35 per ton or the actual salvage value.

Insurance claims for the 148 policies sampled during our review included 17,957 tons of raisins sold as salvage material. The raisins sold as salvage were valued at an average price of about \$137 per ton. We calculated that if the raisins that were sold as salvage material were reconditioned, indemnities could have potentially been reduced by as much as \$8 million.<sup>7</sup> This calculation assumes a reconditioning cost of \$125 per ton and a 25 percent shrinkage in the reconditioning process.

Due to time constraints, we were unable to contact the purchasers of the salvage raisins to determine the disposition of the purchased raisins. However, we believe some of the raisins may have been reconditioned by the purchasers and resold at market prices. We found some evidence that this was the case, both in the casefiles and in the existing raisin market.

#### Salvage Market for Raisins Was Limited in 1994

Of the few markets for damaged raisins, the largest is the distillery market, and according to personnel with both risk management and the reinsured companies, there was no raisin distillery market (except for Sunmaid producers) in 1994. The claims manager for one company told us that some raisin buyers may have "cleaned the raisins up as best they could" and blended them with good raisins. (Raisins with defects can be mixed with undamaged raisins and still pass inspection because only a small percentage would be defective.) We noted that in such a case, the blended mix could be sold at market value.

The sales manager for another reinsured company agreed that raisins were probably being reconditioned by the salvage buyers. However, he stated that it may not be economically feasible for small producers to have the reconditioning done. Producers may have to wait in line to have their raisins reconditioned, and in the meantime the raisins could be fermenting in boxes. Cold storage is usually only available to large producers. The manager also agreed that buyers could be blending good raisins with bad.

#### Casefile Evidence Suggests Reconditioning Occurred

Based on records contained in the claim files, we concluded that raisins sold as salvage material were being reconditioned by the buyers.

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<sup>7</sup>Calculated as follows assuming a 25% shrink in reconditioning and \$125 per ton reconditioning allowance:  $(\$900 \text{ market price} - \$137 \text{ average value received}) \times (17,957 \text{ tons} \times 75\%) = \$10,275,893 - (17,957 \text{ tons} \times \$125 \text{ reconditioning cost}) = \$8,031,268.$

For one claim, Risk Compliance staff obtained weight certificates from the purchaser indicating both weights going into reconditioning and the weights after reconditioning. In this case, 52.57 tons were sold as salvage at \$75 per ton resulting in a total value for the raisins on the insurance claim of \$3,943. However, after reconditioning, at least 31.44 tons of the raisins were able to pass inspection. If these raisins had been valued at the market price of \$900 per ton on the insurance claim, the resulting indemnity would have been reduced by at least \$17,782.<sup>8</sup>

In other cases, weight tags included in the claim files clearly stated "wash and dry" indicating that the raisins were going to be reconditioned by the purchaser. In one case, 192.05 tons of raisins were sold as salvage and valued at \$200 per ton. The weight tags in the file indicated that the raisins were being washed and dried. If the raisins were reconditioned and valued at the market price of \$900 per ton, the indemnity may have been reduced by as much as \$67,218.<sup>9</sup>

We concluded that the raisin insurance policy and RMA procedures should be changed to improve controls over the determination of whether raisins should be reconditioned. We believe that (a) RMA should cover reconditioning costs as part of the insurance to provide some incentive to producers to consider reconditioning, and (b) RMA should base the value of salvage raisins on historical data, in order to limit abuse by loss adjusters or insured producers.

a. Reconditioning Costs Should Be Insured as Part of the Raisin Policy

Under the current raisin insurance policy, we believe that there is not enough incentive for producers to recondition their rain-damaged raisins. Although the current policy does provide for an allowance for reconditioning costs up to \$125 per ton, the costs are not a direct payment to the producer; instead, the costs are deducted from the value of the raisins reconditioned on the insurance claim form. If, as a result of reconditioning, the insured producer receives no indemnity payment, then his reconditioning costs will not be reimbursed to him.

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<sup>8</sup>Indemnity savings calculated as follows: (31.44 tons x \$900 market price) - \$3,943 value received for salvage raisins = \$24,353 - (52.57 tons x \$125 maximum reconditioning allowance) = \$17,782.

<sup>9</sup>Indemnity savings calculated as follows assuming 25% shrink in reconditioning: (192.05 tons x 75% x \$900 market price) - \$38,410 value received for salvage raisins = \$91,224 - (192.05 tons x \$125 maximum reconditioning allowance) = \$67,218.

