



**United States
Department of
Agriculture**

Risk
Management
Agency

**Risk Management Agency
Program Compliance and Integrity
Annual Report to Congress
January - December 2004**

RMA
PREVENTING FRAUD. PROTECTING AGRICULTURE.



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Preface

The United States Department of Agriculture's (USDA) Risk Management Agency (RMA) administers the Federal crop insurance program, the primary source of risk protection for America's farmers and ranchers. In 2004, 221 million insurable acres of the Nation's farmland were protected by Federal crop insurance. RMA provided \$46.6 billion of coverage to American farmers and ranchers. Insurance premiums for 2004 totaled \$4.18 billion, compared to indemnity payments of \$3.20 billion received for crops damaged by natural causes or lost revenue due to price fluctuations. To ensure that the cost to producers and taxpayers continues to be justified, it is essential that there be adequate safeguards in place to avoid or correct abuses.

The Agricultural Risk Protection Act of 2000 (ARPA) enhanced the incentives for producers to buy higher levels of coverage, creating a more effective safety net. ARPA also provided USDA with new requirements and new tools for monitoring and controlling program abuses. It required RMA and the Farm Service Agency (FSA) to strengthen local-level oversight by working together and sharing information through compatible yield data and production databases. ARPA provided for the use of data mining as a technologically advanced tool for more efficiently targeting compliance reviews and investigations. It also increased sanctions that can be imposed for program fraud and abuse.

This fourth annual report, as required under the Federal Crop Insurance Act (7 U.S.C. sec.1515), documents USDA's progress toward implementing these new tools, and their effectiveness. It provides information on how the program is monitored for compliance and describes the steps taken to improve the way compliance detection and enforcement activities are conducted. The report shows how

data mining and other tools are being used in identifying areas of potential abuse. It also demonstrates that USDA is becoming steadily more successful at discovering and preventing fraud, waste, and abuse.

As indicated in the report, the continued effectiveness of compliance-related efforts has raised the level of avoided costs, saving the Government \$78 million in fraudulent or other incorrect payments that might not have otherwise been identified until after the fact. A strong contributing factor in the growing success of the program is the collaboration and partnership among departmental agencies in compliance investigations. This includes the highly effective collaboration between FSA and RMA to develop procedures for referrals of suspected abuse from FSA field offices directly to RMA field offices. USDA is fully committed to preserving the integrity of the Federal crop insurance program and expects to report continued progress toward that goal in future reports.

Charles F. Conner
Acting Secretary of Agriculture

Executive Summary

The United States Department of Agriculture's (USDA) Risk Management Agency (RMA) is dedicated to safeguarding the integrity of America's agricultural community by implementing the best and most innovative methods to detect, deter, and prevent fraud, waste, and abuse within the Federal crop insurance program. Each year, RMA works toward this important mission by creating targeted methods to strengthen program integrity, make innovative technological innovations, and improve collaborative work with its partners in the anti-fraud alliance, the Farm Service Agency (FSA), the Federal Crop Insurance Corporation (FCIC), and Approved Insurance Providers (AIP). This annual report will highlight the progress RMA has made in these areas in 2004.

This marks the fourth year this report has been issued, as required by Section 515(i) of the Federal Crop Insurance Act (7 U.S.C. sec. 1515) (the Act) entitled "Program Compliance and Integrity." The Act, as amended by ARPA, mandates that RMA report on compliance with the Act by describing the methods employed to minimize fraud, waste, and abuse within the Federal crop insurance program. As such, this report highlights specific cases of fraud, waste, and abuse and the specific actions RMA is taking to address them. Also discussed are key collaborative efforts, specified by the Act, between RMA, FSA, and the AIPs, as well as with State insurance commissions, U.S. Attorneys Offices, the Office of Inspector General (OIG), and other agencies within USDA to combat fraud and strengthen program integrity. This report includes the most recent data available and covers January 1 - December 31, 2004.

RMA has made a number of significant steps to strengthen program integrity and fight fraud, waste, and abuse. Considerable success has been achieved as a result. Among the many accomplishments in 2004:

Developed stronger program oversight tools that will allow RMA greater flexibility in monitoring the fiscal health and operational functions of AIPs;

Implemented new technology and developed innovative approaches to help RMA staff and partners conduct their work more efficiently, including the completion of a new case-management system for RMA Compliance staff, and development of an information management system that will improve the efficiencies of data exchange and reconciliation between RMA, FSA, and AIPs;

Strengthened collaborations with FSA, AIPs, State Insurance Commissions, OIG, and other partners who help RMA in its mission to strengthen program integrity; and

Achieved impressive results and savings in cost avoidance and recoveries. The results of these accomplishments have been significant, producing an estimated \$78 million in cost avoidance and \$37 million in findings and other recoveries in 2004.

RMA's efforts to fight fraud and improve program integrity have achieved impressive results. The new tools and approaches RMA developed and implemented in 2004 to protect the livelihood of agricultural producers and the integrity of the crop insurance program are having a decidedly positive impact. They are allowing RMA to fight fraud, waste, and abuse ever more effectively, and are bringing substantial savings to the USDA, the U.S. Government, and the American taxpayer.

In the pages that follow, more detailed descriptions of some of the projects RMA has focused on during the 2004 calendar year are provided.

Oversight

Today's Federal crop insurance program is a unique public/private collaboration among Federal agencies. It is a unique hybrid of Federal administration and private-insurance-company delivery of risk management products and services to the American farmer. In 2004, there were 15 FCIC-approved AIPs delivering crop insurance across America. These AIPs share in the risk and compete for business; yet they operate under the rules and conditions set forth in a Standard Reinsurance Agreement (SRA) that each AIP signs with FCIC. FCIC is a Government corporation managed by RMA. In 2002, the largest company in the program at the time (American Growers Insurance Company) was placed under regulatory control by a State Insurance Commission due to its poor financial condition. The policies of thousands of farmers were at risk. RMA funded the dissolution of the company to ensure that policyholders were protected and that producers' claims were paid. In 2004, RMA implemented critically important changes to the SRA that will greatly reduce the risk of a similar event occurring in the future and thereby reinforcing and strengthening program integrity through stronger controls and greater oversight. Further, RMA implemented a new plan for verifying compliance with certain aspects of the new Agreement, titled Operations Reviews. Operations Reviews assess the AIPs' compliance with the terms and conditions of the SRA and FCIC-approved policies and procedures in the delivery of the Federal crop insurance program.

NEW STANDARD REINSURANCE AGREEMENT

During 2004, RMA and the AIPs entered into a renegotiation of the SRA that lays out the terms and conditions between the U.S. Government and AIPs in the delivery of the Federal crop insurance program. The changes agreed upon in 2004 went into effect with the 2005 reinsurance year (July 2004).

The 2005 SRA contains requirements that AIPs must report projected expenses and underwriting gains. It gives RMA the authority to obtain relevant information to review financial operations of holdings and providers for notification not only of planned acquisitions, but of any

change in the business organization, operations, finances, or sales expectations of the AIP or its service partners. Many other areas of the SRA were also strengthened to provide RMA more latitude in collection and analysis of financial and operational information of the AIP and its affiliates.

Procedures for financial analysis of new reporting requirements include additional historical information and analytical tools (e.g., risk-based capital, maximum probable loss, etc.)

Specific requirements of the new SRA state that an AIP will have the financial and operational resources, organization, experience, internal controls, and technical skills to meet the requirements, and that the AIP will provide information necessary to evaluate compliance as often as required by RMA. The AIP must be able to demonstrate a satisfactory performance record, including the ability to fulfill the requirements of the agreement under various risk assessment scenarios. Additionally, the Annual Plan of Operations that AIPs have always been required to submit must now contain a Contingency Plan describing how the AIP will service policies if a managing general agent or service provider is unable to meet the requirements of their agreement with the AIP, the AIP is unable to meet the requirements of the SRA, or if they are otherwise not eligible to participate in the Federal crop insurance program.

The financial monitoring of AIPs is comprised of yearly and quarterly financial analyses and on-site, detailed, financial reviews conducted on each AIP once every 3 years. On-site review procedures were originally implemented in May 2003, and were updated in February 2004. These procedures will continue to be updated, as needed, to refine the process.

