



United States Department of Agriculture
Office of Inspector General





RMA: Crop Insurance Compliance Case Management

Audit Report 05601-0004-31

What Were OIG's Objectives

Our overall objective was to evaluate RMA's crop insurance compliance case management. Specifically, we examined the adequacy and effectiveness of RMA's processes related to (1) establishing cases; (2) monitoring and tracking cases; (3) monitoring and tracking findings; and (4) final disposition of cases. Some aspects of this review involved determining the validity of allegations made in a confidential hotline complaint.

What OIG Reviewed

We non-statistically selected a sample of 65 compliance cases opened in calendar years 2011 through 2014 to assess the adequacy and effectiveness of RMA's compliance case management process.

What OIG Recommends

RMA should implement a formal strategy for fully utilizing CARS; develop routine Compliance Activity Reports to provide program oversight; update and enforce the *Compliance Manual* to include policies and procedures for using CARS; and issue additional guidance on clarifying the term "reasonable expectation of receiving water" in the context of crop irrigation.

OIG performed a review to determine if RMA's crop insurance compliance case management was effective and efficient.

What OIG Found

The Office of Inspector General (OIG) found that the Department of Agriculture's Risk Management Agency (RMA) has not developed an overall formal strategy for supervising and overseeing the compliance case management activities of its regional compliance offices (RCO). Specifically, we found that RMA's national office was not fully utilizing the Compliance Activities and Results System's (CARS) capabilities to identify key performance indicators and generate reports to monitor and oversee compliance activities. RMA uploads compliance case documentation into CARS to track compliance cases, case policies, and disputes regarding compliance with crop insurance guidelines. We found that RCOs were not following procedures or performing effective secondary reviews; some RCOs were maintaining paper files, even though CARS is now RMA's system of record; and some cases established within CARS were not related to compliance issues. As a result, RMA is unable to effectively measure its performance to ensure the integrity of the Federal crop insurance program.

In addition, we found that RMA needs to clarify guidance for determining "reasonable expectation" of receiving water when irrigating a crop. Without clear guidance, RMA will continue to pay millions of dollars for irrigated crop losses, even though there were no reasonable expectations of receiving water. Over \$21.6 million in indemnities were paid in crop year 2014 without RMA issuing clarifying guidance.

RMA generally agreed with our recommendations, and we accepted management decision for all recommendations.



United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250



DATE: December 15, 2015

AUDIT
NUMBER: 05601-0004-31

TO: Brandon C. Willis
Administrator
Risk Management Agency

ATTN: Heather L. Manzano
Deputy Administrator for Compliance

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: RMA: Crop Insurance Compliance Case Management

This report presents the results of the subject audit. Your written response to the official draft report, dated November 19, 2015, is included, in its entirety at the end of this report. 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 decision for all audit recommendations in the report, and no further response to this office is necessary.

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

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publically available information and will be posted in its entirety to our website (<http://www.usda.gov/oig>) in the near future.

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Background and Objectives

Background

The Department of Agriculture's (USDA) Risk Management Agency (RMA) operates and manages the Federal Crop Insurance Corporation (FCIC). RMA, through FCIC, provides crop insurance to American farmers and ranchers through approved insurance providers (AIPs) who sell and service the policies. RMA develops and/or approves the premium rate, administers premium and expense subsidies, approves and supports products, and reinsures the companies. RMA also sponsors educational and outreach programs and seminars on the general topic of risk management that assist producers and agri-businesses in understanding their increased risk exposure and responsibility in the current economic environment.

RMA's fiscal year (FY) 2014 budget authority, including mandatory and discretionary funding, was \$9 billion. In FY 2013, the total cost for FCIC was about \$12.2 billion. Of this amount, about \$10.7 billion was for net indemnities to producers (gross indemnities minus producer paid premiums). The remaining amount of just under \$1.5 billion was for payments to the private insurance companies for delivery expenses and underwriting gains.

RMA has three divisions: Insurance Services, Product Management, and Compliance. Insurance Services is responsible for program delivery, such as managing contracts with the companies that sell and service policies, and local program administration and support. Product Management is responsible for overseeing product development. The Compliance Division monitors compliance with program provisions by both producers and private insurance companies that participate in the program.

The FCIC compliance function is delegated to the Deputy Administrator for Compliance (DAC). Compliance activities are conducted by DAC personnel located in Washington, D.C., six regional compliance offices (RCO), and independently located Special Investigation Branch sites. The mission of Compliance is to ensure the integrity of the Federal crop insurance program by providing reasonable assurance, through a system of review, analysis, and evaluation, that applicable laws, agreements, contracts, and FCIC-approved policies and procedures are followed and administered.

In order to fulfill that mission, the Compliance Division engages in systematic oversight of the nationwide Federal crop insurance program. Specifically, the Compliance Division identifies and refers cases of potential criminal violations to the Office of Inspector General (OIG); cases warranting civil prosecution to the Office of the General Counsel; and cases justifying administrative sanctions to the USDA Office of Administrative Law Judges. The Compliance Division also conducts reviews of AIPs and alleged program violations, oversees inspections of policy service and claim activities, and identifies and reports monetary discrepancies. It also tracks the resolution of any monetary corrections or recommended program improvements. Complaints originate from several sources, including the USDA OIG Hotline system. Complaints frequently involve allegations that are ultimately deemed unfounded; however,

RCOs are obliged to conduct some level of preliminary review in order to determine the merits of the case or determine if the issue is sufficiently cost-effective to pursue.

To support a more efficient and effective collection of information and work flow management for compliance policy reviews and cases, RMA developed and implemented the Compliance Activities and Results System (CARS). CARS replaced Magnum, the aging case management system, in 2009, at a cost of at least \$2.8 million.¹ RMA uploads compliance case documentation into CARS to track compliance cases, case policies, and disputes regarding compliance with crop insurance guidelines.