Reinsured companies also offer private policies to raisin producers to cover the costs of reconditioning. The sales manager for one reinsured company told us that insuring for reconditioning costs encourages raisin producers to recondition because the producer knows that he will be reimbursed for the costs by the insurance company even if he receives no indemnity from the FCIC-reinsured raisin policy. The reconditioning policy for this company not only covered wash-and-dry reconditioning, but also covered "on-tray" reconditioning by the producer in the vineyard.<sup>10</sup> If the producer is not covered for his reconditioning costs, he may not be motivated to "work" his damaged raisins to ensure that he can obtain market price -- instead, he may allow the raisins to be sold as salvage and rely on the FCIC-reinsured indemnity payment.

To demonstrate that being insured for reconditioning can be an incentive for the producer to recondition, we compared two groups of producers for one insurance company: those sampled producers who had supplemental reconditioning policies, and those FCIC-reinsured producers who did not have reconditioning policies. Of 43 sampled producers for the company, only six had supplemental reconditioning policies. Of these six producers, five had at least part of their crop reconditioned and three of these five had no salvage sales. Of the remaining 37 producers, only 6 had claims with no salvage sales.

We believe that if FCIC included insurance for reconditioning costs as part of its raisin policy, insured producers would be motivated to recondition rain-damaged raisins and indemnities resulting from salvage sales could be minimized.

b. Historical Data Should Be Used to Value Any Raisins Sold As Salvage Material

We also believe that the current method of valuing and disposing of salvage raisins is open to abuse. Under the current procedures, two reconditioners are supposed to make a determination of whether the damaged raisins are reconditionable. The reconditioners can state that the raisins are not reconditionable, then bid on the raisins, purchase them at a low price, recondition them, and sell the raisins at market value. It is to the reconditioner's benefit to state that the raisins cannot be reconditioned if he then has an opportunity to purchase the damaged raisins and recondition them. The claims manager for one reinsured company told us that it was a big mistake to turn reconditioners into loss adjusters: "It's like letting the fox guard the hen house."

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<sup>10</sup>On-tray reconditioning includes picking out bad bunches in the vineyard and slipping and turning trays to allow for more efficient drying. To have this done, the producer pays about 3¢ per tray.

Raisin packers who have contracts with insured producers must also release the raisins before they can be sold by the producers as salvage. The packer can then bid on the released raisins as salvage and have them reconditioned for sale at market value. (For the 148 claims reviewed, we noted 22 instances where the packer had purchased salvage raisins after releasing them to the insured producer.)

Our review of the sampled claim files noted that most of the 17,957 tons of raisins sold as salvage were either sold to raisin packers or dehydrators.<sup>11</sup> Only a small percentage of the raisins appeared to have been sold as cattle feed (about 175 tons) to ranches or others.

To minimize the potential for producers to sell reconditionable raisins as salvage and to motivate producers to recondition, we believe a methodology should be developed to value salvage raisins based on historical data. There is currently a procedure in the raisin handbook to value raisins waiting for reconditioning based on historical reconditioning pool percentages. The tonnage of insured raisins is determined based on sample defects. For example, if 100 tons of raisins is awaiting reconditioning and the raisins have a defect of 15 percent mold, then based on the historic yield table contained in the handbook, the expected yield after reconditioning would equate to 84 percent -- 84 tons would be valued at market value and the remaining 16 tons at zero.

A similar methodology could be used to value raisins sold as salvage material. AMS inspection results could be used to determine the historic yield of any raisins a producer wishes to sell as salvage. Once the inspection results are known, the producer could sell the raisins as salvage and the tonnage would be valued as in the above example or the producer would have the option of reconditioning the raisins and using the actual results to value the insured tonnage.

To use this methodology, a bona fide sample would have to be pulled for AMS inspection. Criteria for pulling the samples would need to be developed to ensure that the sample is representative.

In summary, controls need to be implemented to ensure that reconditionable raisins are properly valued on insurance claims. By insuring reconditioning costs and by valuing salvage sales based on historical data, producers would be motivated to recondition the rain-damaged raisins, and indemnities would be reduced. These changes to the policy and procedure would also eliminate the conflict of interest that results when reconditioners make a determination of whether damaged raisins are reconditionable. Procedures to value damaged raisins would also be simplified.

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<sup>11</sup>Dehydrators are businesses which specialize in washing and drying raisins to remove defects. Raisin packers, who purchase raisins from producers, either send damaged raisins to dehydrators to have the raisins reconditioned or recondition the raisins themselves.

