



United States Department of Agriculture

# Controls Over Crop Insurance Section 508(h) Products



Audit Report 05601-0007-31

June 2020

OFFICE OF INSPECTOR GENERAL

# Controls Over Crop Insurance Section 508(h) Products

## Audit Report 05601-0007-31

OIG evaluated RMA's controls over the development and approval of insurance products under Section 508(h) of the Federal Crop Insurance Act.

### OBJECTIVE

Our objective was to evaluate RMA's controls over the development and approval of insurance products under Section 508(h) of the Federal Crop Insurance Act.

### REVIEWED

Our audit covered Section 508(h) insurance plans that were available in 2019. We non-statistically selected three active Section 508(h) insurance products to review. We also reviewed applicable laws, regulations, and agency handbooks; interviewed RMA officials; and followed up on RMA's corrective action in response to recommendations from a prior OIG audit report.

### RECOMMENDS

RMA should develop and formalize Section 508(h) product monitoring procedures and involve the Compliance Office in determining who decides when a Compliance Office review of Section 508(h) submissions is appropriate and needed.

### WHAT OIG FOUND

The Department of Agriculture's (USDA) Risk Management Agency (RMA) administers the Federal Crop Insurance Program, which protects against agricultural production losses. Section 508(h) of the Federal Crop Insurance Act allows private parties to develop insurance products and present them to the Federal Crop Insurance Corporation Board of Directors (Board) for consideration.

We found several weaknesses that RMA needs to address to improve its oversight of Section 508(h) submissions. First, although in 2006 RMA agreed to formalize a review process to include annually scheduled reviews of all insurance products, RMA does not currently have a formalized system for documenting these reviews for Section 508(h) products. We found that, in our sample, only one out of three products had a documented RMA review in the past 5 years. Until RMA implements a process to document its monitoring of all Section 508(h) products, there is an increased potential for RMA to neither detect nor address vulnerabilities in privately developed products, which may result in losses. Second, we found that none of the divisions that review Section 508(h) products had fully assessed certain vulnerabilities of such products, as the role of the RMA Compliance Office had been lessened greatly in 2016 when RMA's directive made this review optional.

RMA generally agreed with our recommendations and we accepted management decision on both recommendations.





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



DATE: June 30, 2020

AUDIT  
NUMBER: 05601-0007-31

TO: Martin Barbre  
Administrator  
Risk Management Agency

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

FROM: Gil H. Harden  
Assistant Inspector General for Audit

SUBJECT: Controls Over Crop Insurance Section 508(h) Products

This report presents the results of the subject review. Your written response to the official draft is included in its entirety at the end of the report. We have incorporated excerpts from your response, and the Office of Inspector General's (OIG) position, into the relevant sections of the report. Based on your written response, we are accepting management decision for all audit recommendations in the report, and no further response to this office is necessary. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer (OCFO).

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

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 (<http://www.usda.gov/oig>) in the near future.



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# Background and Objectives

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## Background

The Department of Agriculture's (USDA) Risk Management Agency (RMA) administers the Federal Crop Insurance Program. Producers' participation in the Federal Crop Insurance Program is voluntary, but is encouraged through premium subsidies. RMA provides a variety of actuarially sound crop- and livestock-related insurance products, as well as risk management education to help farmers and ranchers manage risk related to agricultural production.

According to RMA, "Federal Crop Insurance programs protect against agricultural production losses due to unavoidable causes such as drought, excessive moisture, hail, wind, hurricane, tornado, lightning, insects, etc."<sup>1</sup> Much of the insurance provided by RMA has a revenue protection component to help producers protect against revenue losses that result from low commodity prices.

In addition to RMA-developed insurance plans, in 2000, Congress enacted legislation that expanded the role of the private sector by allowing entities to participate in conducting research and developing new insurance products and features.<sup>2</sup> Private sector individuals or groups who have specific ideas as to what type of risk management insurance products are needed for their crops or livestock can develop insurance products for the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) to consider. Section 508(h) of the Federal Crop Insurance Act allows private parties to develop insurance products and to present: (1) crop insurance policies; (2) provisions of policies; or (3) rates of premium to the Board for consideration.<sup>3</sup> These submissions are commonly referred to as Section 508(h) submissions.