In addition to reviewing received complaints, the Compliance Division reviews selected AIP activities and operations to assess their compliance with laws, regulations, and the Standard Reinsurance Agreement.² OIG's prior audit of RMA's National Program Operations Reviews (NPOR) reported that RMA had not ensured consistent and thorough reviews; had not provided sufficient guidance and staff training for performing the reviews; and had not ensured that reliable second party reviews were performed. OIG concluded that RMA could improve its NPOR process to help ensure that AIPs are substantially in compliance with laws, regulations, the Standard Reinsurance Agreement, and approved FCIC policies and procedures. RMA agreed with the conclusions and recommendations presented in the prior OIG audit report.³

Objectives

Our overall objective was to evaluate RMA's crop insurance compliance case management. Specifically, we examined the adequacy and effectiveness of RMA's processes related to (1) establishing cases, (2) monitoring and tracking cases, (3) monitoring and tracking findings, and (4) final disposition of cases. Some aspects of this review involved determining the validity of allegations made in a confidential hotline complaint.

¹ The cost of CARS' initial implementation in 2009 was at least \$1.9 million. In December 2014, RMA upgraded the system at a cost of approximately \$900,000.

² Reviews of AIP operations are called National Program Operations Reviews.

³ Audit Report 05601-0001-22, *Risk Management Agency National Program Operations Reviews*, April 2015.

Section 1: Adequacy and Effectiveness of RMA's Compliance Case Management Process

Finding 1: RMA National Office Needs to Strengthen Management and Accountability Over Its Compliance Case Management Process

We found that RMA Compliance has not developed an overall formal strategy for overseeing and monitoring the compliance management activities of its RCOs. RMA has also not provided RCOs with up-to-date guidance for the compliance case management process using CARS. The agency is thus underutilizing the technical and analytical capabilities of the new system. This occurred because prior RMA compliance leadership did not make oversight of compliance management activities or updated written procedures a priority, and had not performed a formal review of the RCOs in many years. Although RMA's new leadership recognizes the need for increased oversight and monitoring of the compliance process and the need to improve consistency between RCOs, RMA's lack of formal procedures and strategy has created challenges in overseeing how RCOs manage compliance cases and ensure consistency between RCOs. This led to RCOs developing ad hoc procedures and resulted in RMA not being able to effectively measure its performance to ensure the integrity of the Federal crop insurance program.

U.S. Government Accountability Office (GAO) standards require an entity's oversight body to oversee the entity's internal control system and to establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives. These standards also require management to evaluate performance and hold individuals accountable for their internal control responsibilities.⁴ According to the *RMA Compliance Manual*, the DAC is responsible for providing direction and oversight of compliance activities, and determines risk compliance strategies and organizational structures. The purpose of the *Compliance Manual* is to present a standardized set of procedures so RMA Compliance personnel can employ uniform methods when implementing the RMA compliance function nationwide. The *CARS 2013 User Guide* describes CARS as a system for tracking compliance cases, case policies, and disputes regarding compliance with crop insurance guidelines.⁵

RMA Needs to Fully Utilize CARS to Improve National Office Oversight of RCOs

We found that RMA's national office was not fully utilizing CARS' capabilities to identify key performance indicators and generate reports to monitor and oversee compliance activities. RMA's DAC agrees that RMA should be using CARS to identify key performance indicators and analyze trends, and has taken steps to increase the utilization of CARS. Until RMA implements a formal strategy fully utilizing CARS to oversee RCOs, it cannot effectively measure its performance to ensure the integrity of the program.

⁴ GAO-14-704G, *Standards for Internal Control in the Federal Government*, September 2014.

⁵ *Microsoft's Complete User Guide for MS Dynamics CRM 2013 with Annotation of Relevant Topics for CARS 2.0 Users*, February 2, 2015.

In June 2009, RMA implemented the new system of record, CARS, at a cost of at least \$2.8 million.⁶ During discussions with RMA's Evaluation, Audit, and Recovery Division (EARD)⁷, we learned that CARS has the ability to produce a multitude of reports that can address key performance indicators. For example, when we analyzed information from CARS, we found that RCOs are closing compliance cases at very different rates. One compliance office had closed only about 7 percent⁸ of its cases opened in calendar years 2011 through 2014, whereas other regional offices had closed between 49 percent⁹ and 91 percent¹⁰ of their compliance cases. We did not determine the rate at which cases should be closed or the validity of the closure. However, we did observe that monitoring and analysis of the disparity in the closure rates were being underused as a tool in the oversight of the program. National office monitoring of the case management process could have identified the disparity of closure rates between regions and may have led to increased compliance efficiency and effectiveness. RMA officials concurred that the disparity appeared to be unacceptable and have begun pulling a case aging report from CARS to more closely monitor the compliance management process.

We also observed that one RCO often left cases open for years, even when sufficient information was available to close the case. In 4 of the 16 cases we reviewed, we found that the RCO had not worked on the case for at least six months after receiving the initial response from the AIP. RCO officials stated their office had limited staff resources and new cases were given priority. At this same RCO, we identified two cases opened in 2011 where investigations had never been initiated.¹¹ RCO officials stated that these cases were not investigated due to limited resources. Because of inaction by the RCO, these cases appear to be outside the statute of limitations for additional action.^{12,13} As a result, potential recoveries cannot be collected. National office monitoring could have identified the absence of case progression and may have led to the collection of potential recoveries.

We also found that RMA national office officials were provided a report titled *Recoveries Outstanding (or Questioned)* starting in September 2013 and ending in November 2014 with the implementation of the upgraded CARS. This report was provided approximately 50 times in that timeframe. We obtained a copy of the report in January 2015, after asking for information related to the recovery of monetary findings developed by the Compliance Division.¹⁴ Our review of this report noted that a majority of the cases were

⁶ The cost of CARS initial implementation in 2009 was at least \$1.9 million. In December 2014, RMA upgraded the system at a cost of approximately \$900,000.