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## RECOMMENDATION NO. 2a

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Include insurance coverage for reconditioning costs as part of the FCIC raisin policy. Costs covered should include wash-and-dry reconditioning and any reconditioning and tray-turning costs incurred by the producer while the raisins are in the vineyard.

### **RMA Response**

In its written response to the draft report, dated September 27, 1996, RMA stated that it "generally agrees. FCIC will propose to pay part of the reconditioning cost in the 1997 policy. This will have a mitigating effect on both the frequency and severity of crop losses."

### **OIG Position**

We accept RMA's management decision for this recommendation.

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## RECOMMENDATION NO. 2b

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Develop and implement a methodology to value raisins sold as salvage using historic yields based on defects, including a methodology to pull a representative sample of damaged raisins for inspection by AMS.

### **RMA Response**

In its written response to the draft report, dated September 27, 1996, RMA stated that although it

*agrees with the motivation of this recommendation, [RMA has] serious concerns regarding the technical feasibility. The use of the historic reconditioning yields was developed as a means to value the production of a company's (Sunmaid) growers that was to be reconditioned since it was impossible for the company to track each grower's crop as it went through their . . . process.*

*Another approach would require loss adjusters to select a sample of no more than 10 tons of damaged raisins for reconditioning. The outcome would be extrapolated to the entire crop. However, if the grower chose not to pick up the raisins, a small sample would be taken by hand. This sample would be graded by the USDA and the historic yield chart referenced above would be used. A procedure developed by a committee of reinsured companies was recently implemented for the 1996 crop year.*

RMA provided a copy of bulletin MGR-96-056, dated September 9, 1996, which implements this procedure.

**OIG Position**

We accept RMA's management decision for this recommendation.

**EXHIBIT A - LOCATIONS VISITED**

ORGANIZATION/ENTITY	LOCATION
<p><b>Risk Management Agency:</b></p> <p>Sacramento Risk Compliance Office</p> <p><b>Farm Service Agency:</b></p> <p>Fresno County Office  Tulare County Office  Madera County Office  Merced County Office  Stanislaus County Office</p> <p><b>Reinsured Companies:</b></p> <p>Rain and Hail Insurance Services, Inc.  Great American Insurance Company  Rural Community Insurance Services</p> <p><b>Other Locations:</b></p> <p>AMS Marketing Field Office</p>	<p>Sacramento, California</p> <p>Fresno, California  Visalia, California  Madera, California  Merced, California  Modesto, California</p> <p>Fresno, California  Fresno, California  Davis, California</p> <p>Fresno, California</p>

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**EXHIBIT B - CLAIMS SELECTED FOR REVIEW**

Rain and Hail Insurance Services, Inc.:

Sample No.	Policy	Liability	Indemnity
A-1	[ ]	\$243,997	\$221,675
A-2	[ ]	\$89,839	\$30,860
A-3	[ ]	\$99,070	\$94,874
A-4	[ ]	\$129,620	\$102,432
A-5	[ ]	\$101,750	\$90,404
A-6	[ ]	\$1,609,201	\$579,246
A-7	[ ]	\$1,497,819	\$863,553
A-8	[ ]	\$129,479	\$111,126
A-9	[ ]	\$148,198	\$71,784
A-10	[ ]	\$138,382	\$113,616
A-11	[ ]	\$89,694	\$72,827
A-12	[ ]	\$353,315	\$234,530
A-13	[ ]	\$115,069	\$110,571
A-14	[ ]	\$181,339	\$156,230
A-15	[ ]	\$128,743	\$82,675
A-16	[ ]	\$149,175	\$134,447
A-17	[ ]	\$171,369	\$164,322
A-18	[ ]	\$525,589	\$442,589
A-19	[ ]	\$352,822	\$175,552
A-20	[ ]	\$46,757	\$24,084
A-21	[ ]	\$295,211	\$237,537
A-22	[ ]	\$94,973	\$78,901
A-23	[ ]	\$117,821	\$93,844
A-24	[ ]	\$145,203	\$45,706
A-25	[ ]	\$573,879	\$447,501
A-26	[ ]	\$71,306	\$46,042
A-27	[ ]	\$93,994	\$75,206
A-28	[ ]	\$353,916	\$307,206
A-29	[ ]	\$146,793	\$61,279
A-30	[ ]	\$236,405	\$174,643
A-31	[ ]	\$746,420	\$195,822
A-32	[ ]	\$232,498	\$220,442
A-33	[ ]	\$119,880	\$113,212
A-34	[ ]	\$151,720	\$34,780
A-35	[ ]	\$74,628	\$68,852