In the past, on-site reviews focused more on internal controls. However, since the expansion of the operation reviews and the update of RMA's financial analysis process, the scope has been broadened significantly to analyze the overall financial health of those AIPs being reviewed.

Some of the significant changes in the SRA and how they will affect the partners in the agreement are described below.

REINSURANCE

Assigned Risk Fund – Changes were made, in the SRA, to the terms of the Assigned Risk Fund. This fund is a pool of policies that has the least amount of AIP gain or loss exposure. There are state-by-state limits on the amount of premium an AIP can place into the assigned risk fund based on a percent of the total premium written in the State. Changes in the 2005 SRA include the exclusion of pilot program premium, increasing State limits, increasing the number of States with a 75 percent limit, and a reduction of AIP retention.

These changes increased the Assigned Risk Fund capacity for the AIPs and decreased the retention of reinsurance in States with poorer loss experience. In addition, the AIPs have more incentive to write pilot program business knowing it will not adversely impact their Assigned Risk Fund capacity. AIP underwriting-gain potential is increased with the ability to place more of the higher risk business with RMA. These changes are expected to increase AIP profits an estimated \$3.8 million.

Net Book Quota Share–The Net Book Quota Share (NBQS) provision was introduced in the 2005 SRA. The NBQS provides RMA with a 5 percent share of an AIP’s annual underwriting gain or loss, and associated premium and losses. As a result of this change, RMA saves an estimated \$16 million annually in underwriting gains that would have been paid to the AIPs.

Reinsurance Account–Prior to the 2005 SRA, RMA withheld 60 percent of AIP underwriting gains that exceeded 17.5 percent of retained premium. However, the funds withheld created a reserve account in the event the AIP experienced excessive losses in subsequent years. The withheld underwriting gains were paid to the AIP within the next 2 years. The 2005 SRA eliminated the Reinsurance Account, allowing the AIPs who experience underwriting gains in excess of 17.5 percent of retained premium to receive their total annual underwriting gain and have the opportunity to generate additional investment income.

EXPENSE SUBSIDIES AND FEES

Expense Subsidy Reductions–The Administrative and Operating Expense (A&O) and Catastrophic Risk Protection (CAT) Loss Adjustment Expense subsidies paid to the AIPs were reduced for the 2005 and subsequent reinsurance years, resulting in an estimated RMA savings of

\$11 million for 2005 and \$25 million for 2006.

Late-Filed Acreage Fee–In 2004, an AIP’s A&O subsidy on a policy was reduced if acreage report data was submitted late. This provision was eliminated in 2005, saving the AIPs an estimated \$400,000 per year.

Late-Filed Sales–An AIP will receive a smaller subsidy than previously for late-filed sales, costing AIPs an estimated \$600,000 per year.

INSURANCE OPERATIONS

Large Claims–The 2005 SRA allows RMA to more actively participate in the loss adjustment process on claims in excess of \$500,000, decreasing the possibility of large loss overpayments and AIP legal costs.

Compliance and Corrective Action–AIPs are paid an A&O subsidy to deliver and service the crop insurance program per RMA regulations and procedures. A violation in claims processing (such as loss adjustment, quality control reviews, verification of applicable information, etc.) will now result in an A&O subsidy reduction of 5 percent (versus 10 percent previously) of the net book premium on all crop insurance contracts affected by violation. A violation in the sales and servicing of the crop insurance contract, excluding the claims process, will now result in an A&O subsidy reduction of 15 percent (versus 5 percent previously) of the net book premium on all crop insurance contracts affected by the violation.

Stricter AIP Requirements –The 2005 SRA provides for stricter requirements that the AIP have sufficient financial and operating resources and a history of successful insurance business prior to being approved for an SRA. Stricter AIP requirements are a control measure to reduce the risk of future company failures such as that which occurred with the failed AIP, American Growers Insurance Company. RMA’s cost in the dissolution of American Growers was approximately \$40 million.

Quality Control and Data Mining–The use of data mining in the quality control process has reduced the number of random reviews conducted by AIPs and has created targeted reviews based on data anomalies. For more information on data mining, see page 7.

OPERATIONS REVIEWS OF AIPS

RMA will institute a 3-year, cyclical, program-error-rate protocol in conjunction with AIP Operations Reviews. This effort makes the best use of limited resources. Using this protocol, RMA reviews one-third of AIPs each year. RMA will review the AIPs' books of business by randomly selecting 750 policies (50 from each AIP) every 3 years. RMA's data mining contractor, the Center for Agricultural Excellence (CAE) at Tarleton State University, located in Stephenville, Texas, will select the policy samples. CAE has stored all of RMA's crop insurance data from 1996 forward. This protocol provides a larger sample, which in turn provides a more accurate error-rate estimate than any past, random, statistical-sample review of the AIPs' operations by RMA or any of the Agency's oversight groups in a 3-year period.

Once an entire 3-year cycle of reviews has been completed, RMA will begin replacing previous error-rate data with the new data as each AIP's subsequent review is completed. This protocol will provide RMA a rolling error rate with one-third of the error-rate findings being replaced annually. RMA expects to complete the first 3-year cycle with the reviews conducted in 2007.

Each Operations Review is conducted in two phases – an assessment of the AIPs' established operational systems designed to administer the crop insurance program, and an evaluation of the AIPs' delivery of the program through a review of selected policies.

RMA conducted an initial pilot operations review in 2004.

Technology

RMA continues to be at the forefront in using state-of-the-art technology to maximize effective and efficient use of precious resources to accomplish its compliance mission. We continually strive to improve the methods we employ to adapt these technologies to our unique mission.

SCORING AND PRIORITIZATION SYSTEM

As first reported in the 2003 Annual Report, RMA uses a system to measure and score each compliance case based on predetermined criteria. The Regional Compliance Office (RCO) assigns a priority level to each case, allowing that office to adjust the balance of investigative efforts to focus staff time more heavily on the cases that display the most significant indicators of potential fraud.

To create this scoring system, RMA worked with CAE, a partnership between Tarleton State University and Planning Systems Incorporated. CAE is a data research and technology development center that also assists RMA with ongoing data warehousing and data mining projects (p. 7). Using the vast store of information on insurance policy histories, past weather conditions, and other data stored in a data warehouse, CAE helped RMA design a system that can look at the insurance history of any individual producer and compare it against the histories of other producers who have insured the same crop in the same geographical area. It then takes the resulting information and gives the producer a score relative to the percentage of atypical policy behavior that the producer displays in comparison with his or her peers.

Specifically, for any producer or policy under review, three independent measures are evaluated:

1. Frequency of loss – The rate at which the producer has filed claims;
2. Severity of loss – The percentage of loss claimed;
3. Size of loss – The amount of indemnity paid.

Each of these measures is averaged from the producer's insurance history over the previous 5 years. However, the

averages are weighted so that more current policy activity has a higher value than older activity. Once each of these measures is averaged, they are put together to form a composite score. Where applicable, this score is also automatically adjusted to compensate for years with overall low or high loss levels.

At the same time, the system creates an average score for all producers growing the same crop in the same county or local geographic region as the producer being scored. This allows a comparison of the producer to his or her peers growing the same crop in the same area, and a determination if the producer's insurance history reflects a discrepancy from the norm in that area. The producer is then assigned a score of 1 to 50, based on the level of discrepancy discovered. The higher the score, the higher the indication that this producer's case should be investigated.

Since the initial release of the producer score in July 2003, CAE has improved the producer scoring algorithm. Replant indemnities were excluded. Group insurance plan policies are not considered in the scoring algorithm because losses are based on countywide yields and not on an individual producer's yields. In addition, any indemnity less than \$100 now receives a zero score.

Scores are issued on a county, crop-policy basis. The chart below shows the number of producers scored over the 5-year period from 2000 to 2004.

**Table 1: Reinsurance Year 2004
Producer Distribution by Score**

Score	Producers	Producer Percent
0	1,193,824	64.3
1-9	344,078	18.5
10-19	195,152	10.5
20-29	86,199	4.6
30-39	32,417	1.7
40-49	4,077	0.02
Total	1,855,747	

NEW CASE MANAGEMENT SYSTEM - MAGNUM

In 2003, RMA implemented a new way to manage its compliance workload.