⁷ EARD is a subdivision of RMA's Compliance Division.

⁸ Central Regional Compliance Office (19/270).

⁹ Southern Regional Compliance Office (126/255).

¹⁰ Northern Regional Compliance Office (1248/1367).

¹¹ One compliance case involved an individual who received about \$32,500 of indemnity payments. The second case involved an AIP manager and potential conflict of interest.

¹² Public Law 106-224 Section 121(b)(2) requires FCIC to notify the AIP of errors, omissions, and failure to follow FCIC regulations or procedures within 3 years after the end of the insurance period during which the error, omission, or failure is alleged to have occurred, with the exception of violations that are willful or intentional.

¹³ Public Law 106-224 Section 121(b)(3) relieves an AIP from the debt owed FCIC, if FCIC does not timely notify it of the error, omission, or failure that is alleged to have occurred.

¹⁴ Recoveries Outstanding (or Questioned) totaled \$105,286,398 as of January 2015.

closed; therefore, recovery should have already occurred.¹⁵ We asked RMA why the report showed over \$105 million of potential recoveries, yet most of the cases were closed. At that time, RMA Compliance officials could not explain the spreadsheet, nor confirm whether these amounts needed to be or had been recovered. Instead, they suggested we speak with RMA's EARD unit. EARD officials confirmed that EARD developed this report to show amounts that should have been collected, but appear to still be outstanding.

After additional analysis, RMA national office officials stated that this was not an official report, but that it was an informal report, generated to show a discrepancy between CARS and the Corporate Reporting Database. They also determined that a better comparison would be to run an analysis and report that compares the CARS data to the data in the Reinsurance Accounting System (RAS). However, they later indicated that there is currently no means to systematically or electronically pull information from RAS for analysis and reconciliation to CARS. EARD confirmed that comparison to the RAS data in a similarly constructed report would appear to be a more meaningful analysis and that access to the RAS data would be very useful.

Because there is currently no means to systematically or electronically pull information from RAS, RMA currently relies on a manual method of reviewing the Policy Holder Inquiry Report to determine whether an AIP made the required corrections to the policyholder information based on RCO findings. Once the corrections are verified, the RCO uploads a copy of the Policy Holder Inquiry Report to CARS to support the adjustment and the compliance case is closed. However, our review disclosed that it is possible for these corrections to be overwritten by the AIP after the compliance case is closed.

Discussions with RMA's national office officials, Reinsurance Accounting and Eligibility Tracking Branch (RAETB) officials, EARD officials, and RCO officials confirmed that AIPs can overwrite their corrections after the amounts have been verified by the RCOs. RAETB officials and EARD officials indicated there have been prior discussions within the national office regarding this control issue and confirmed that the information was not being monitored. In addition, RMA does not have a tracking process in place to determine if the policyholder information has been changed. If RMA was able to compare CARS to RAS, the comparison would potentially show when AIPs have made corrections. Access to and analysis of the RAS data may be useful to provide assurance that, once AIP corrections based on Compliance Division findings are made, those corrections are not changed.

RMA national office officials stated that they receive report links every Friday afternoon from EARD that provide an overall view of compliance activity. However, per discussions with EARD officials, the national office has not been receiving the weekly reports that address performance, accomplishments, and errors since CARS was upgraded

¹⁵ Before closing a case, investigators are required to verify that AIP corrections have been made to the policyholder information report.

on December 10, 2014.¹⁶ EARD officials explained that, because of the software upgrade, the reports need to be regenerated within the new version of CARS. However, since national office officials have not expressed an interest in receiving the monthly reports, EARD has not reproduced the reports in the upgraded system. EARD officials clarified that, with the hiring of the new DAC, the agency is becoming more technologically adept and has demonstrated an awareness and receptiveness to the technical and analytical capabilities of CARS. However, EARD officials believe that the system is still being underutilized as a management tool. The system has the capability to produce a multitude of reports that could address key performance indicators.

The DAC agrees that Compliance should be pulling reports regularly for targeted areas of interest, and that the compliance process needs to be redesigned. Consequently, RMA is currently in the process of acquiring consultant services to inventory and recommend changes to its business processes. Therefore we recommend, in conjunction with the business process review, that RMA develop, document, and implement a formal strategy for fully utilizing CARS to improve the RMA national office's oversight of its RCOs and consistency across its compliance case management process.

Additionally, RMA should take the necessary steps to obtain access to RAS data for EARD to use in the development of routine Compliance Activity Reports to improve program oversight, including monitoring for AIP subsequent overwriting corrections in RMA databases and addressing key performance indicators.

RMA Needs to Update and Enforce Case Management Guidance

We found that RCOs were not following procedures or performing effective secondary reviews; some RCOs were maintaining paper files, even though CARS is now RMA's system of record; and some cases established within CARS were not related to compliance issues. This occurred because RMA's *Compliance Manual* has had only minor updates since 2001 and enforcement of current manual requirements is lacking. Since the manual's release, RMA has changed compliance case tracking systems twice, with limited additional formal guidance being provided to the RCOs.¹⁷ According to the DAC, RMA was drafting a new manual, but it was not released. As a result, RCOs have developed ad hoc procedures for case management and the implementation of CARS, which creates inconsistencies between regions and diminishes effective oversight of the program. The following are examples of the types of inconsistencies we found during our review of the RCOs, in addition to those discussed earlier related to closing cases:

- According to the *Compliance Manual*, RCOs are required to assign a case number and enter the case into the case tracking system for all complaints received directly from outside sources, even those complaints subsequently deemed invalid. Our review disclosed that complaints were not consistently being entered into CARS.¹⁸ For example, in one RCO, a senior investigator told us that he entered all received

¹⁶ Per discussions with EARD held on March 27, 2015.