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**EXHIBIT B - CLAIMS SELECTED FOR REVIEW**

Sample No.	Policy	Liability	Indemnity
A-36	[ ]	\$195,548	\$133,882
A-37	[ ]	\$75,708	\$67,506
A-38	[ ]	\$30,821	\$28,424
A-39	[ ]	\$304,291	\$166,510
A-40	[ ]	\$407,518	\$193,038
A-41	[ ]	\$191,241	\$55,967
A-42	[ ]	\$160,021	\$68,045
A-43	[ ]	\$178,214	\$154,531
A-44	[ ]	\$77,531	\$73,513
A-45	[ ]	\$418,544	\$290,011
A-46	[ ]	\$87,417	\$82,187
A-47	[ ]	\$71,793	\$63,724
A-48	[ ]	\$1,818,304	\$518,073
A-49	[ ]	\$157,572	\$154,927
A-50	[ ]	\$148,500	\$140,800
A-51	[ ]	\$398,155	\$325,482
A-52	[ ]	\$144,015	\$127,038
A-53	[ ]	\$31,779	\$28,492
A-54	[ ]	\$70,052	\$28,225
A-55	[ ]	\$147,198	\$67,826
A-56	[ ]	\$60,689	\$57,170
A-57	[ ]	\$301,077	\$184,724
A-58	[ ]	\$234,124	\$103,265
A-59	[ ]	\$413,734	\$299,778
A-60	[ ]	\$116,633	\$105,676
A-61	[ ]	\$167,306	\$145,502
A-62	[ ]	\$96,066	\$53,475
A-63	[ ]	\$97,349	\$88,526
A-64	[ ]	\$349,880	\$137,300
A-65	[ ]	\$77,679	\$74,857
A-66	[ ]	\$293,416	\$186,797
A-67	[ ]	\$459,236	\$369,946
A-68	[ ]	\$96,336	\$88,146
A-69	[ ]	\$490,330	\$65,121
A-70	[ ]	\$67,662	\$64,061
A-71	[ ]	\$213,017	\$188,883

**EXHIBIT B - CLAIMS SELECTED FOR REVIEW**

Sample No.	Policy	Liability	Indemnity
A-72	[ ]	\$1,073,365	\$912,365
A-73	[ ]	\$251,046	\$240,511
A-74	[ ]	\$70,416	\$68,376
A-75	[ ]	\$175,313	\$79,141
A-76	[ ]	\$188,332	\$173,707
A-77	[ ]	\$555,134	\$185,625
A-78	[ ]	\$86,319	\$74,363
A-79	[ ]	\$196,459	\$179,194
A-80	[ ]	\$651,510	\$440,721
A-81	[ ]	\$148,456	\$70,975
A-82	[ ]	\$467,600	\$411,538
A-83	[ ]	\$72,029	\$46,551
A-84	[ ]	\$856,548	\$364,150
A-85	[ ]	\$1,687,014	\$893,840
A-86	[ ]	\$80,048	\$64,575
A-87	[ ]	\$61,466	\$36,024
<b>87</b>	<b>TOTAL RAIN &amp; HAIL INS. SERV.</b>		<b>\$15,301,454</b>

**Redlands Insurance Company:**

Sample No.	Policy	Liability	Indemnity
B-1	[ ]	\$198,720	\$53,916
B-2	[ ]	\$97,538	\$89,818
B-3	[ ]	\$497,408	\$434,843
B-4	[ ]	\$159,030	\$135,993
B-5	[ ]	\$291,938	\$275,339
B-6	[ ]	\$112,725	\$86,614
B-7	[ ]	\$249,176	\$59,558
B-8	[ ]	\$125,685	\$116,616
B-9	[ ]	\$556,102	\$252,081
B-10	[ ]	\$234,293	\$59,193
B-11	[ ]	\$257,985	\$171,782
B-12	[ ]	\$807,030	\$163,814
B-13	[ ]	\$69,264	\$65,114
<b>13</b>	<b>TOTAL REDLANDS INS. CO.</b>		<b>\$1,964,681</b>

## **EXHIBIT B - CLAIMS SELECTED FOR REVIEW**

### **Great American Insurance Company:**

<b>Sample No.</b>	<b>Policy</b>	<b>Liability</b>	<b>Indemnity</b>
C-1	[ ]	\$127,212	\$45,715
C-2	[ ]	\$201,454	\$63,434
C-3	[ ]	\$50,297	\$30,599
C-4	[ ]	\$33,531	\$20,399
C-5	[ ]	\$16,333	\$14,803
<b>5</b>	<b>TOTAL GREAT AMERICAN INS. CO.</b>		<b>\$174,950</b>