In reviewing Section 508(h) submissions, the Board determines whether:

1. the interests of producers are adequately protected;
2. the proposed policy or plan of insurance will:
  - a. provide a new kind of coverage that is likely to be viable and marketable;
  - b. provide crop insurance coverage in a manner that addresses a clear and identifiable flaw or problem in an existing policy; or
  - c. provide a new kind of coverage for a commodity that either previously had no available crop insurance, or has demonstrated a low level of participation or coverage level under existing coverage; and
3. the proposed policy or plan of insurance will not have a significant adverse impact on the crop insurance delivery system.<sup>4</sup>

If approved by the Board, these unsolicited insurance products could receive reimbursement for research, development, and operating costs, in addition to any approved premium subsidies and

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<sup>1</sup> USDA Risk Management Agency, *Strategic Plan FY 2015–2018*, Strategic Plan Framework.

<sup>2</sup> Agricultural Risk Protection Act of 2000, Pub. L. No. 106-224, § 131, 114 Stat. 358, 379 (adding section 522 to the Federal Crop Insurance Act, codified at 7 U.S.C. § 1522).

<sup>3</sup> 7 U.S.C. § 1508(h)(1)(A).

<sup>4</sup> 7 U.S.C. § 1508(h)(3)(A).

reinsurance. After 3 years, the private entity may either elect to retain ownership of the insurance product and charge a user fee, as approved by the Board, to other insurance providers who sell the product or elect to transfer ownership of the product to RMA.

In addition to research and development costs, the Board reimburses maintenance costs associated with the annual cost of underwriting for Section 508(h) products. Maintenance payments may be provided for a period of no more than 4 reinsurance years subsequent to the Board's approval of the Section 508(h) product. Maintenance amounts will be based on the complexity of the policy and the size of the area in which the policy or material is expected to be sold.

As of reinsurance year (RY) 2019, RMA had 32 commodities covered by insurance plans approved through Section 508(h)—3 of which were available for the first time in RY 2019. For RY 2018, the remaining 29 products accounted for approximately \$5.6 billion in premiums and \$2.8 billion in indemnities.

A 2006 Office of Inspector General (OIG) audit report of the Section 508(h) Program found that RMA had not established monitoring and review procedures, and made two recommendations: (1) to develop and implement standardized procedures for monitoring and reviewing Section 508(h) products; and (2) to establish guidelines for evaluations performed by private companies, if required. This report follows up on these recommendations.<sup>5</sup>

## Objectives

Our objective was to evaluate RMA's controls over the development and approval of insurance products under Section 508(h) of the Federal Crop Insurance Act.

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<sup>5</sup> Audit Report 05601-0013-Te, *New Crop Products Submitted by Private Companies* (Feb. 2006).

## Finding 1: RMA Should Develop Additional Procedures to Evaluate Section 508(h) Products

RMA still needs to implement a key OIG recommendation from a prior OIG audit report in order to detect and address vulnerabilities within Section 508(h) products. Although, in 2006, RMA agreed to formalize a review process to include annually scheduled reviews of all insurance products, RMA does not currently document these reviews for Section 508(h) products. Specifically, documentation of a formal review was not provided for two of our three sample products for the past 5 years. This occurred because RMA did not believe that its proposed solution for the 2006 audit recommendation—a checklist—was productive. However, RMA did not establish a formalized review process to take the place of the checklist. OIG made its previous recommendation because, without more consistent, formal procedures for monitoring and reviewing Section 508(h) products, vulnerabilities in the products may go undetected and result in losses. Until RMA implements a process to document its monitoring of all Section 508(h) products, there is an increased chance that it may continue to neither detect nor address vulnerabilities in privately developed products, which may result in losses.