¹⁷ The current *Compliance Manual* does not include instructions for documenting compliance cases in CARS.

¹⁸ As of June 2009, RMA's case tracking system is CARS.

complaints into CARS.¹⁹ A second senior investigator, within the same office, stated that she only entered received complaints into CARS when she believed sufficient information had been received or where an investigation was warranted. For example, if the person(s) against whom the complaint was made did not have crop insurance, the complaint would not be valid and an investigation not warranted; therefore, she was not entering this type of complaint into CARS. In another RCO, the Director stated that he maintained a record of all received complaints on a separate disk drive, but only entered complaints into CARS where sufficient information had been received. As a result, Compliance's oversight is less effective and Compliance may not be able to determine if all received complaints are being given consideration or if the reason(s) complaints were not reviewed were valid.²⁰

- The *Compliance Manual* requires compliance investigators to prepare a written review plan that defines the purpose, objectives, scope, methodology, and staffing, specifically tailored to each review, to ensure that the objectives for that review are fulfilled and RCO resources are optimally utilized. However, our examination of case files showed that review plans were not developed for 50 out of 55 cases where investigations had been initiated. One investigator explained that every case is different and it would be too time consuming to create a review plan for each case. Our review did identify one RCO that had created its own version of the review plan for use in its office. The written review plans are a necessary part of the compliance process and RMA should revise the form to meet the needs of the RCOs.
- We found that in two of the four RCOs where we reviewed compliance cases, investigators were not completing working papers, as required by the *Compliance Manual*. Instead, investigators are simply uploading evidence collected during their investigation, along with their initial and final findings. However, the *Compliance Manual* states that working papers are the connecting link between the fieldwork and the final report by (a) providing a systematic record of the work done by the compliance investigators, and (b) containing the information and evidence necessary to support the results, judgements, conclusions, findings, and recommendations presented in the review report. Without working papers, it is difficult for an uninvolved person to reach the same conclusion without additional explanation from the compliance investigator. As these findings may have significant financial impacts for AIPs, the analyses and conclusions drawn by the investigator should be documented in working papers and be available to support the appeals process.
- According to the *Compliance Manual*, the compliance investigator is to inventory the documents collected to ensure that all documents that might be needed to complete the file review were obtained. The manual provides an example of the document inventory. However, the manual does not include detailed procedures for

¹⁹ CARS automatically generates and assigns a case number to complaints when they are entered into the system.

²⁰ The internal control of assigning all received complaints a case number and entering them into the case tracking system was initiated in response to a recommendation made in Audit Report 05005-0001-Ch, *Risk Management Agency Controls Over Monitoring of Private Insurance Companies*, January 1999.

documenting cases specifically within the electronic environment of CARS. As a result, we found inconsistencies between RCOs in how case documentation was uploaded into the system. For example, we found that only one of the four RCOs we visited completed and uploaded document inventories into CARS as part of their compliance case management process. The investigators at this RCO provided index numbering on their inventories to identify where the information could be located within CARS. Investigators in the other three RCOs simply uploaded the support documentation into CARS, without providing an index to locate the documents. Without specific procedures in place for indexing and organizing documents within CARS, the national office cannot ensure information integrated from CARS into management reports is complete and accurate.

- According to the *Compliance Manual*, a supervisor or senior investigator may perform a second-party review of the working papers to ensure they provide clear, concise, and convincing evidence to support the review work and conclusions. Based on the inconsistencies that we described above, we conclude that second-party reviews have not been adequately performed to ensure that compliance investigations are fully supported and documented according to approved procedures. While all RCOs stated that secondary reviews were performed, only one RCO attempted to document the process in CARS. This same RCO also used its own version of a review plan and working paper to support its reviews. Discussions with a senior investigator revealed that cases without findings may not receive a full review in this RCO. Without a complete review, a case may be closed without receiving full consideration and could result in a loss to the government.
- We found that two of the four RCOs we visited still maintained paper files, even though CARS is RMA's official record. According to discussions with investigators at the two RCOs that maintained paper files, we learned that some investigators uploaded their case review documentation as the investigation progressed and other investigators in the same office uploaded their information to CARS at the end of their investigation. We also found that some investigators uploaded all the documentation maintained in their paper file to CARS, while other investigators only uploaded the information they felt was pertinent to their case. National office officials stated that paper files should not be maintained, that CARS is the official record, and all case documentation should be timely uploaded to CARS as the case progresses. Procedures that require a uniform process would help ensure more effective oversight and monitoring of the compliance process.
- In one RCO we visited, we found two compliance cases established in CARS that had no relation to a compliance issue.²¹ For example, one case was established to track the time an investigator spent reviewing proposals that were submitted to an Education/Outreach panel for which he had been selected as a panel member. The second case appeared to have been opened to track office resources for the RCO. For this case, no documentation was ever uploaded into CARS; the documentation was

²¹ We reviewed a total of 16 compliance cases established by the RCO.

saved in a paper file maintained by the RCO. After a brief analysis of the case names used in the universe of cases opened by this RCO, it appears that several other non-compliance related cases may have been established in CARS; however, these cases were outside our sample and were not reviewed.²² As a result, RMA's national office cannot determine how many actual compliance cases have been established within its system. The establishment of non-compliance cases within CARS could potentially affect the information reported by RMA's National Compliance Office.

The examples listed above demonstrate the need for RMA to update its *Compliance Manual* to ensure consistent application of the compliance process among regions. Overall, RCOs have been inconsistently applying the required procedures contained in the *Compliance Manual* and, instead, have been developing ad hoc procedures for the completion and documentation of their reviews. Therefore, we are recommending that RMA update and enforce the *Compliance Manual* to include policies and procedures that include consistent methods for indexing, organizing, and tracking cases, and procedures for the performance of second party reviews, to ensure that investigations are fully supported and closed in a timely manner, and that only cases associated with compliance issues are entered in CARS.