### **Rural Community Insurance Services:**

<b>Sample No.</b>	<b>Policy</b>	<b>Liability</b>	<b>Indemnity</b>
D-1	[ ]	\$342,362	\$177,518
D-2	[ ]	\$69,539	\$48,329
D-3	[ ]	\$22,089	\$7,342
D-4	[ ]	\$320,018	\$170,550
D-5	[ ]	\$91,296	\$35,107
D-6	[ ]	\$126,097	\$78,142
D-7	[ ]	\$152,855	\$44,289
D-8	[ ]	\$23,242	\$16,148
D-9	[ ]	\$101,178	\$34,937
D-10	[ ]	\$95,087	\$71,727
D-11	[ ]	\$142,270	\$112,968
D-12	[ ]	\$99,097	\$85,486
D-13	[ ]	\$109,107	\$41,951
D-14	[ ]	\$63,423	\$50,460
D-15	[ ]	\$389,850	\$73,215
D-16	[ ]	\$41,114	\$31,524
D-17	[ ]	\$185,173	\$63,168
D-18	[ ]	\$128,983	\$100,175
D-19	[ ]	\$90,237	\$82,594
D-20	[ ]	\$143,922	\$103,492
D-21	[ ]	\$106,970	\$26,348
D-22	[ ]	\$69,147	\$50,770
D-23	[ ]	\$135,345	\$103,856
D-24	[ ]	\$71,113	\$18,915
D-25	[ ]	\$93,881	\$64,456

**EXHIBIT B - CLAIMS SELECTED FOR REVIEW**

Sample No.	Policy	Liability	Indemnity
D-26	[ ]	\$115,812	\$43,236
D-27	[ ]	\$31,099	\$10,519
D-28	[ ]	\$90,085	\$59,440
D-29	[ ]	\$858,401	\$513,941
D-30	[ ]	\$159,665	\$120,245
D-31	[ ]	\$77,382	\$41,361
D-32	[ ]	\$300,947	\$40,925
D-33	[ ]	\$336,812	\$310,601
D-34	[ ]	\$144,772	\$59,651
D-35	[ ]	\$254,703	\$125,033
D-36	[ ]	\$323,312	\$63,822
D-37	[ ]	\$214,676	\$56,687
D-38	[ ]	\$75,430	\$45,511
D-39	[ ]	\$57,902	\$53,951
D-40	[ ]	\$177,723	\$80,396
D-41	[ ]	\$130,795	\$106,138
D-42	[ ]	\$231,771	\$41,389
D-43	[ ]	\$61,021	\$51,451
<b>43</b>	<b>TOTAL RURAL COMMUNITY INS. SERV.</b>		<b>\$3,517,764</b>
<b>148</b>	<b>GRAND TOTALS</b>		<b>\$20,958,849</b>

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## EXHIBIT C - RMA'S WRITTEN RESPONSE TO THE DRAFT REPORT



United States  
Department of  
Agriculture

Risk  
Management  
Agency

1400 Independence Ave., S.W.  
Washington, D.C.  
20250-0800

SEP 27 1996

### INFORMATIONAL MEMORANDUM TO THE ASSISTANT INSPECTOR GENERAL FOR AUDIT

FROM: Kenneth D. Ackerman  
Acting Administrator

SUBJECT: Audit Report 03099-3-SF: 1994 Reinsured Raisin Losses in California

#### ISSUE:

Risk Management Agency's (RMA) comments on the discussion draft report on Audit Report 03099-3-SF: 1994 Reinsured Raisin Losses in California.

#### BACKGROUND:

RMA is charged with the responsibility of managing the crop insurance program of the Federal Crop Insurance Corporation (FCIC). FCIC currently is issuing a revised raisin policy for the 1997 crop year, assuming successful completion of the rule-making process. Wherever possible, recommendations that can be included in the policy for the 1997 crop year will be incorporated. Policy changes must be published in the Federal Register, which is a lengthy process.

Where timing considerations prevent 1997 policy changes, we will also attempt to achieve the objectives of the recommendations through changes to the Crop Insurance Handbook, Loss Adjustment Manual, and through other administrative means that do not involve the long lead time required for policy changes. Such changes must be limited to those actions that do not conflict with regulatory language.

FCIC will evaluate recommendations that are not incorporated as policy changes for 1997 for possible incorporation in 1998.