Magnum is information technology that brings review processes, compliance personnel, and their electronic case materials together in one central database. This case management software was developed by contractors and tailored to fit RMA business processes. As a result, Magnum allows users to record sources of reviews, document allegations and review objectives, track review progress, report results, and follow legal proceedings.

Magnum can accommodate changes in requirements; a necessary feature for today's environment. RMA's previous tracking systems were centrally located. Magnum offers its users access from remote locations. Magnum also allows users to attach electronic documents so users across the Nation can access relevant case files. Using this new technology, RMA compliance personnel can create ad hoc reports and standard report templates, and can easily consolidate regional data for reports such as the Annual Report to Congress.

2004 ACTIVITIES

The volume of cases processed in Magnum continues to increase each year. In January 2004, Magnum became fully operational. Also in 2004, RMA focused on improving Magnum by introducing more standards, continuing past successes, and using Magnum to report our compliance accomplishments. The data contained in this Annual Report to Congress and summarized in the Results section were produced from reports created using Magnum.

In 2004, a rules committee was instituted to introduce more controls into the development and operation of Magnum. The committee developed a procedures manual and continues to function as a change control board to safeguard Magnum's standards.

Throughout 2004, compliance personnel were provided followup training and applied project-management principles to continue past success. RMA used online training to administer individual and group training for Magnum and its ad hoc query tool, Snap Reporter.

DATA MINING AND WAREHOUSING

The data warehousing and data mining projects were highlighted in previous annual reports. RMA, working in partnership with CAE, incorporated the latest advances in database technology to create a centralized "data warehouse" of all crop-insurance-related data collected in RMA databases. RMA investigators and other staff use this centralized data warehouse to search (or "mine") existing data records to compare policies and/or detect individual producers whose policies demonstrate atypical patterns, which in some cases may indicate potential fraudulent activity. Data mining is also used to analyze and uncover larger national patterns that may indicate schemes for fraud, waste, and abuse. The results of such data mining techniques allow RMA to focus efforts on the most problematic areas in the crop insurance program quickly so they can be investigated and corrected. Prior to the development of these tools, it was difficult, and sometimes impossible, for RMA to conduct this sort of historical research and data analysis, since the various types of data records were stored in different databases that used conflicting data models.

CAE continues to maintain the data warehouse and conduct data mining analysis for RMA. The data warehouse now contains more than a billion records, including:

All RMA Reinsurance Year policyholder data from 1991 to present;

30 years of weather data;

Annual National Agricultural Statistics Service data from 1950 to present;

RMA actuarial data; and

RMA Reinsurance Accounting System data.

The data warehouse is updated monthly and data mining activities are currently taking place from the warehouse. The findings from such mining activities are saving RMA and American taxpayers millions of dollars by preventing cases of fraud, waste, and abuse before they occur. In fact, in 2004 alone, the CAE spot check list derived from data mining saved the insurance program \$71 million in cost avoidance. Further, the spot-check-list data mining

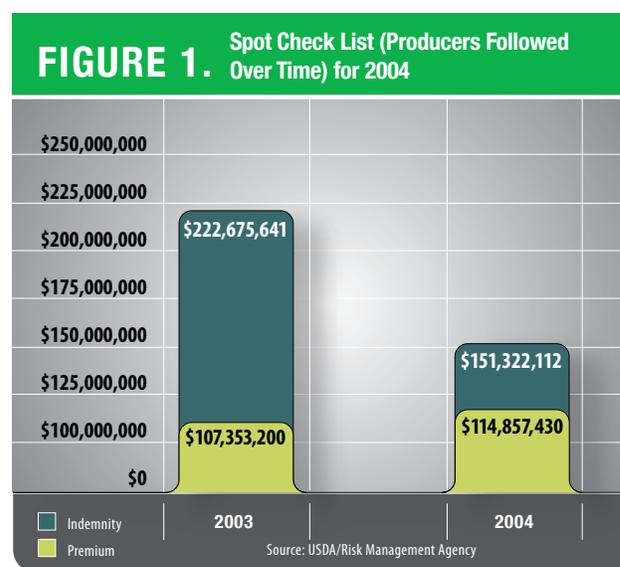
has accounted for a large percentage of RMA's total cost avoidance figures for the past 4 years. The RCOs conducted independent data-mining- based reviews that account for an additional \$7 million in cost avoidance in 2004. RMA expects such savings to continue and perhaps increase as the Agency moves forward with the program.

DATA MINING AND THE SPOT CHECK LIST

One data mining method that has proved to be a particularly effective and proactive deterrent to fraudulent activity is the RMA spot check list. Each year, RMA develops a list of agricultural producers whose operations warrant an on-site inspection during the growing season. After the RCOs review the list, it is passed on to FSA staff to conduct growing-season inspections of the producers on the list.

CAE produced the 2004 spot check list by mining data collected during 2003. The evaluation produced a list of 2,145 producers whose patterns appeared to be atypical compared to others in their region. RMA's RCOs then reviewed the list of names and dropped 22 producers from the list. The RCOs then added an additional 372 producers based on their field observations. This additional list is referred to as the RCO Spot Check List in this report. The combined list was shared with local FSA offices and AIPs who provided service to the producers on the list, and growing-season inspections were conducted. FSA also sent letters to all producers identified in the spot-check process, informing them that they were on the list and identified for a growing-season inspection.

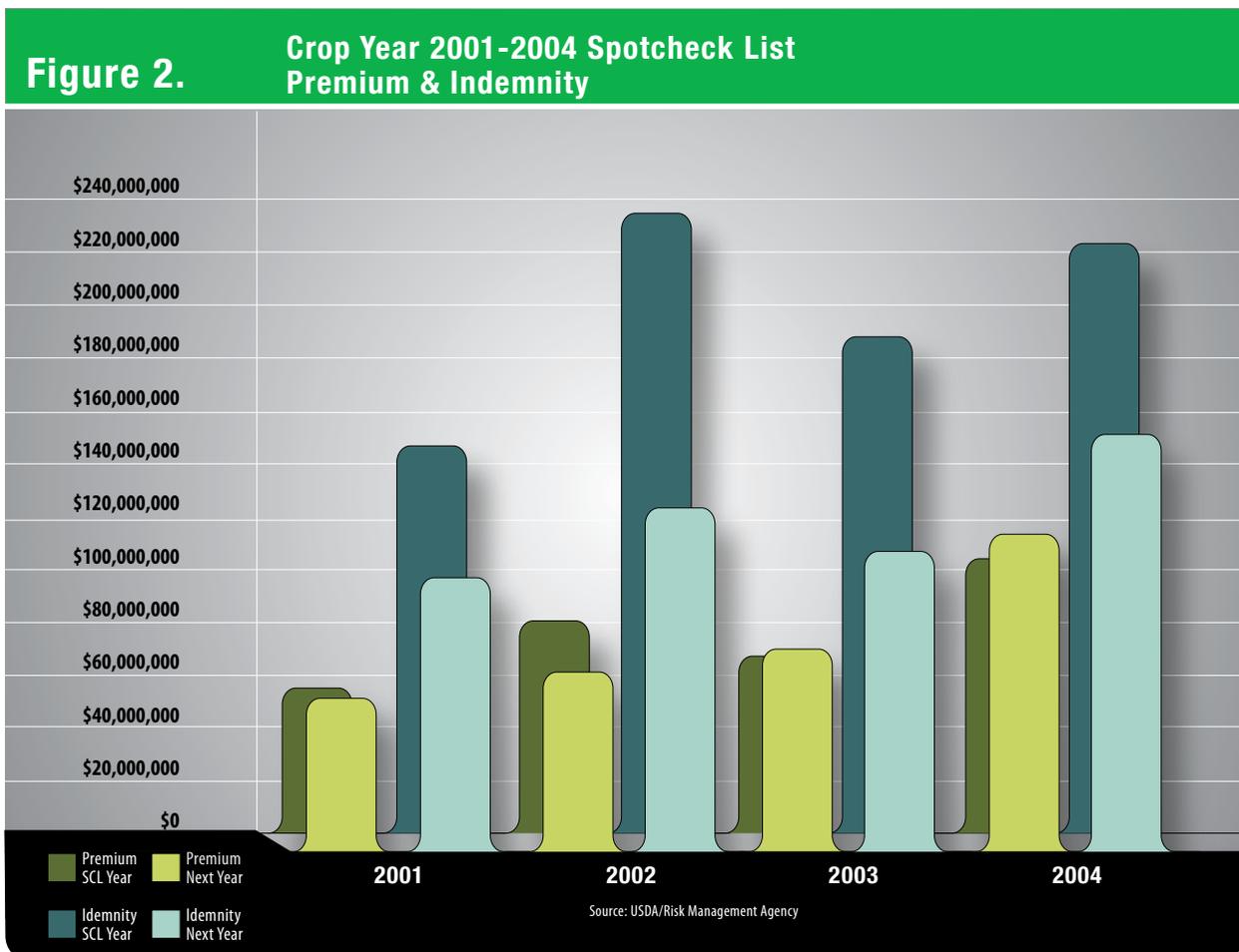
Statistics show a substantial reduction in indemnities paid to producers on the 2004 spot check list, as a result of this process. For instance, in 2003, all producers who would eventually be named on the 2004 spot check list claimed \$222 million in indemnity payments. In 2004, after they had been informed they were on the spot check list, the indemnities claimed by these producers decreased to \$151 million (figure 1).