We acknowledge that RMA Compliance has a new Deputy Administrator who has recognized the need for increased oversight and monitoring of the compliance process and the potential for utilizing CARS as a management tool, as well as the need for updated case management guidance to improve consistency between regions.²³ The DAC stated that she is not aware of the national office having performed a formal review of the RCOs in several years and agrees that the compliance quality management process needs to be redesigned. Consequently, RMA is currently in the process of acquiring consultant services to inventory and recommend changes to its business processes. RMA is requesting that the consultant: (1) document the full inventory of Compliance's existing quality management processes and controls to determine if the processes are mandated, necessary, obsolete, or redundant; (2) evaluate the effectiveness of the existing quality management processes and controls; (3) provide recommendations to increase the effectiveness of Compliance's quality management efforts, including the modification and/or elimination of existing processes, and development of new initiatives to improve program integrity; and (4) document reference materials and provide training on the modified/new processes. We believe, upon completion of the business process review, that RMA should develop, document, and implement a formal strategy for fully utilizing CARS for improving RMA's national office's oversight of its RCOs and consistency across its compliance case management process. We also believe that, to increase oversight and consistency among regions, RMA Compliance needs to obtain access to RAS data for EARD analysis and update and enforce procedures in the *Compliance Manual*.

²² The term universe refers only to cases established in calendar years 2011 through October 23, 2014.

²³ The current DAC has been in the position since September 2014.

Recommendation 1

Upon the completion of the business process review, develop, document, and implement a formal strategy for fully utilizing the Compliance Activities and Results System (CARS) for improving RMA's national office's oversight of its Regional Compliance Offices (RCO) and consistency across its compliance case management process.

Agency Response

In its November 19, 2015, response, RMA stated the following:

Compliance is directing several initiatives to improve its case management processes. In June 2015, Compliance contracted with Eagle Hill Consultants (EHC) to assist in the overall redesign of its processes, including the development and implementation of a formal case management strategy. Specifically, this includes using CARS to improve Compliance headquarters' oversight of its RCOs and to ensure a consistent case management process. In October 2015, Compliance awarded a contract to ECCO Select, Inc., a small business information technology (IT) company to implement enhancements to CARS. In addition, Compliance has created a business plan to work in partnership with IT, the IT contractor, RMA business users, Eagle Hill Consultants, and other stakeholders, to develop innovative new capabilities and enhancements for CARS. Compliance will lead this effort and develop these new concepts through user group meetings and discussions of case management process, system, and reporting requirements. As the Eagle Hill consultants progress with their evaluation and recommendations for improvements to the process redesign, Compliance will capture and incorporate these enhancements into CARS. The business process review will be completed by July 2016. Enhancements to CARS will be ongoing through the IT contract, estimated to be completed by October 2016.

OIG Position

We accept management decision for this recommendation.

Recommendation 2

Upon the completion of the business process review, obtain access to Reinsurance Accounting System (RAS) data for the Evaluation, Audit, and Recovery Division (EARD) to use in the development and reconciliation of routine Compliance Activity Reports to provide program oversight, including monitoring for Approved Insurance Provider (AIP) changes overwriting corrections in RMA databases and addressing key performance indicators.

Agency Response

In its November 19, 2015, response, RMA stated the following:

Beginning January 2016, EARD will use RAS and other Corporate Reporting System data and reports during its quarterly peer reviews of cases in CARS to verify that the AIP made all required corrections before the RCOs close the case in CARS. In addition, EARD will check the specific policy to confirm that any overwritten policy adjustments were due to valid business situations.

EARD will also be using the recommendations of Eagle Hill consultants and other business process owners to develop key performance indicators (KPIs) for effective case management oversight. EARD will implement KPIs by September 2016.

OIG Position

We accept management decision for this recommendation.

Recommendation 3

Upon the completion of the business process review, update the *Compliance Manual* to include policies and procedures using CARS to its full capacity, including consistent methods for indexing, organizing, and tracking cases, and then enforce its use. Also, procedures for the performance of second-party reviews should be consistent to ensure investigations are fully supported and closed in a timely manner and only cases associated with compliance issues are entered in CARS.

Agency Response

In its November 19, 2015, response, RMA stated the following:

The business process review includes the development of a revised *Compliance Manual* which will incorporate policies and procedures related to effective case management using CARS. Compliance will improve the methods used to manage and monitor cases in CARS from creation to closure. The *Compliance Manual* is estimated to be completed by July 2016.

Beginning January 2016, EARD will perform quarterly peer reviews of the cases in CARS to verify cases are valid, adequately documented, and closed appropriately.

OIG Position

We accept management decision for this recommendation.

Recommendation 4

Upon the completion of the business review process, develop and implement a formal national review process for RCOs that incorporates the revised policies and procedures.

Agency Response

In its November 19, 2015, response, RMA stated the following:

Compliance is in the process of re-evaluating and redesigning its case management process and will develop a standardized set of guidelines that the RCOs will use to conduct these reviews consistently across the regions. Compliance will develop detailed policies and procedures for performing these reviews by July 2016 and will incorporate the revised processes into CARS through October 2016.

In addition, EARD will continue to use quarterly peer reviews of the cases in CARS to perform oversight and verify that the RCOs are following the policies and procedures consistently.

OIG Position

We accept management decision for this recommendation.