In response to our 2006 audit, RMA agreed to annually monitor and review Section 508(h) products and agreed to require private companies to perform annual evaluations of their products.<sup>6</sup> Federal guidelines state that managers should design internal controls to ensure that monitoring occurs in the course of normal operations, is performed continually, and is well-established in the agency's operations.<sup>7</sup> According to RMA's guidance, program evaluations are performed to determine if RMA is providing sound, effective risk management programs that meet the needs of agricultural producers and to ensure that relevant provisions of the Federal Crop Insurance Act are met as effectively and efficiently as possible. In addition, program evaluations are used to determine if an acceptable insurance risk does or does not exist.<sup>8</sup>

However, we found that RMA is not regularly performing documented reviews on some existing Section 508(h) products. Of our sample of three products, only one had a documented RMA review in the past 5 years. RMA officials explained that, during the September Board meeting, they review key metrics for Section 508(h) products that are receiving reimbursements and provide this information to the Board.<sup>9, 10</sup> Of our sample, one product, Margin Protection, was in the reimbursement phase, and its key metrics had therefore been reviewed before the September 2019 Board meeting, according to RMA officials.<sup>11</sup> RMA officials stated they have been monitoring the performance of Livestock Risk Protection (LRP)-Lamb and had been in contact with the developer of that product to identify if observed losses indicated the potential for issues with the design of the product. However, RMA has not formally documented its monitoring of

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<sup>6</sup> Audit Report 05601-0013-Te, *New Crop Products Submitted by Private Companies* (Feb. 2006).

<sup>7</sup> Government Accountability Office, *Standards for Internal Control in the Federal Government*, GAO-14-704G, "Monitoring" (Sept. 2014).

<sup>8</sup> USDA RMA, *Program Evaluation Handbook: 2006 and Succeeding Crop Years*, FCIC-22010, § 3 (Sept. 2005).

<sup>9</sup> RMA's review includes a review of policies sold, liabilities, loss ratios, hours charged by work category, tasks performed, and the validity of costs.

<sup>10</sup> Submitters of Section 508(h) products can receive reimbursements for the maintenance of these products for the first 4 reinsurance years after approval by the Board.

<sup>11</sup> The reimbursement phase lasts for the first 4 years of the product after Board approval. After this, submitters can receive user fees charged to approved insurance providers for use of products.

the LRP-Lamb product. In the case of Processing Pumpkins, RMA has not documented any reviews in the last 5 years. The previous audit noted that, as more privately developed products are approved and liabilities increase, the probability of losses due to undetected policy problems will likewise increase and should, therefore, be monitored.<sup>12</sup>

This occurred because RMA has not developed or formalized a viable process to monitor all Section 508(h) products, as it previously agreed to. In response to the 2006 audit, RMA stated it would use the Annual Pilot Program Monitoring Checklist contained in the *Program Development Handbook* (FCIC-23010), issued September 2, 2005, for annually monitoring and reviewing Section 508(h) products.<sup>13</sup> However, according to RMA officials, the *Program Development Handbook* is no longer available. Current RMA officials stated that a standardized checklist may not be specific enough to evaluate programs, due to the vast differences in Section 508(h) products. We agree that a standardized checklist may not be the best approach to satisfy the recommendation for a formalized and regular review process and encourage RMA to develop an alternative, adaptable method to review and address the vulnerabilities we have identified, particularly those concerning loss ratios.

Instead of a checklist, RMA officials stated that, during their annual September Board meeting, they review key metrics for Section 508(h) products that are receiving maintenance reimbursements, adding that they believed this process was sufficient. RMA officials stated that products are also regularly reviewed during other administrative processes for updating premium rates, yields, prices, and policy language.

For example, both LRP-Lamb and Processing Pumpkins far exceeded the actuarially sound loss ratio of 1.0 or lower.<sup>14</sup> First, LRP-Lamb operated from RYs 2008–2014 at a loss ratio of approximately 3.9—well above actuarial soundness. From 2008–2014, LRP-Lamb producers were indemnified approximately \$59 million, while only paying a total of approximately \$15 million in premiums.<sup>15</sup> RMA officials stated they had identified and reported to the FCIC Board the observed higher loss ratios several times during this period and, once sufficient data had been accumulated to perform a credible analysis, RMA ultimately contracted for an external review of the LRP-Lamb product. As a result of this review, in February 2014, LRP-Lamb policies were suspended from being sold until the submitter modified the insurance product. Such actions are necessary to ensure products are viable and RMA does not take on excessive losses.