This pattern has been consistent throughout the 4 years the spot check list has been in use (figure 2). As a result of the 2001, spot check list, indemnity claims for farmers on the list dropped from \$145 million to \$97 million. In 2002, spot-check-list producers' total indemnities dropped from \$234 million to just over \$122 million; in 2003, indemnities dropped from \$187 million to 106 million; and, as stated above, indemnities dropped from \$222 million to \$151 million in 2004. The 4-year results (\$312 million in reduced indemnities) show that producers who knew they were on the list chose to file fewer claims for less indemnity.

Further, when these yearly indemnity reductions are compared with the amount of insurance premium producers are buying each year, it becomes clear that the amount of insurance this group of producers is purchasing has remained constant. However, producers' claimed indemnities have decreased to levels much closer to their premiums, indicating that the spot check list is helping to create a more sound premium/indemnity balance.

Clearly, the spot check results shown in figures 1 and 2 demonstrate how financially beneficial the data mining and warehousing program is to RMA in the prevention of erroneous indemnity payments. Further, the program has



proven to be cost-effective. The data-mining project budget was planned for an initial 5-year period with a total cost of approximately \$18 million. However, as mentioned earlier, in only the first 4 years of the project, the spot check list alone has saved the crop insurance program more than \$312 million in cost avoidance through lower claims and indemnity payments. This means that for every dollar RMA spends on data mining, the Agency saves more than \$18 in program costs. Projected to the end of the contract, the ratio will approach \$20 saved for each \$1 expended.

In addition to the spot check list, CAE has implemented and continues to develop several dozen data mining products that are expected to generate savings, including:

Development of a “scoring system” so RCOs can prioritize entities for investigation;

Identification of individual loss adjusters who work all or almost all of a particular agent’s claims, and comparison of these loss adjusters’ claims and actions against those of their peers;

Identification of AIPs with overpaid claims and an overall account of the overpaid indemnities paid each year;

Discovery of “lost producers” – those who were previously on the spot check list but have started insuring under some other Social Security number or tax identification number;

Development of a simple, user-friendly interface that allows executive-level users to access and identify necessary information easily; and

Development of actuarial tools to help evaluate final planting dates.

The results obtained during the first 4 years of this project have encouraged RMA to develop more investigative data mining scenarios. The following are some of the projects CAE is currently working on, which RMA plans to deploy in the near future:

Developing actuarial tools to help evaluate map rates and map areas;

Providing Geographic Information System (GIS) and weather information as an investigative tool for analyzing indemnity claims;

Integrating GIS and weather information into data mining scenarios to better reflect actual growing conditions encountered by producers;

Developing simulation technology to help evaluate pilot programs;

Developing an interface to provide RMA personnel the ability to query the data warehouse and create custom reports for analysis.

These ongoing projects are only a few examples of the research and development RMA has planned for 2005 and beyond. Working with CAE, the Compliance Office will continue to develop more products that help expose patterns of fraud, waste, and abuse. RMA is confident that the cost savings experienced using the data warehouse and data mining program will continue because of these upcoming projects.

DISPARATE PERFORMANCE – AGENTS AND LOSS ADJUSTERS

Fraud, waste, and abuse of the crop insurance program are important problems recognized by AIPs and RMA. ARPA mandates that USDA develop and provide tools, information, and analysis of “loss claims of insurance agents and loss adjusters to identify those agents and loss adjusters who have loss claims that are in excess of 150 percent (or an appropriate percentage specified by RMA) of the mean for all loss claims associated with other agents and loss adjusters operating and adjusting in the same area.”

Using data-mining technology, RMA analyzes statistical information on insurance agents whose policies have paid out loss claims that were 150 percent or more above the mean for other agents in their local area—a disparity that can indicate fraudulent activity. Similarly, the data-mining process identifies insurance loss adjusters who consistently reported significantly lower production yields (both harvested and unharvested) than their peers, which resulted in indemnity payments that were 150 percent or greater than the average for that area—another condition that may indicate suspicious activity.

Beginning in 2001, CAE produced an annual report of agents and loss adjusters whose records reflected disparate behavior. This list identified the top 5 percent of agents who had the greatest disparities in loss claims relative to their local agricultural production area. It also identified

the most egregious cases of loss adjusters who consistently reported lower production yield figures than their peers.

The 2004 list of agents and loss adjusters report offered refinements for developing the ARPA-required, 150-percent-list of agents and loss adjusters. Two scenarios were used to flag anomalous agents; another two scenarios were developed to identify anomalous loss adjusters. Clusters of severe losses associated with an agent or loss adjuster are considered anomalous when the background loss experience is dissimilar. Catastrophic weather events like hail and excess wind are excluded because they naturally produce clusters of severe losses. To help ensure the integrity of comparisons, the 2004 scenarios control for producer's share, insurance plan, coverage level, price, cause of loss, crop, crop type, and practice.

Policies with indemnities over \$10,000 are identified for each agent and loss adjuster for the 2004 ARPA-required list.

AGENT METHODOLOGY

The following two scenarios were used to flag agents:

Agents Gain and Loss—This scenario flags agents associated with producers whose losses dramatically increase after switching agents. The increased losses occur in multiple counties and for multiple crops and the producers have higher losses than other producers in the same area for the same crop. In addition, before the agent switch, the producer had a loss experience similar to others in the area. Transfers of producers within the same agency and producers switching agents because an agent stopped selling policies were excluded.

Agent Anomalous Losses—This scenario flags agents who have producers reporting disproportionate losses as compared to other producers in the county for the same crop, crop type, and practice. Revenue plans were converted to use the Multi-Peril Crop Insurance (MPCI) price. Liability, premium, and indemnity were converted to the 50 percent coverage level. Producer's share was accounted for. Three measures were used to compare agents' books of business.

Size – Both the amount of an agent's indemnity and the agent's indemnity as a percent of total county indemnity were used.

Frequency – Both the number of claims and the proportion of claims to no claims versus the remaining county claims to no claims were used.

Severity of Loss – Both the agent's loss cost ratio and the difference between an agent's percent of the total county liability versus an agent's percent of the total county indemnity were used.

Counties and agents that experienced near total losses were excluded from this algorithm, as well as counties and agents that experienced significant losses due to hail or excess wind.

LOSS ADJUSTER METHODOLOGY

Loss adjusters are compared at county, crop, type, and practice level, and claims are counted by crop unit. Catastrophic causes of loss and group insurance plans were excluded. Revenue plans were converted to use the MPCI price. The coverage levels were converted to the 50 percent coverage level. In addition, producer's share was accounted for. Only harvested claims were used in the comparison. Unharvested and prevented-planting claims do not differ much by loss cost, and are largely total losses. If a harvested claim was mixed with a prevented-planting claim in the same crop unit, then these claims were also excluded. Over 70 percent of all crop units with claims have only harvested claims. Counties that experienced disastrous losses were excluded.

Two scenarios were used to flag loss adjusters:

Loss Adjuster Severe Adjustments – Loss adjusters are flagged when they handle too many large, severe-loss claims as a percent of their total book of business. An adjuster's losses were compared by cause of loss for crop, type, and practice in a county. The loss adjuster's loss cost is compared to that of all other loss adjusters in the same area.