Finding 2: RMA Needs to Clarify Guidance for Determining “Reasonable Expectation” for Crops Dependent on Irrigation Allotments

AIPs indemnified 181 irrigated cotton crop insurance policies in the Lugert-Altus Irrigation District in 2014, even though analysis from the Southern Regional Compliance Office (SRCO) indicated there was no reasonable expectation to receive water during that crop year. Producers were allowed to insure their cotton crops as irrigated because RMA criteria do not clarify how to determine reasonable expectation at the time insurance attaches.²⁴ As a result, producers that reside in the Lugert-Altus Irrigation District received indemnities totaling over \$21.6 million in 2014 because there was no irrigation supply as a result of a continuous drought.²⁵ Without clarifying guidance, RMA will continue to pay millions for crop losses, even though there were no reasonable expectations of receiving water for cotton crops almost totally dependent on irrigation, not rainfall.

According to the *Federal Crop Insurance Handbook*,²⁶ on the insured cropland the insured is responsible for demonstrating that, at the time insurance attached, there was a reasonable expectation of receiving adequate water to carry out a good irrigation practice insured under the irrigated practice.²⁷ If the insured knew, or had reason to know, that the amount of irrigation water may be reduced before coverage begins, no reasonable expectation exists.²⁸ The determination of the adequacy of water will be based upon: (a) the water available (at the time insurance attaches) from the irrigation water supply, soil moisture levels, and, as applicable, snow pack storage levels; and (b) supplementary precipitation which would normally be received, after insurance attaches, during the period that a good irrigation practice is normally carried out.

The Lugert-Altus Irrigation District operates in southwestern Oklahoma where irrigation supplements the inadequate rainfall. Cotton is a major crop under irrigation in this area. The Lugert-Altus Irrigation District has been in a continuous drought since the beginning of the 2011 crop year. The primary source of water for the irrigation district is Lake Altus. Producers in the irrigation district typically plant their cotton crop in May; however, the irrigation district does not determine the allocation of water that will be available to producers for irrigation until the end of June. In 2011, the Lugert-Altus Irrigation District only released about half of the water that is normally released. In the 2012 and 2013 crop years, no water was released for irrigation. However, claims were paid for irrigated cotton losses.

SRCO started looking into the irrigation issues when the office received complaints about irrigated cotton claims paid in 2012. In 2013, there was again no irrigation available, and SRCO received complaints about companion policies on the same acreage, where one producer got paid and the other did not.²⁹ Knowing that both could not be correct, SRCO investigated further.

²⁴ For annual crops, insurance attaches annually when planting begins on the insurance unit.

²⁵ See Exhibit A for the summary of monetary results.

²⁶ USDA FCIC, *2013 Crop Insurance Handbook*, 18010, 18010-01 and 18010-02 (June 29, 2012).

²⁷ USDA FCIC, *2013 Crop Insurance Handbook*, § 12A(1)(a)1b, 18010 (June 29, 2012).

²⁸ USDA FCIC, *2013 Crop Insurance Handbook*, Exhibit 1, 18010 (June 29, 2012).

²⁹ At the time of SRCO’s review, two AIPs had made decisions on whether to pay claims or not. One AIP chose to pay claims, while a second AIP chose to deny claims.

Prior to issuing any findings, SRCO was told by the national office to close the case because the term “reasonable expectation” does not provide a clear standard upon which to evaluate the appropriateness of the AIP determinations and, therefore, poses a high litigative risk.³⁰ Thus, SRCO was instructed to write a closeout letter to each AIP. In this letter, SRCO stated that RMA will take no further action regarding the 2013 irrigated cotton indemnity payments. The letter went on to say that RMA Risk Management Services Division (RMSD)³¹ will soon issue additional guidance on how to make and document determinations of reasonable expectation of receiving water when coverage begins.

After SRCO issued the closeout letters to the AIPs in 2014, RMSD met with Product Management and the affected AIPs to discuss the need for clarifying guidance to determine reasonable expectation at the time insurance attaches on policies involving irrigated acreage. From this meeting, they determined that the current policy/procedure was adequate to address the situation occurring in the Lugert-Altus Irrigation District and, therefore, issued no guidance.

However, two AIPs that write insurance in the Lugert-Altus Irrigation District believe there needs to be additional guidance specific to the Lugert-Altus Irrigation District. Both of these AIPs stated that reasonable expectation is not as easily identifiable because the source of recharge for Altus Lake is rainfall. In other areas, the snowpack recharges a lake, which can be measured by checking the depth of the snowpack and the amount of recharge the lake needs. Since RMA has not established a definition or methodology for determining “normal” precipitation for the area, it is not clear what evidence AIPs should use as the basis for their determination and how much evidence would suffice. Therefore, on the insured cropland, AIPs do not have a clear standard to apply when producers claim they had reasonable expectation of receiving adequate water to carry out a good irrigation practice insured under the irrigated practice.

RMA’s SRCO completed an analysis of the available data for the Lugert-Altus Irrigation District and determined there was no reasonable expectation to receive an irrigation allocation for the 2014 crop year. However, for the 2014 crop year, producers again planted and insured their crops under an irrigated practice, even though the lake was at one of its lowest points, the drought was still in effect, and reservoir levels were even lower than 2012 and 2013, when producers received no allotments of irrigation water. Producers that reside within the boundaries of the Lugert-Altus Irrigation District³² received indemnity payments totaling over \$21.6 million for crop year 2014 as a result of no irrigation supply. Prior to RMA’s recognition that additional guidance is needed to address the reasonable expectation of receiving water, producers received indemnity payments in crop years 2012 and 2013 as a result of not receiving irrigation water. The level of indemnity payments could have been mitigated if RMA’s RMSD had issued additional guidance on how to determine and document reasonable expectation or enacted

³⁰ RMA was likely to lose before the Civilian Board of Contract Appeals if it pursued findings against those AIPs that made the determinations that a reasonable expectation existed and therefore paid the claims.

³¹ RMSD is a subdivision of RMA’s Insurance Services Division.