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<sup>12</sup> Audit Report 05601-0013-Te, *New Crop Products Submitted by Private Companies* (Feb. 2006).

<sup>13</sup> *Id.* at 7.

<sup>14</sup> RMA defines “actuarially sound” as a “situation in which the premium rates charged to insured persons are sufficient to cover the present value of expected future losses and to build a reasonable reserve.” RMA, *Program Evaluation Handbook: 2006 and Succeeding Crop Years*, FCIC-22010, § 2(A) (Sept. 2005) The Federal Crop Insurance Act provides that the FCIC “shall take such actions, including the establishment of adequate premiums, as are necessary to improve the actuarial soundness of Federal multiperil crop insurance made available under this subchapter to achieve an overall projected loss ratio of not greater than 1.0.” 7 U.S.C. § 1506(n)(2).

<sup>15</sup> From RY 2008 through RY 2018, we noted producers with lamb insurance received over \$50 million more in indemnities than in premiums paid. These losses could be due to market conditions, product vulnerabilities, or a combination of these and other factors. We cannot attribute the losses to a specific cause; therefore, we will not be reporting a monetary amount.

LRP-Lamb returned to the market for RY 2016 and the loss ratio for 2016 through 2018 has been 3.4. When excessive loss ratios began to occur, RMA was in contact with the submitter and requested analysis of the performance of the product, which the submitter provided. Despite known issues with LRP-Lamb, RMA still has not documented a review of the program, even though the loss ratio shows that there may still be potential weaknesses in the program. RMA was aware of issues with LRP-Lamb through informal reviews, and stated that LRP-Lamb is a product it will be looking at soon, due to the high loss ratios in recent years.

Second, in the case of Processing Pumpkins, the lifetime loss ratio is approximately 2.06, which is well above the actuarially sound loss ratio of 1.0 or lower.<sup>16</sup> Additionally, loss ratios for specific years are particularly concerning. For example, in RY 2015, Processing Pumpkins had a loss ratio of approximately 6.5.<sup>17</sup> Despite these ratios, RMA has not performed any documented program reviews of this insurance product since its maintenance reimbursement period ended in RY 2012. RMA officials stated that they have continued rate and yield reviews every 3 years and price reviews annually since that time, and were able to identify specific weather events that contributed to the high losses (and thus increased rates). However, without a formal documented program review, RMA cannot take steps to address any other underlying issues.

As a result, there may be instances in which products outside of the reimbursement stage far exceed acceptable loss ratios. For example, in RY 2015, Processing Pumpkins producers were indemnified approximately \$1.9 million, while only paying a total of approximately \$296,000 in premiums. In order to protect taxpayer dollars, RMA needs to conduct reviews to identify high loss ratios and work with submitters to make appropriate corrections for all Section 508(h) products. To do this, we recommend that RMA use key metrics to review all Section 508(h) products. This process could be similar to the processes RMA already utilizes while reviewing Section 508(h) products prior to approval (see Finding 2) or for Section 508(h) products in the reimbursement stage. If these metrics indicate a potential significant issue, RMA should conduct a full program evaluation.

## **Recommendation 1**

Develop and formalize Section 508(h) product monitoring procedures, which should include applicable key metrics to evaluate all Section 508(h) submissions annually and a process to conduct full program evaluations if any of the metrics indicate potential issues.

## **Agency Response**

RMA agrees with the recommendation. RMA's 508h review handbook will be adapted to include procedures for documenting any review that is conducted on a product and key metrics

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<sup>16</sup> Processing Pumpkins has been offered since RY 2009.

<sup>17</sup> From RY 2009 through RY 2018, we noted producers with pumpkin insurance received over \$3.4 million more in indemnities than in premiums paid. These losses could be due to market conditions, product vulnerabilities, or a combination of these and other factors. We cannot attribute the losses to a specific cause, therefore, we will not be reporting a monetary amount.

that RMA will track annually and elevate as appropriate. The handbook is next scheduled to be updated by January 2021.

### **OIG Position**

We accept RMA's management decision for this recommendation.