Loss Adjuster / Producer Linkage – Loss adjusters sometimes make judgments favoring particular producers repeatedly over the years and in different counties. The flagged loss adjuster must have worked in at least two counties with producers who had large, severe-loss claims for at least 2 years. Severity is measured by loss cost. A producer has to exceed 90 percent of the other producers in severity in the same county for crop, type, practice, and cause of loss.

RESULTS

The 2004 list of agents and loss adjusters identifies 71 agents and 58 loss adjusters. A total of 932 policies, where indemnity is greater than \$10,000, were flagged by the four scenarios. Agent Anomalous Losses make up nearly 70 percent of these policies, while only 2 percent (19 policies) can be attributed to the Loss Adjuster Severe Adjustments Scenario.

Policies associated with an agent accounted for \$9,130,472 in risk premium and \$31,347,737 in indemnity.

Loss adjusters and the associated flagged policies account for \$1,140,775 in risk premium and \$4,648,496 in indemnity.

NON-SPOT-CHECK COMPLIANCE OFFICE DATA MINING

RMA RCOs use data mining to conduct specific types of reviews where the technology can reveal possible errors within a program. For example, in 2004, one RCO discovered, through data mining, that tobacco was being over-insured by four different AIPs. The North Carolina Actuarial Special Provisions state that tobacco can be insured at the higher 80 or 85 percent level only for Enterprise or Basic units. Data mining identified policies that did not adhere to this rule. The AIPs were contacted and premium overstatements of \$38,249 and indemnity overpayments of \$11,840 were corrected. RCO data-mining-based reviews accounted for \$7 million in cost avoidance in 2004.

REMOTE SENSING AND IMAGING

In 2004, RMA used remote sensing data and related technologies to support its program compliance efforts and to aid RMA personnel and outside customers working on Agency mission-critical projects.

RMA uses remote sensing to support combating waste, fraud, and abuse in its programs. In 2004, RMA's Compliance Office, in conjunction with USDA's OIG and the Department of Justice (DOJ), used Landsat 5 and Landsat 7 data to support an investigation of conspiracy and insurance fraud for submitting false claims and false statements to USDA. This investigation resulted in the conviction and sentencing of the producer to 3 years and 5 months in a Federal prison and \$448,000 in restitution. A co-conspirator was also convicted.

Based upon the success of using remote sensing in investigating and combating waste, fraud, and abuse, RMA provided remote sensing training to a number of its compliance investigators in March 2004. Investigators were trained to acquire Landsat 5 and 7 imagery from the USDA Image Archive, managed by FSA, and then to make preliminary determinations from the imagery to approve a crop insurance claim or forward it on to a remote sensing expert for further investigation. Such training has increased the volume of image requests RMA has made from the USDA Image Archive.

In fiscal year 2004, 535 satellite images with a total value of \$321,000 (if purchased directly from the United States Geologic Survey) were acquired from the USDA Image Archive; of the 535 images, 197 images were used for FY 2004 investigations that were settled, prosecuted, or currently with DOJ (imagery value: \$118,000). 108 images are currently being used in ongoing RMA compliance investigations that are not yet settled, referred to OIG, or to DOJ (imagery value: \$64,800). The USDA Image Archive yearly subscription fee is \$75,000.

Collaboration

The mission to detect, eliminate, and proactively prevent fraud, waste, and abuse could not be accomplished without a large collaborative effort between many parties. To meet our goals and uphold the integrity of the crop insurance program, RMA relies not only on the hard, cooperative work of our own employees, but also on our strong, anti-fraud alliance partnerships with FSA and AIPs. We collaborate with many other partners as well, including OIG. RMA is dedicated to developing and refining our collaborative efforts with these partner agencies because we understand that only through strong partnerships can we protect America's agricultural producers from those who would take advantage of the crop insurance program. Each year we collaborate more successfully with our partners, and we continued to build on these successes in 2004. This section of the report will demonstrate how these collaborative efforts have resulted in bringing some high-profile cases of fraud and potential fraud to justice. It will also discuss RMA's many ongoing collaborative partnerships and show some specific examples of how these collaborations work.

HIGH-PROFILE COLLABORATIVE INVESTIGATIONS

SPECIAL INVESTIGATIONS BRANCH

The Special Investigations Branch (SIB) is a specialized unit within RMA's Compliance Office. The SIB investigates significant, high-profile cases of alleged fraud, waste, and abuse for RMA, and collaborates on investigations with OIG, RMA RCOs, and FSA.

Once a suspected case of fraud is substantiated, SIB investigators refer the case to OIG, which is responsible for investigating the case further and referring suggested cases for prosecution to the U.S. Attorney's office. SIB investigators provide direct assistance to OIG during their criminal investigations, including executing search warrants, conducting interviews, and providing courtroom testimony.

On occasion, SIB also makes referrals to State or local prosecutors regarding insurance fraud. They can also refer cases for Federal, civil action to the U.S. Attorney's office

through OIG or USDA's Office of the General Counsel (OGC). Additionally, SIB may refer cases to the RMA Administrator for disqualification of producers, insurance agents, loss adjusters, AIPs, and others who violate program rules.

Collaboration in Action: SIB Investigation Uncovers \$1,186,432 in Indemnity Overpayments in Polk and Marshall Counties, MN and Cass County, ND

During the course of this case, the insureds submitted 176 claims to USDA, totaling \$4,208,450 in farm payments. Two entities also received approximately \$1,186,432 in crop insurance indemnity payments and \$374,890 in premium subsidies to which they were not entitled. Investigators determined that from 1996 to 2003, the insureds attempted to circumvent farm-program-payment caps by claiming to USDA that three entities were separate and distinct farming operations. The insureds claimed that certain persons affiliated with the three partnerships were actively engaged in farming and that each partnership received a share of the insured crops. Investigators determined this was false information and by providing such false information to USDA, the insureds were able to increase their annual payments under five separate Federal farm programs. Sanctions against the insureds are being pursued.

Collaboration in Action: SIB Investigation Uncovers \$912,364 in Indemnity Overpayments in Carroll County, IA

An ongoing investigation into Federal farm program fraud and Federal crop insurance fraud in Iowa resulted in Mark Hoffman, his wife Sue Hoffman, and their son Justin Hoffman being charged with multiple counts of making false statements to a bank in order to get a farm loan, making false statements to FSA and RMA in order to obtain Federal farm program benefits and crop insurance proceeds, and concealing assets from and making false statements to the United States Bankruptcy Trustee. The indictment alleged that in 1997 the Hoffmans made materially false statements as to their true financial status to Mercantile Bank, now US Bank, in order to obtain a \$1.6 million loan. According to the indictment, the Hoffmans continued to

submit materially false statements as to their financial condition in order to preclude US Bank from foreclosing on its loan while they sold and depleted crops, machinery, and equipment secured by US Bank and then transferred proceeds of US Bank's security to their son. The indictment further alleged that from sometime in early 1998 until the present the Hoffmans engaged in a scheme to obtain Federal farm program benefits and crop insurance proceeds and elude creditors by directing their son and other individuals to make false certifications on documents to FSA and RMA in order to obtain Federal farm program benefits and crop insurance proceeds they were not otherwise entitled to receive or would have been seized by creditors. Charges also included that, between 1998 and 2003, all three Hoffmans made or caused to be made false statements which resulted in FSA paying the Hoffmans and other individuals on behalf of the Hoffmans \$746,700 in program benefits and in RMA paying the Hoffmans and other individuals on behalf of the Hoffmans \$912,364 in crop insurance proceeds. A sentencing hearing is scheduled.