Our comments to Office of the Inspector General's (OIG) recommendations follow.

#### COMMENTS:

**Recommendation 1a:** Add a provision to the raisin insurance policy to limit insured tonnage to an amount that does not exceed the average tons-per-acre produced by the insured raisin producer in any one of the last 3 non-loss years.

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## EXHIBIT C - RMA'S WRITTEN RESPONSE TO THE DRAFT REPORT

### INFORMATIONAL MEMORANDUM

2

**Comment:** RMA agrees that limiting insured tonnage in loss years would be an effective way to prevent some cases of improper inflation of insured liability in those years. However, the recommendation requires a policy change and, because of its complexity, cannot be implemented for the 1997 crop year.

RMA has held four meetings on this recommendation and related topics. The meetings involved RMA's Sacramento Regional Service Office, the Research and Development Division, and the Risk Compliance Office, and also a committee from the reinsured companies. As a result of these meetings, specific changes to FCIC's handbooks, manuals, and procedures were identified and are being implemented for the 1997 crop year. For example, RMA will continue its monitoring program, which addresses this problem directly.

We believe that the administrative changes will adequately protect the program until the recommendation--or a superior alternative if one is found--is put in place in 1998, assuming successful completion of the rule-making process.

**Recommendation 1b:** Require producers to report all raisins laid down for drying, including acres, locations, and tray counts, by a lay-down date (i.e., September 20). Using the reported information and the producer's past average yield-per-acre, establish the maximum insured liability prior to loss adjustment.

**Comment:** RMA generally agrees with and intends to implement this recommendation immediately. For 1997, the raisin policy will contain a provision requiring an acreage report by the sales closing date. The following information will be collected: location of the vineyard, number of insurable and uninsurable acres, share, and variety. This report may be amended until the time the insured begins placing raisins on trays. It will not be possible to collect data on the number of trays because the information will not be available at the time of the report. The basic purpose of this report will be to fix the number of net insured acres. This up-front acreage report will significantly address the concern that additional vineyards and acreage are being added in loss years. Data on the number of trays will not be necessary because RMA intends to discontinue the use of tray counts in its loss adjustment procedures.

RMA's Sacramento Risk Compliance Office (SRCO) will continue its claims monitoring in 1996. Monitoring involves the real-time review of raisin loss adjustments. Starting in September 1996, the companies will notify the SRCO of pending raisin claims by submitting a worksheet before any claim is finalized. The SRCO will select a sample of claims to be verified by companies and will observe company officials as claims are verified. The monitoring program will be continued in the 1997 crop year. (See attached bulletin MGR-96-035.)

**Recommendation 2a:** Include insurance coverage for reconditioning costs as part of the FCIC raisin policy. Costs covered should include wash-and-dry reconditioning and any reconditioning and tray-turning costs incurred by the producer while the raisins are in the vineyard.

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## EXHIBIT C - RMA'S WRITTEN RESPONSE TO THE DRAFT REPORT

### INFORMATIONAL MEMORANDUM

3

**Comment:** RMA generally agrees. FCIC will propose to pay part of the reconditioning cost in the 1997 policy. This will have a mitigating effect on both the frequency and severity of crop losses. This payment will be similar to replant payments made on certain other crops such as corn, soybeans, etc. RMA expects that private insurance companies will continue to sell their own reconditioning policies, which will cover the portion of the cost not covered by FCIC, and field costs such as slipping and turning, which FCIC will not cover.

**Recommendation 2b:** Develop and implement a methodology to value raisins sold as salvage using historic yields based on defects, including a methodology to pull a representative sample of damaged raisins for inspection by the Agricultural Marketing Service (AMS).

**Comment:** Although RMA agrees with the motivation of this recommendation, we have serious concerns regarding its technical feasibility. The use of the historic reconditioning yields was developed as a means to value the production of a company's (Sunmaid) growers that was to be reconditioned since it was impossible for the company to track each grower's crop as it went through their large-scale reconditioning process.

Another approach would require loss adjusters to select a sample of no more than 10 tons of damaged raisins for reconditioning. The outcome would be extrapolated to the entire crop. However, if the grower chose not to pick up the raisins, a small sample would be taken by hand. This sample would be graded by the USDA and the historic yield chart referenced above would be used.

A procedure developed by a committee of reinsured companies was recently implemented for the 1996 crop year. (See attached bulletin MGR-96-056.)

Finally, we believe that incorporating the reconditioning payment in the 1997 policy will provide additional incentive to recondition the damaged product rather than selling "as is."

Attachments