## **Finding 2: RMA Should Strengthen its Risk Review Process for Section 508(h) Submissions**

RMA has three divisions review Section 508(h) submissions but, while these reviews cover a wide array of crucial topics, none of the divisions are specifically tasked with looking for product vulnerabilities. Further, in 2016, RMA proposed to minimize the requirement for the Compliance Office to review submissions by making it optional, even though the Compliance Office specializes in identifying possible program vulnerabilities, fraud, and abuse. This occurred because RMA officials felt that this level of review would not be necessary for all insurance types. As a result, by not consistently involving the Compliance Office in the review process for Section 508(h) submissions, RMA is missing an opportunity to identify—and therefore prevent—product vulnerabilities and potential fraud, waste, and abuse.

In its 2016 draft *New Product Review Standards Handbook*, RMA proposed a requirement to thoroughly review Section 508(h) submissions because “the product needs to be free of flaws upon implementation.”<sup>18, 19</sup> The review proposed should provide the Board with any critical information before it makes its determination to approve or deny submissions. According to RMA’s 2016 draft handbook, three divisions, referred to as “functional areas,” are required to review a submission:

- the Product Administration and Standards Division;
- the Actuarial and Product Design Division; and
- the Product Analysis and Accounting Division.

RMA’s draft guidance listed the topics these three functional areas cover, which comprise a wide variety of critical topics, in their review. (For a list of select review topics, see Table 1.)

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<sup>18</sup> USDA FCIC, *Risk Management Agency New Product Review Standards Handbook*, 17010, § 3(B)(1)(d)(ii) (Jan. 2016 draft).

<sup>19</sup> RMA officials stated that they are following the proposed requirements included in the draft procedures and have delayed finalizing these procedures until the end of this audit.

**Table 1: Functional Areas’ Review Criteria as Described in the Risk Management Agency New Product Review Standards Handbook<sup>20</sup>**

Functional Area	Topics Reviewed
<b>Product Administration and Standards Division</b>	<p>Determine whether policies are:                      based on sound underwriting principles;                      consistent with one another;                      include accurate calculations; and                      provide coverage for a measurable cause of loss, among other policy components.</p> <p>Determine whether calculations are:                      compatible with policy language;                      protect the interests of producers; and                      support actuarial appropriateness.</p>
<b>Actuarial and Product Design Division</b>	<p>Determine whether:                      the method for calculating subsidies is consistent with the Federal Crop Insurance Act;<sup>21</sup>                      the assumptions made in the rating, yield, and/or revenue methodology or processes are reasonable, prudent, and appropriate for the plan of insurance;                      the technical analyses are technically correct and appropriate for the policy materials and risks covered; and                      the information used for the analyses and price development is appropriate, reliable, and the best available, among other methodology best practices.</p>
<b>Product Analysis and Accounting Division</b>	<p>Determine whether the submission complies with standards and calculations acceptable to the Policyholder Acceptance Support System for processing and acceptance of data.</p>

While the 2009 handbook required a Compliance Office review, RMA’s 2016 draft guidance provides that a Compliance Office review is only performed if it is determined to be “appropriate and needed.”<sup>22</sup> However, RMA’s 2016 guidance does not state who is responsible for determining whether a Compliance Office review is appropriate and needed. RMA’s Compliance Office serves as a valuable resource in mitigating risk, as its mission is to protect the integrity of the crop insurance program in the best interest of the insured and the American taxpayer. The Compliance Office does this, in part, by assessing program vulnerabilities, fraud, and abuse.

We spoke to officials in the Compliance Office at both the regional and national levels, and found that they were not aware of any instance in which the Compliance Office had been asked

<sup>20</sup> USDA FCIC, *Risk Management Agency New Product Review Standards Handbook*, 17010, § 23 (B)(2)(a)(b)(c) (Jan. 2016 draft).

<sup>21</sup> Subtitle A of the Federal Crop Insurance Act, as amended (7 U.S.C. §§ 1501-1524).

<sup>22</sup> USDA FCIC, *Review and Approval of Private Crop Insurance Products*, 17010, at 11 (Mar. 2009); USDA FCIC, *Risk Management Agency New Product Review Standards Handbook*, 17010, § 23(B)(2)(f) (Jan. 2016 draft).

to review a submission. The officials also added that they felt that their review would have been beneficial, and that they would like the opportunity to determine whether their review would be necessary. For example, the Compliance Office believes it would have identified issues that arose in Annual Forage, a Section 508(h) submission.<sup>23</sup> The Compliance Office had previously identified very similar issues in a review of a similar program: Pasture, Rangeland, Forage.

