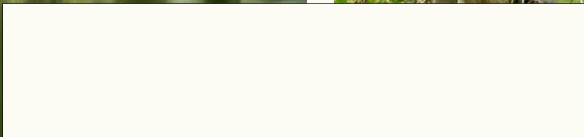
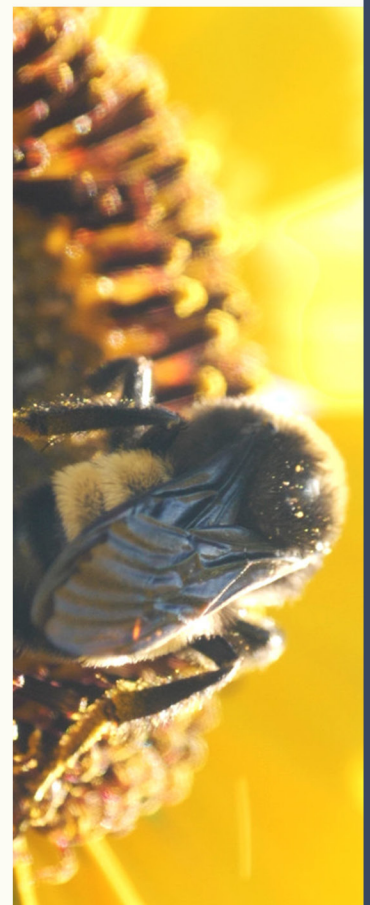




U.S. Department of Agriculture Office of Inspector General



Hemp Crop Insurance Provisions

Audit Report 05601-0009-31

We reviewed how the Risk Management Agency (RMA) implemented and administered hemp crop insurance provisions.

OBJECTIVE

We evaluated how RMA implemented and administered insurance provisions for hemp crops.

REVIEWED

We reviewed applicable laws and regulations related to hemp crop insurance provisions, as well as information from insurance providers, policies, and claims for CYs 2020 and 2021.

WHAT OIG FOUND

We found that RMA followed its written implementation procedures for new, privately submitted insurance products. RMA also developed hemp-specific policies and procedures to administer the hemp crop insurance provisions for crop years (CY) 2020 and 2021. RMA monitored crop losses and worked with the submitter on those concerns. Crop losses have decreased and, as of CY 2022, the insurance product is actuarially sound, as defined by RMA. Accordingly, we are not making any recommendations in this report and the agency elected to not provide a written response.

RECOMMENDS

We are not making any recommendations in this report.



OFFICE OF INSPECTOR GENERAL

United States Department of Agriculture



DATE: October 16, 2023

**AUDIT
NUMBER:** 05601-0009-31

TO: **Marcia Bungler**
Administrator
Risk Management Agency

ATTN: **Gary Weishaar**
Branch Chief
External Audits and Investigations Division
Farm Production and Conservation Business Center

FROM: **Janet Sorensen**
Assistant Inspector General for Audit

SUBJECT: Hemp Crop Insurance Provisions

This report presents the results of the subject review. We are not making any recommendations in this report. No further action by your staff is required.

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

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Background and Objectives

Background

The United States Department of Agriculture's (USDA) Risk Management Agency (RMA) administers the Federal Crop Insurance Program. Participation in the Federal Crop Insurance Program by producers is voluntary. RMA partners with private insurance companies, known as approved insurance providers, to deliver crop insurance.

The 2018 Farm Bill made several legislative changes related to hemp, including defining hemp; amending the Controlled Substances Act to specifically exclude hemp as a controlled substance; and directing the Secretary of Agriculture to develop an insurance policy for hemp.¹ Those modifications cleared the way for the Federal Crop Insurance Corporation (FCIC) to offer crop insurance policies for hemp.

In June 2019, the FCIC Board of Directors² invited submissions of privately developed hemp crop insurance products. In December 2019, the board approved the selected product as a new crop insurance option for CY 2020. To be eligible for the program, a hemp producer must comply with applicable State, tribal, or Federal regulations for hemp production, have at least 1 year of history producing the crop, and have a contract for the sale of the insured hemp, among other requirements described in the provisions.³

Objectives

We evaluated RMA's implementation and administration of the hemp crop provisions.

¹ The Agriculture Improvement Act of 2018, Pub. L. No. 115-334 (2018 Farm Bill) contains multiple sections related to hemp. §10113 defines "hemp" as the plant *Cannabis sativa* L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol concentration of not more than 0.3 percent on a dry weight basis. §11105 directs the Secretary of Agriculture to develop a policy or plan of insurance for hemp. §12619 amends the Controlled Substances Act.

² The FCIC is a wholly owned government corporation managed by a board of directors that administers the Federal Crop Insurance Program.

³ USDA FCIC 20-1218, *Hemp Crop Provisions* (Feb. 2020) and USDA FCIC 21-1218, *Hemp Crop Provisions* (Nov. 2020).

Section 1: Implementation and Administration of the Hemp Crop Insurance Provisions

We determined that RMA followed its written implementation procedures for new, privately submitted insurance products.⁴ To administer the hemp crop insurance provisions, RMA developed and issued hemp-specific policies and procedures.⁵ Overall, losses have decreased and, as of CY 2022, the insurance product has an actuarially sound loss ratio, as defined by RMA.⁶ Accordingly, we are not making any recommendations in this report.