Collaboration in Action: SIB Investigation Leads to \$340,517 in Restitution to USDA in Clay County, MN

RMA's Northern RCO, working with SIB, investigated an FSA tip indicating that Wear Farms, comprised of a father and his two sons, hid 1998 production in order to inflate crop insurance indemnities, which also caused additional improper payments from FSA disaster assistance programs. The Government charged that Wear Farms conspired to defraud RMA by submitting false and erroneous information on its federally reinsured crop insurance claims for the 1998 crop year. Steven Wear repaid \$128,826 of the alleged unreported production during the investigation. However, he denied allegations of additional unreported production in that year and in several other years. Prior to the criminal trial, the Wears agreed to resolve this matter expeditiously and without further costs by entering into a Stipulation for Compromised Settlement in June of 2004. Steven Wear agreed to pay additional restitution in the amount of \$150,000 and accept a lifetime exclusion from all RMA and FSA programs. Wear's two sons and partners in Wear Farms signed a Stipulation for Compromised Settlement to resolve Government allegations that they submitted false and erroneous program eligibility information to RMA

and FSA. Both sons agreed to joint and several liability of \$61,691 to USDA's Commodity Credit Corporation. The agreement negotiated by the US Attorney's Office of Minnesota also excluded them from participating in most RMA and FSA programs for 5 years.

Collaboration in Action: SIB Investigation Uncovers \$9.2 million in Indemnity Overpayments in Chandler, NC

This investigation was conducted jointly with SIB, the Internal Revenue Service, and USDA's OIG. The Warrens provided false production information to inflate their Average Production History (APH). They shifted production between insured units and underreported overall total production between 1997 and 2001. They inflated acreage to increase indemnity payments and falsified planting dates to be eligible for crop insurance. The Warrens staged a fake hailstorm in 2001 to collect a replant payment. The investigation found that Warren Farms collected more than \$9.2 million in Federal crop insurance payments for alleged losses between 1997 and 2001. Warren Farms attempted to collect an additional \$3.8 million in crop insurance payments for alleged losses during the 2001 crop year. Robert and Viki Warren were indicted and both pled guilty to charges resulting from this investigation. Three employees of Warren Farms provided false testimony during this investigation. Robert Chambers and Demetrio Jamies were indicted and pled guilty to perjury charges. Harold Dean Cole was also indicted and subsequently convicted at a jury trial of charges stemming from his false testimony. Thomas Jeffrey Marsh, crop insurance loss adjuster and George T. Kiser, an independent crop insurance agent, were indicted and pled guilty to charges that they assisted the Warrens in defrauding the Federal crop insurance program. Major Frank Calcutt, crop insurance loss adjuster, pled guilty to criminal information, and was charged with assisting the Warrens in defrauding the Federal crop insurance program.

Collaboration in Action: Concerned Citizen Reports Elaborate Illegal Scheme in Iowa

A concerned citizen alerted RMA to a possible fraudulent scheme that began in crop year 2000, to defraud USDA, and in particular RMA, of farm program benefits in the northern district of Iowa, which also spread to two counties in South Dakota. SIB personnel, OIG, FSA county personnel, and

OGC investigated the case for several years and were rewarded for their efforts by seeing the producer, Don Kluver, plead guilty in 2004, to defrauding USDA of nearly \$250,000. This case is related to the Hoffman case in Carroll County, Iowa.

In 2000, Kluver was farming several thousand acres in Crawford and Sac Counties in Iowa, in addition to farming 4,500 acres of soybeans in Tripp and Mellette Counties in South Dakota. Kluver admitted that in order to avoid program payment limitations he did not disclose the South Dakota farming operation to USDA so he could qualify for certain benefits. He also admitted that he caused an employee and the employee's brother to certify that they were farming the South Dakota operation so that he could obtain additional benefits.

Kluver also admitted that he aided another farmer and his wife (the Hoffmans) in evading their bankruptcy creditors. At their request, he purchased farm machinery and equipment valued at more than \$141,000 and concealed this from the couple's creditors. Kluver faces sentencing. In regard to the charge based on false statements to RMA, Kluver faces up to 30 years imprisonment without the possibility of parole, a fine of up to \$1 million, a mandatory special assessment, and a term of supervised release of up to 5 years.

Collaboration in Action: Wendell Mints Could Face up to 125 Years in Federal Prison

A Texas farmer, Wendell Mints, was convicted in 2004 on all fraud charges in Wichita Falls, Texas, after being indicted on 25 counts of conspiracy, false claims, and false statements. According to the evidence presented at trial, Mints operated an elaborate scheme in which he conspired to falsify crop insurance loss documents and collected insurance money for thousands of acres of cotton, wheat, and sorghum fields that he did not plant, costing the U.S. Government more than \$500,000.

The case became known because of astute FSA county employees who detected inconsistent statements Mints made in documents submitted to their office. They physically inspected the fields and found no evidence that Mints had planted his crops as he had claimed. This initiated a criminal investigation where RMA's SIB personnel played a central role.

An expert in satellite imagery testified that infrared satellite photographs taken of Wilbarger County indicated that the condition of the fields and crops growing on them were inconsistent with Mints' claims. When Mints was asked to provide receipts showing he had purchased seed to plant the crops, it was proven he went to a seed dealer and had that seed dealer prepare false receipts to reflect bogus sales.

COLLABORATIVE PARTNERSHIPS

The high-profile case examples above represent just a few of the many ways in which RMA collaborates regularly with our anti-fraud alliance partners and fellow agencies to maintain the integrity of the Federal crop insurance program. The following sections will detail the many collaborations that RMA contributes to, and will give some "Collaboration in Action" case examples that show how these collaborations work, and how they are producing successful results.

WORKING WITH FSA

FSA is one of our strongest allies in the fight against fraud, waste, and abuse. FSA personnel serve as our eyes and ears in the field, and provide us with invaluable, on-the-ground analysis and feedback about the farming operations in their areas. We, in turn, work to provide them with the help and information they need to monitor agricultural producers as effectively as possible. We do so through:

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- Spot check referrals;
 - 4-RM referrals; and
 - Consultation with FSA State committees.
-

Each of these areas will be discussed below.

SPOT CHECK REVIEWS

As explained in the section of this report on data mining (p. 7), each year RMA uses data-mining technology as well as analysis and past loss experience to develop a list of producers with notable policy irregularities such as unusually high loss ratios, high frequency of losses, and severe losses. Every April RMA provides this list to the appropriate FSA County Offices, whose staffs help us review these cases for potential fraud, waste, and

abuse by performing inspections (spot checks) of the farming operations on the list. The FSA County Offices then refer their findings back to RMA, and we then provide these results to the appropriate AIPs for those operations. At the same time, RMA sends notification by letter to all producers on the list.

Collaboration in Action: Spot Check Uncovers Fraudulent Prevented Planting Claim in Benson County, ND

RMA's data-mining initiative flagged this producer on the spot check list, resulting in FSA personnel performing field inspections on the property in August 2004. FSA personnel then provided us with documentation and photographs of the acreage. We evaluated the documentation and provided the AIP with the referral and analysis. We requested that the AIP conduct a claim review. The producer had a history of submitting prevented planting claims. They found that the reported prevented planting acres consisted of trees, brush, rock piles, and grass. The AIP determined that the land was dry and suitable to be brought back into production. The AIP also determined that the producer had not attempted, either in the fall of 2003 or in spring of 2004, to prepare the land for planting. In crop year 2004, the producer did not plant any acreage and therefore was not entitled to a prevented planting indemnity. The company denied prevented planting on 303.7 acres in crop year 2004, resulting in a cost avoidance of \$19,322.

4-RM REFERRALS

Another collaborative effort between RMA and FSA is our 4-RM referral process. However, in this case, instead of RMA providing information to FSA, as with the spot-check referrals process above, 4-RM referrals originate from the observations of FSA County Office personnel in the field, and are then sent to the RMA Compliance field offices for followup. To help conduct this referral process as easily and smoothly as possible, RMA and FSA developed a procedural guide for staff to follow, the 4-RM Handbook, FCIC Program Integrity.

Collaboration in Action: Minnesota 4-RM Broadcast Soybean Referral Results in \$183,133 in Savings

The Minnesota FSA Office forwarded a case to RMA's Northern RCO in which a producer had broadcast seeded 1,513 acres of soybeans in 2004 in Kittson County. The practice of broadcast seeding soybeans is an uninsurable practice without a written agreement, according to county actuarial documents. The RCO worked with RMA's St. Paul Regional Office to verify that the policyholder did not have a broadcast seeding written agreement for his soybeans. The soybean acreage was deemed uninsurable. The RCO and AIP personnel interviewed the policyholder and the custom operator who had seeded the soybeans and conducted field inspections of the policyholder's soybean acreage in other areas of Minnesota and North Dakota to ensure that Kittson County was the only broadcast seeded acreage. This cooperative investigation between FSA, RMA's RCOs and Regional Offices, and the AIP resulted in a cost avoidance of \$183,133.