We are concerned that this change in guidance has left key vulnerabilities and risks unaddressed in the review process. There are several key topics under the Compliance Office’s purview that the three functional areas do not fully address in their reviews. Specifically, while the three functional areas cover a wide variety of review topics, they do not directly address program vulnerability, fraud, and abuse—which is a main goal of the Compliance Office.<sup>24</sup> Specifically, through the course of its work, the Compliance Office ensures compliance with crop policy terms and approved procedures; assesses program vulnerabilities, fraud, and abuse; investigates alleged or indicated instances of fraud and abuse; and recommends changes in policies, loss adjustment, and related procedures.

RMA officials stated that the three functional areas that currently review the submissions provide a comprehensive review and it would not always be necessary to involve the Compliance Office. For example, officials stated that while the Compliance Office can be useful to a new insurance type to help prevent potential fraud, waste, and abuse, this level of review would not be necessary for all insurance types. We agree that certain insurance types may not always need an in-depth review from the Compliance Office. However, we also believe that the Compliance Office is best suited to determine whether its review is, as the draft 2016 guidance says, “appropriate and needed.” OIG therefore recommends that the Compliance Office be given an opportunity to review Section 508(h) submissions to determine whether it needs to provide a more in-depth, risk-focused review. Without a review from the Compliance Office for Section 508(h) submissions, RMA is not making use of valuable expertise to help identify potential program vulnerabilities, as well as fraud, waste, and abuse.

## **Recommendation 2**

Involve the Compliance Office in determining who is responsible for deeming a Compliance Office review of Section 508(h) submissions appropriate and needed. Once this determination has been made, RMA should formalize this role and process in its guidance.

## **Agency Response**

RMA agrees with the recommendation. RMA has already begun including Compliance and Regional Office staff in the review process in the interim prior to finalizing official procedures. RMA’s 508h review handbook will be adapted to include procedures on providing 508h

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<sup>23</sup> Audit Report 05601-0006-31, *Annual Forage Program and Followup on Pasture, Rangeland, and Forage Program Recommendations* (July 2019).

<sup>24</sup> This description of RMA Compliance Offices was taken from RMA’s website describing its Field Offices. We accessed this webpage on November 29, 2019.

materials to specific Compliance officials to delegate as required any review they deem appropriate. The handbook is next scheduled to be updated by January 2021.

### **OIG Position**

We accept RMA's management decision for this recommendation.

## Scope and Methodology

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Our audit covered Section 508(h) insurance plans that were available in RY 2019. As of RY 2019, RMA had 32 commodities covered by insurance plans approved through Section 508(h). Of these 32 commodities, 3 were available for the first time in RY 2019. For RY 2018, the remaining 29 products accounted for approximately \$5.6 billion in premiums and \$2.8 billion in indemnities. We performed fieldwork between March 2019 and December 2019.

During our audit, we talked with RMA officials in Kansas City, Missouri, and attended two Board meetings.<sup>25</sup> We non-statistically selected three active Section 508(h) insurance products to review, focusing on products that could fall under: (1) a high loss ratio; or (2) low participation.<sup>26</sup> Two of the samples fell under the high loss ratio category, while the other sample fell under the low participation category.

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

- Reviewed applicable laws, regulations, and agency handbooks concerning the administration of Section 508(h) insurance products;
- Interviewed RMA officials to gain a sufficient understanding of the Section 508(h) process;
- Interviewed RMA officials and reviewed agency guidance to ascertain the internal controls over the Section 508(h) process;
- Reviewed three Section 508(h) insurance products; and
- Obtained and evaluated documentation to ensure RMA implemented corrective action from a prior OIG audit report.<sup>27</sup>

During our audit, we did not perform any test to determine the overall reliability of any individual agency information system because evaluating the effectiveness of information systems was not one of our engagement objectives. Therefore, we make no representation as to the adequacy of any agency information systems. 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 Audit Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>25</sup> We attended the June 3–5, 2019, Board meeting in Washington, D.C., and the September 18-20, 2019, Board meeting in Kansas City, Missouri.