³² RMA’s SRCO provided this indemnity data; however, they had not filtered the data to include only producers whose sole water source was Lugert-Altus Irrigation District. This data includes all producers who reside within the boundaries of the Lugert-Altus Irrigation District, including some who could have had access to well water.

another reasonable solution in a timely manner. Therefore, we have questioned the amount of indemnity payments issued for crop year 2014.³³

We recognize that the Lugert-Altus Irrigation District has received enough rainfall in 2015 to replenish the lake. However, until RMA removes the ambiguous and undefined language in its guidance determining reasonable expectation, the issue of reasonable expectation of receiving irrigation could arise again if, or when, a new drought occurs. Therefore, we recommend that RMA reduce the risk of paying for irrigated crop losses when the application of good irrigation practices is not expected by issuing additional guidance on how to make and document determinations of the “reasonable expectation of receiving water” or identify and enact other reasonable solutions. This will ensure that RMA does not continue to pay millions of dollars when there is no reasonable expectation to receive irrigation.

Recommendation 5

Issue policies and procedures to implement improvements for establishing and documenting reasonable expectation of receiving water.

Agency Response

In its November 19, 2015, response, RMA stated the following:

RMA’s current Prevented Planting Standards Handbook and Loss Adjustment Manual contain Irrigation Practice Guidelines information regarding determining reasonable expectation of adequate water. RMA has also already issued several Informational Memoranda providing clarification of existing procedures to Approved Insurance Providers regarding water availability: IS-15-007 “prevented Planting and California Water Cut Back program”, IS-14-004 “Claims Advisory – Underwriting Rules for Irrigated practices”.

In the case involving the Lugert-Altus Irrigation District, “RMSD met with Product Management and the affected AIPs to discuss the need for clarifying guidance to determine reasonable expectation at the time insurance attaches on policies involving irrigated acreage. From this meeting, they determined that the current policy/procedure was adequate to address the situation occurring in the Lugert-Altus Irrigation District and, therefore, issued no guidance.”

RMA will engage Approved Insurance Providers to determine feasible improvements that can be made for establishing and documenting reasonable expectation of receiving water. Identified feasible improvements will then be issued in either policy or procedures, as applicable, to supplement and improve the current guidance for establishing and documenting reasonable expectation of receiving water. This guidance will be issued by November 2016.

³³ See Exhibit A for the summary of monetary results.

OIG Position

We accept management decision for this recommendation.

Scope and Methodology

Our overall objective was to evaluate RMA's crop insurance compliance case management and the validity of a related hotline complaint. Specifically, we examined the adequacy and effectiveness of RMA's processes related to (1) establishing cases, (2) monitoring and tracking cases, (3) monitoring and tracking findings, and (4) final disposition of cases. We conducted our audit of RMA's crop insurance compliance case management at the RMA national office in Washington, D.C.; RMA Insurance Services Division in Washington, D.C.; Product Management's Product Accounting and Analysis Division 34 in Kansas City, Missouri; and four of the six geographically disbursed regional compliance offices: the Central Regional Compliance Office in Kansas City, Missouri; the Southern Regional Compliance Office in Dallas, Texas; the Eastern Regional Compliance Office in Raleigh, North Carolina; and the Western Regional Compliance Office in Davis, California. We also held meetings via teleconference with the Northern Regional Compliance Office in Eagan, Minnesota; and the Midwest Regional Compliance Office in Indianapolis, Indiana. We performed fieldwork for this audit from September 2014 through July 2015.

Our audit covered compliance cases opened in calendar years 2011 through 2014.³⁵ During that time period, RMA established 4,110 compliance cases and closed/cancelled 2,995 (73 percent) of those cases. We non-statistically selected a sample of 65 compliance cases to assess the adequacy and effectiveness of RMA's compliance case management process.³⁶ The cases were non-statistically selected, based on: calendar year, case source, case status, and assigned staff. Additional cases were reviewed upon RCO suggestion.

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

- Reviewed applicable laws, regulations, and agency procedures concerning the administration of the Federal crop insurance program, specifically those pertaining to compliance case management.
- Obtained access to RMA's CARS to review RMA's documentation of compliance cases. This system is a repository of documentation supporting the compliance investigations performed by compliance investigators. We utilized the compliance case documentation located within CARS to perform the reviews necessary to assess the effectiveness and efficiency of the compliance case management process; however, we did not assess CARS or any other computer system used by RMA as part of the compliance case management process to determine the reliability of these systems.
- Interviewed RMA's National Compliance Office officials responsible for communication related to the oversight of the compliance case management process.

³⁴ Product Accounting and Analysis Division is a subdivision of RMA's Product Management Division.

³⁵ Our review of compliance cases opened in 2014 includes only those opened prior to October 23, 2014.

³⁶ We did not review any compliance case files established by the Northern Regional Compliance Office or Midwest Regional Compliance Office, but instead held teleconferences with the RCO Directors to discuss their regions' case management processes.

- Interviewed EARD officials regarding the capabilities and utilization of CARS.
- Interviewed RMA Regional Coordinators who are responsible for reviewing AIP appeals and the completion of final agency determinations.
- Interviewed RMA officials from six RCOs responsible for the investigation of complaints and recommendations for corrective actions.
- Reviewed 65 non-statistically selected compliance cases from the 4 RCOs we visited to assess the adequacy and effectiveness of the compliance case management process.
- Interviewed RMA's Deputy Administrator for Insurance Services Division, which is responsible for the issuance of clarifying guidance to AIPs.
- Interviewed representatives of two AIPs who handled similar claims differently to obtain opinions on the need for clarifying guidance for determining "reasonable expectation."
- Interviewed relevant personnel and reviewed associated documentation to determine the validity of the hotline complaint.