Collaboration in Action: 4-RM Prevented Planting Referral Results in \$74,976 in Findings

The Texas FSA State Office referred a Colorado County cotton case to RMA. The RMA RCO review determined that only five entities, all related, filed prevented-planting claims allegedly due to excess moisture. No other producer in the area was prevented from planting. The RCO issued findings for an indemnity overpayment of \$74,976 and premium overstatement of \$19,734. The AIP agreed with the findings and corrected the claims.

Collaboration in Action: 4-RM Irrigated Grain Sorghum Referral Results in \$92,978 in Savings

The Oklahoma FSA State Office referred a Cimarron County grain sorghum case to RMA stating that crops certified as irrigated were not irrigated. The RMA RCO requested that the AIP conduct a growing season inspection. The AIP review found that a portion of the crop was destroyed without consent or had already been harvested. The claim was denied, resulting in cost avoidance totaling \$92,978.

Collaboration in Action: 4-RM Mississippi Referral Results in \$326,564 in Savings

A Mississippi FSA State Office referral to RMA alleged poor farming practices in Leflore County on corn, cotton, and rice. The RMA RCO requested that the AIP conduct a growing season inspection and claims review. The AIP found damage to the crops due to uninsured causes, significantly reducing potential indemnity payments. The policyholder chose to withdraw claims filed on all three crops. This resulted in a cost avoidance totaling \$326,564.

RMA CONSULTATION WITH FSA STATE COMMITTEES

RMA and FSA State Committees continued to work together in 2004 to improve program compliance and integrity. In 2004, RMA Regional Offices referred 145 issues to FSA State Committees for review and consultation. FSA State Committees referred three issues to RMA Regional Offices for their consideration.

RMA Regional Offices continued to provide annual informational updates to the FSA State Committees about crop insurance issues, provided FSA offices with program fact sheets, and conducted review meetings on the consultative process.

Collaboration in Action: RMA and FSA Find Solution to Setting Transitional Yields for Apples in Washington State

During the consultation process between the Washington State FSA Committee and RMA, the two agencies collaborated on a review of transitional yields for apples in Washington State. The State FSA Committee reported that they believed there was a significant difference in yield potential for grafted apple trees as opposed to seedling trees planted in the same year. Prior to this request from FSA for a review of the issue, RMA's transitional yield applied the same productivity levels to both new seedlings and grafted trees. Upon review of FSA State Committee and Extension Service recommendations, RMA revised transitional yield tables to reflect the higher yield capability of grafted apple trees in Washington, Idaho, and Oregon.

Collaboration in Action: FSA Assisted RMA with Tobacco Farm Yield Data

The Tennessee FSA State Office provided an RMA Regional Office data analysis on differences between FSA farm yields for Quota Tobacco versus average actual producer yields for the same farms. Elimination of the Quota Program for Burley Tobacco necessitated that RMA base its tobacco coverage on actual yields rather than FSA farm yields. The data provided by the Tennessee FSA Office greatly assisted RMA in this transition.

DATA RECONCILIATION

RMA and FSA began development of a Common Information Management System (CIMS) in 2003, which included a preliminary meeting of agency and crop insurance industry personnel and completion of the Office of Management and Budget and Office of the Chief Information Officer required documents. This project is designed to identify common and unique producer information reported to both agencies and to reduce the reporting burdens of producers, FSA, and AIPs. The CIMS project will improve the efficiencies of data exchange and reconciliation between RMA, FSA, and AIPs. CIMS will also bring a reduction of duplicate acreage information required to be reported to both programs, reduce misreporting and program abuse, and satisfy the ARPA requirement for reconciliation of producer-reported information to FSA and RMA.

CIMS is being developed to address the requirement in Section 10706(b) of the 2002 Farm Bill, which states: "The Secretary shall ensure that all current information of the Federal Crop Insurance Corporation and the Farm Service Agency is combined, reconciled, redefined, and reformatted in such a manner so that the agencies can use the common information management system developed under this subsection." CIMS is also an important part of the President's e-Government initiative.

The scope of the project includes four components of core information: (1) producers (entities) and shares; (2) farm, field, and unit identifiers; (3) crops and acreage; and (4) production information required by both agencies. It is recognized that some differences exist between FSA and RMA programs. To the extent that such program rules differ, allowances will be maintained to account for the

differences. In areas where the rules are similar, efficiencies should be possible. CIMS will interface with approved RMA, FSA, USDA, and AIP applications collecting and reporting common information. CIMS will allow RMA, FSA, other USDA agencies, and AIPs access to use the shared, common information reported by producers.

As previously reported in earlier Annual Reports to Congress, RMA and FSA have conducted a data reconciliation process, predating CIMS, that involved referrals of policies with data discrepancies to RMA. RMA then worked with the AIPs to conduct reviews of the policies. The AIP reviews for this older process were completed between 2001 and early 2004. The results of this older data reconciliation process are highlighted below.

Collaboration in Action: Data Reconciliation Uncovers \$934,998 in Overpaid Indemnities in Four States

FSA referrals to RMA's Central RCO consisted of 1,394 policies, which contained total premiums of \$5,966,087, liabilities of \$52,048,502, and indemnities of \$12,061,633 in Kansas, Nebraska, and Colorado. Discrepancies were identified on 124 of the policies (8.9 percent) reviewed, resulting in final premium overstatement of \$200,696 (3.4 percent) and indemnity overpayments of \$934,998 (7.8 percent). One policy was referred to USDA's OIG for possible criminal or civil remedies in the State of Iowa.

Collaboration in Action: Data Reconciliation Uncovers \$144,679 in Overpaid Indemnities

This case was referred by FSA as part of the 1999 data-reconciliation effort because of an unusually low yield reported on irrigated cotton. A review by RMA's Eastern RCO found that the producer had a crop loss due to an uninsurable cause (nutrient deficiency); however, he was paid an indemnity based on excessive heat as the cause of loss. The producer revealed that he was having a legal dispute with his fertilizer supplier regarding fertilizer efficacy. The compliance office delayed issuing its findings until court depositions became available. The legal documents in the court case were considered indisputable evidence that the cause of loss was not insurable. Depositions confirmed that the AIP's loss adjuster did not verify that loss resulted from

insurable causes. The final determination, issued in 2004, identified \$144,679 in an indemnity overpayment. The AIP agreed with this finding.

WORKING WITH AIPs

AIPs – those agents, loss adjusters, and other insurance personnel who provide and oversee the policies—are valuable allies in the first line of defense against fraud, waste, and abuse. AIPs are directly involved with the policies and producers/policyholders at the local level, and they therefore can give RMA and FSA valuable information about suspicious claims activity. They can also assist us by reviewing and investigating claims and managing the claims adjustment process. Referrals from AIPs help us maintain a proactive approach to combating potential fraud, since the majority of these kinds of referrals are investigated before the AIPs pay claims to the producers. RMA will continue to work closely with AIPs to detect, prevent, and correct fraudulent activity.

MANUAL 14

Manual 14, entitled *Guidelines and Expectations for the Delivery of the Federal Crop Insurance Program*, is a document that sets the minimum requirements for training, quality-control review procedures, and performance standards for AIPs issuing FCIC policies. Manual 14's purpose is to establish oversight and quality control of the AIPs' performance. Manual 14 requirements will be incorporated into the 2005 SRA (p. 1).

Manual 14 requires AIPs to follow certain regulations in order to administer FCIC policies. To ensure that AIPs are following these policies, Manual 14 also requires that RMA conduct regular reviews of the AIPs' compliance with FCIC procedures.

One such review is the Compliance Crop Insurance Contract Review. Under this review, an AIP must conduct compliance reviews of a certain number of statistically selected indemnity claims from the previous crop year, based on the number of active contracts they have (with a minimum requirement of 50 reviews conducted for any provider). AIPs must verify that each of the claims examined was accurately reported to RMA, and that all documented information provided by the policyholder, sales agent, and loss adjuster is true and accurate. FSA State Offices

also assist in this review process by providing producer information, maps, and other program information and documents to AIPs upon request. FSA State Offices are integral to this process because they provide third-party verification of producer information that helps both the AIPs and RMA confirm that crop insurance indemnities were properly paid.