<sup>26</sup> We utilized RMA's Summary of Business to review loss ratios and participation for identified Section 508(h) insurance products.

<sup>27</sup> Audit Report 05601-0013-Te, *New Crop Products Submitted by Private Companies* (Feb. 2006).

## Abbreviations

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Board.....	Federal Crop Insurance Corporation Board of Directors
FCIC.....	Federal Crop Insurance Corporation
LRP .....	Livestock Risk Protection
OIG.....	Office of Inspector General
RMA.....	Risk Management Agency
RY.....	reinsurance year
USDA.....	Department of Agriculture

**AGENCY'S  
RESPONSE TO AUDIT REPORT**





United States  
Department of  
Agriculture

June 24, 2020

Farm Production  
and Conservation

Risk  
Management  
Agency

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

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

**FROM:** Martin R. Barbre / s /  
Administrator  
Risk Management Agency

**SUBJECT:** OIG Official Draft Report 05601-0007-31: Controls Over Crop Insurance  
Section 508 (h) Products

The Risk Management Agency (RMA) appreciates the opportunity to review and comment on the subject Official Draft report. RMA reviewed the Official Draft report, responded with planned corrective actions, and requests management decision for each of the recommendations below.

While the Risk Management Agency (RMA) agrees with the two recommendations, RMA's view is that several aspects of the narrative provided in the audit report do not accurately present the full context and facts.

First, all of RMA's products go through regular reviews during the normal course of administering these products. These processes include, but are not limited to, actuarial reviews, updates of policies and handbooks, maintenance reimbursement reviews, regular meetings with insurance companies who sell and service insurance policies, regular meetings with producers who purchase insurance policies, and meetings to 'close the loop' between the Compliance Office and other parts of RMA to share the findings of their investigations with those responsible for the design of insurance policies.

These reviews have been effective as demonstrated by the overall strong actuarial performance of the crop insurance program. It should be noted that this audit identified no losses to the crop insurance program – or to the taxpayer – that occurred as a result of a lack of a 'formal' review. Given this, it was a reasonable management decision to place emphasis on general programmatic review rather than into formal and redundant 508(h) product reviews as OIG recommended in 2006. RMA acknowledges that its previous management decision has been overruled and will adhere to OIG's management decision in this matter.

Second, OIG misrepresents the review process that occurred for Livestock Risk Protection - Lamb. OIG asserts that, "RMA still has not documented a review of the program, even though the loss ratio shows that there may still be potential weaknesses in the program." The facts do not support this statement. Through the usual process RMA undertakes to administer this – and any other – privately-managed product, RMA has been aware of the performance of LRP Lamb and has proactively investigated this issue since before this

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audit began. In fact, LRP Lamb serves as an example of how RMA's current implicit review processes successfully detect potential issues with 508(h) products and repeatedly briefed the Board of Directors, which led to multiple product suspensions over the last decade.

**RECOMMENDATION NO 1:**

Develop and formalize Section 508(h) product monitoring procedures, which should include applicable key metrics to evaluate all Section 508(h) submissions annually and a process to conduct full program evaluations if any of the metrics indicate potential issues.

**RMA RESPONSE**

RMA agrees with the recommendation. RMA's 508h review handbook will be adapted to include procedures for documenting any review that is conducted on a product and key metrics that RMA will track annually and elevate as appropriate. The handbook is next scheduled to be updated by January 2021.

**RECOMMENDATION NO 2:**

Involve the Compliance Office in determining who is responsible for deeming a Compliance Office review of Section 508(h) submissions appropriate and needed. Once this determination has been made, RMA should formalize this role and process in its guidance.

**RMA RESPONSE**

RMA agrees with the recommendation. RMA has already begun including Compliance and Regional Office staff in the review process in the interim prior to finalizing official procedures. RMA's 508h review handbook will be adapted to include procedures on providing 508h materials to specific Compliance officials to delegate as required any reviews they deem appropriate. The handbook is next scheduled to be updated by January 2021.

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