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 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

AIP	approved insurance provider
CARS	Compliance Activities and Results System
DAC	Deputy Administrator for Compliance
EARD	Evaluation, Audit, and Recovery Division
FCIC	Federal Crop Insurance Corporation
GAO	United States Government Accountability Office
NPOR	National Program Operations Review
OIG.....	Office of Inspector General
RAS	Reinsurance Accounting System
RAETB.....	Reinsurance Accounting and Eligibility Tracking Branch
RCO.....	Regional Compliance Office
RMA.....	Risk Management Agency
RMSD.....	Risk Management Services Division
SRCO	Southern Regional Compliance Office
USDA	United States Department of Agriculture

Exhibit A: Summary of Monetary Results

Exhibit A summarizes the monetary results for our audit report by finding and recommendation number.

Finding	Recommendation	Description	Amount	Category
2	5	Crop Year 2014 indemnities paid without RMA issuing clarifying guidance.	\$21,666,521	Funds To Be Put To Better Use: Management or Operating Improvement/Savings
Total			\$21,666,521	

**USDA'S
RISK MANAGEMENT AGENCY
RESPONSE TO AUDIT REPORT**



United States Department of Agriculture

Farm and Foreign Agricultural Services
Risk Management Agency

November 19, 2015

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

FROM: Heather Manzano /S/ **Heather Manzano**
Audit Liaison Official

SUBJECT: Office of Inspector General Audit 05601-0004-31, Draft Report, Crop Insurance Compliance Case Management

RMA requests Management Decision for Recommendation 1 through 5 for OIG Audit 05601-0004-31, Draft Report, Crop Insurance Compliance Case Management.

RECOMMENDATION 1

Upon the completion of the business process review, develop, document, and implement a formal strategy for fully utilizing the Compliance Activities and Results System (CARS) for improving RMA's national office's oversight of its Regional Compliance Offices (RCOs) and consistency across its compliance case management process.

RMA RESPONSE

Compliance is directing several initiatives to improve its case management processes. In June 2015, Compliance contracted with Eagle Hill Consultants (EHC) to assist in the overall redesign of its processes, including the development and implementation of a formal case management strategy. Specifically, this includes using CARS to improve Compliance headquarters' oversight of its RCOs and to ensure a consistent case management process. In October 2015, Compliance awarded a contract to ECCO Select, Inc., a small business information technology (IT) company to implement enhancements to CARS. In addition, Compliance has created a business plan to work in partnership with IT, the IT contractor, RMA business users, Eagle Hill Consultants, and other stakeholders, to develop innovative new capabilities and enhancements for CARS. Compliance will lead this effort and develop these new concepts through user group meetings and discussions of case management process, system, and reporting requirements. As the Eagle Hill consultants progress with their evaluation and recommendations for improvements to the



Deputy Administrator for Compliance
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process redesign, Compliance will capture and incorporate these enhancements into CARS. The business process review will be completed by July 2016. Enhancements to CARS will be ongoing through the IT contract, estimated to be completed by October 2016.

RECOMMENDATION 2

Upon the completion of the business process review, obtain access to Reinsurance Accounting System (RAS) data for the Evaluation, Audit, and Recovery Division (EARD) to use in the development and reconciliation of routine Compliance Activity Reports to provide program oversight, including monitoring for Approved Insurance Provider (AIP) changes overwriting corrections in RMA databases and addressing key performance indicators.

RMA RESPONSE

Beginning January 2016, EARD will use RAS and other Corporate Reporting System data and reports during its quarterly peer reviews of cases in CARS to verify that the AIP made all required corrections before the RCOs close the case in CARS. In addition, EARD will check the specific policy to confirm that any overwritten policy adjustments were due to valid business situations.

EARD will also be using the recommendations of Eagle Hill consultants and other business process owners to develop key performance indicators (KPIs) for effective case management oversight. EARD will implement KPIs by September 2016.

RECOMMENDATION 3

Upon the completion of the business process review, update, and enforce the *Compliance Manual* to include policies and procedures using CARS to its full capacity, including consistent methods for indexing, organizing, and tracking cases. Also, procedures for the performance of second-party reviews should be consistent to ensure investigations are fully supported and closed in a timely manner and only cases associated with compliance issues are entered in CARS.

RMA RESPONSE

The business process review includes the development of a revised *Compliance Manual* which will incorporate policies and procedures related to effective case management using CARS. Compliance will improve the methods used to manage and monitor cases in CARS from creation to closure. The *Compliance Manual* is estimated to be completed by July 2016.

Beginning January 2016, EARD will perform quarterly peer reviews of the cases in CARS to verify cases are valid, adequately documented, and closed appropriately.

RECOMMENDATION 4

Upon the completion of the business review process, develop and implement a formal national review process for RCOs that incorporates the revised policies and procedures.

RMA RESPONSE

Compliance is in the process of re-evaluating and redesigning its case management process and will develop a standardized set of guidelines that the RCOs will use to conduct these reviews

consistently across the regions. Compliance will develop detailed policies and procedures for performing these reviews by July 2016 and will incorporate the revised processes into CARS through October 2016.

In addition, EARD will continue to use quarterly peer reviews of the cases in CARS to perform oversight and verify that the RCOs are following the policies and procedures consistently.

RECOMMENDATION 5

Issue policies and procedures to implement improvements for establishing and documenting reasonable expectation of receiving water.

RMA RESPONSE

RMA's current Prevented Planting Standards Handbook and Loss Adjustment Manual contain Irrigation Practice Guidelines information regarding determining reasonable expectation of adequate water. RMA has also already issued several Informational Memoranda providing clarification of existing procedures to Approved Insurance Providers regarding water availability: IS-15-007 "prevented Planting and California Water Cut Back program", IS-14-004 "Claims Advisory – Underwriting Rules for Irrigated practices".

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RMA will engage Approved Insurance Providers to determine feasible improvements that can be made for establishing and documenting reasonable expectation of receiving water. Identified feasible improvements will then be issued in either policy or procedures, as applicable, to supplement and improve the current guidance for establishing and documenting reasonable expectation of receiving water. This guidance will be issued by November 2016.

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

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