Implementation

RMA followed its implementation procedures (see Figure 1), approving the product in 2019 and issuing the product for use in CY 2020.

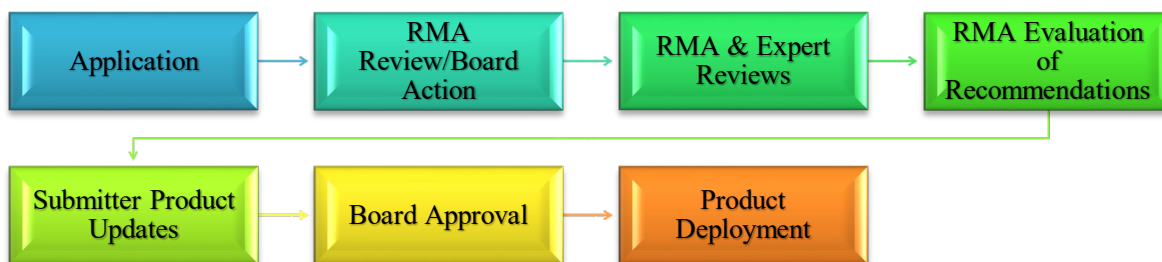


Figure 1: Hemp Insurance Product Development Implementation

Administration

Starting with CY 2020, RMA developed hemp-specific policies and procedures, updating them in CY 2021.⁷ According to RMA, when RMA and the product submitter's monitoring efforts identified high losses, the RMA Central Regional Compliance office responded in May 2021. RMA began reviewing all CYs 2020 and 2021 hemp crop insurance claims for compliance with the applicable provisions. RMA's review included four of the five claims OIG selected to evaluate hemp crop insurance administration. RMA also updated the policies and procedures for CY 2022 to address the identified program weaknesses. In comparing RMA's compliance review results to our independent review, we found that RMA identified non-compliances aligned with our review, demonstrating the compliance review's effectiveness. RMA is working with the approved insurance providers to address the identified non-compliances and expects to issue a report in October 2023.

⁴ USDA FCIC, *Board of Directors Procedure for Review of New and Revised Crop Insurance Products and Determination of Pilot/Permanent Status*, FCIC-17060 (Aug. 12, 2016).

⁵ USDA FCIC, *Hemp Crop Insurance Standards Handbook*, FCIC-20600U (Feb. 2020), and USDA FCIC, *Hemp Crop Insurance Standards Handbook*, FCIC-20600U (Aug. 2021).

⁶ RMA defines a crop insurance product as actuarially sound when the loss ratio is not greater than 1.0. For hemp crop insurance, the loss ratios improved CYs 2020 through 2022, and were 3.2, 2.7, and 0.8, respectively.

⁷ According to RMA, there is no requirement for policies and/or handbooks to be updated annually. Instead, they are updated when required.

Scope and Methodology

We conducted an audit of RMA’s implementation and administration of the hemp crop insurance provisions for CYs 2020 and 2021. We performed our fieldwork between October 2021 and September 2023. The audit team conducted all fieldwork remotely.

We determined there was a total of 661 producers with hemp crop insurance policies in CYs 2020 and 2021, with 69 producers receiving indemnities totaling more than \$15.7 million.⁸

	2020	2021	Combined
Producers with Policies	506	595	661
Producers with Claims	60	11	69
Total Indemnities	\$ 12,374,501	\$ 3,418,229	\$ 15,792,730

Figure 2: Hemp Insurance Summary for CYs 2020 and 2021

For sampling purposes, we non-statistically selected 5 of the 69 producers with the largest indemnities to evaluate hemp crop insurance administration. The 5 producers’ indemnities totaled \$11,081,248, or 70.2 percent of the total indemnities.

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

- reviewed applicable laws and regulations related to hemp crop insurance provisions;
- reviewed applicable procedures related to hemp crop insurance provision implementation;
- researched Congressional interest and media coverage of the hemp crop insurance provisions;
- obtained and reviewed approved insurance providers’ claim files for CYs 2020 and 2021;
- obtained and reviewed relevant RMA reviews of hemp insurance policies for CYs 2020 and 2021; and
- interviewed RMA, approved insurance providers, and submitter officials.

⁸ OIG’s analysis utilized data received from RMA that contained indemnity activity for January 1, 2020, through December 9, 2021. Additional indemnity activity could have occurred after these dates that was not captured in OIG’s analysis.

We assessed internal controls significant to the audit objectives. Specifically, we assessed the following components and underlying principles:

Component	Principle
Risk Assessment	Management should identify, analyze, and respond to significant changes that could impact the internal control system.
Information and Communication	Management should externally communicate the necessary quality information to achieve the entity's objectives.
Monitoring	Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

Because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

We obtained RMA data generated from RMA's Policy Acceptance and Storage System, for use in selecting sampled producers. We assessed the reliability of the data by testing its completeness and determining whether all indemnities were included in the agency provided data. However, we did not perform any additional tests to determine the reliability of the system because evaluating the effectiveness of the information systems was not one of the audit's objectives. We do not believe the lack of systems testing had an impact on our audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We discussed our conclusions with agency officials. The agency elected to not provide a written response.

We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Abbreviations

CY.....crop year
FCIC.....Federal Crop Insurance Corporation
OIG.....Office of Inspector General
RMA.....Risk Management Agency
USDA.....United States Department of Agriculture

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