In 2004, all AIPs, with the assistance of FSA, completed 1,575 Compliance Crop Insurance Contract Reviews of crop year 2003 indemnity claims, representing 43 crops in 38 States. Of these 1,575 reviews, AIPs uncovered and corrected 61 policy errors.

Collaboration in Action: Tip from AIP Produces \$451,366 in Cost Avoidance

This referral came to an RMA RCO from an AIP that requested assistance from RMA in determining correct potato indemnities for four Wisconsin producers. The AIP provided the documents that its loss adjusters had prepared prior to making a final settlement on the claims. With the assistance of the RMA Regional Office, Compliance personnel reviewed the documents and found that one producer had reported damage caused by a lack of water when the potatoes in this county required an irrigated practice for insurability. The producer said that the potatoes had never been irrigated. Additionally, the same producer had planted across section lines, thereby nullifying his optional units on two sections. On a second claim, an incorrect factor had been applied to the production to count on the production worksheet. Correcting these errors resulted in a cost avoidance of \$451,366.

Collaboration in Action: AIP Initiates Joint Review of Sales Agent by OIG/SIB, Results in Sanctions Recommendation

In 2003, an investigator with an AIP contacted OIG and advised that he had discovered, during the course of a mandatory review, that some of the acreage reports he had reviewed appeared to have signature dates prior to the dates the acreage reports were printed. He was suspicious of the validity of the dates on the acreage reports and all of the policies with these irregularities had been sold and serviced by one sales agent. OIG then contacted SIB for assistance

and this case has been conducted as an OIG/SIB joint review. 49 of the 68 policies reviewed had been altered and/or backdated. The total liabilities covered by the backdated documents are \$3,588,933, and the total indemnities are \$572,988.

In 2004, OIG and SIB pursued the case but it was eventually declined for prosecution by the Assistant U.S. Attorney reviewing the case and then by a county prosecutor. It was sent back to the fraud Investigator at the Idaho Department of Insurance for possible administrative action against the sales agent. SIB then initiated a Request for Administrative Sanctions against the sales agent and recommended a debarment of 3 years for false statements.

OTHER IMPORTANT COLLABORATIONS

STATE INSURANCE DEPARTMENTS

Earlier in this report, we highlighted some of the changes in the 2005 SRA regarding RMA's relationship with State regulators. These changes are extremely beneficial to the crop insurance industry and resulted in RMA strengthening its program integrity team with a powerful new collaboration. The State Insurance Commissions are now key players in RMA's strengthened oversight system.

The RMA financial review team established formal relationships with State Insurance Commissions in 2004 to ensure collaborative partnerships in sharing information, regulatory cooperation, and coordination. RMA worked with the National Association of Insurance Commissioners to develop a Memorandum of Understanding (MOU) and a standard disclosure agreement to enhance information sharing between RMA and the State Insurance Commissions. The completed MOU, with the National Association of Insurance Commissioners and the States, was signed in 2004. Prior to its signing, RMA, as an interim measure, contacted each State Insurance Department prior to conducting on-site reviews to determine if they had recently reviewed the AIP and if there had been any information they could share regarding their findings. The National Association of Insurance Commissioners, the States, and RMA immediately began to formalize the data-sharing and regulatory-coordination process once the MOU was completed.

Collaboration in Action: North Dakota State Insurance Department Refers Case to RMA

Two individuals called the North Dakota State Insurance Department to report a producer that was cutting hay on prevented planting acres and then selling the bales. The Insurance Department notified RMA of this situation. RMA inspected the prevented planting acres and confirmed that they had been hayed. RMA notified the producer's AIP. The AIP subsequently re-inspected the producer's land and confirmed that 152.8 acres of prevented planting acreage had been hayed, thus violating the terms of the insurance policy. The producer was under the impression that the prevented planting acres could be hayed and had not checked with his agent before cutting. As a result, the AIP withdrew the prevented planting payment of \$7,474.

Collaboration in Action: Agent, Minnesota Department of Insurance, and RMA Work Together on Rebating Case

An independent insurance agent filed a complaint with RMA that alleged a Minnesota cooperative was rebating insurance premiums. The cooperative, acting as its own crop insurance agency, wrote policies throughout the county for an AIP. The cooperative paid approximately \$4,200 in annual patronage dividends to its members. This dividend was based on the total volume of business a member did with the cooperative during the year. The qualifying business included goods and services purchased from the cooperative, including crop insurance premiums. This practice of including crop insurance premiums in the volume of business, upon which the dividend was based, was deemed rebating by the Minnesota Department of Insurance. RMA issued a cease-and-desist order to the AIP and the Department of Insurance advised the cooperative to stop the practice. Due to this investigation, the cooperative no longer includes crop insurance premiums when calculating the volume of business upon which dividends are based. This investigation helped keep a "level playing field" among crop insurance agents.

COLLABORATION AND TEAMWORK IN RMA

Collaboration in Action: RMA's Regional Offices and RCOs Work Together To Correct Potato Program Vulnerability

An RMA regional office initiated a case with a compliance office in which a North Dakota potato policyholder had received large indemnities over 4 years due to possible weaknesses in the Northern Potato Storage Coverage Endorsement. RMA's policyholder inquiry database showed that the policyholder had received \$11.8 million in indemnities for crop years 1999 through 2003. Our investigation identified program vulnerabilities. The first vulnerability involved the Tuber Rot Table from the Northern, Potato-Loss-Adjustment Standards Handbook. RMA procedures allowed policyholders to receive crop insurance payments while still meeting or surpassing their crop insurance guarantee and delivery contracts. The second vulnerability identified by the compliance office was that the bin sampling procedures may not have been representative of the crop. The third identified vulnerability was in the APH guidelines in the Crop Insurance Handbook, which allowed a policyholder to avoid decreases in their APH even after repeatedly claiming losses on production. As a result of this input from the regional and compliance offices, RMA has taken action to correct the major issues listed above.

OFFICE OF INSPECTOR GENERAL

RMA collaborates with OIG in many ways. As explained above, we provide significant support to OIG during the investigation and prosecution of criminal fraud cases. RMA also works closely with the OIG Audit staff to identify and resolve issues identified as a result of scheduled program and operations audits. Another vehicle for OIG and RMA collaboration is the OIG Hotline.

The OIG Hotline is a toll-free, confidential phone service to which anyone may report conditions they believe reflect dishonest agricultural practices. OIG screens the calls and refers certain cases to RMA to research, investigate, and take corrective action as needed. Once an RCO's review is completed, the results are sent to OIG so they can be entered into its hotline tracking system.

Collaboration in Action: Joint Investigation Results in Sentencing of Loss Adjuster

A former crop insurance loss adjuster, Gracchus H. Feldman, was sentenced to 2 years probation with the first 6 months to be served as in-home confinement. Feldman was also ordered to pay restitution to RMA, with former crop insurance agent Wendell Mints, of \$447,230. The sentence is a result of a guilty plea entered by Feldman in 2002, in U.S. District Court, Northern District of Texas, to one count of conspiracy to make false statements to USDA. A joint RMA /OIG investigation found that Feldman facilitated the payment of over \$500,000 in fraudulent 1999 claims on Wilbarger County, Texas, cotton and grain sorghum policies belonging to Mints. At Mints' direction, Feldman submitted claim documents with false appraisal determinations to the AIP. Feldman was sentenced November 1, 2004.

Collaboration in Action: OIG Referral from an AIP Uncovers Wrongdoing and \$110,980 in Overpaid Indemnities in Kansas

An AIP reported to RMA that a policyholder submitted a fraudulent claim for payment. The policyholder alleged that the AIP did not properly administer his grain sorghum and wheat crop loss claims.

RMA's investigation concluded that the loss adjuster and the policyholder misrepresented material facts on the policyholder's claims. The policy was voided and the investigation found that the loss adjuster had failed to follow loss adjustment procedures and had failed to follow approved policy and procedures in the adjustment of claims of other producers in the area. The AIP paid these claims without the supporting documentation of unharvested potential. As a result, the AIP was requested to review all unharvested claims worked by this loss adjuster. The AIP corrected \$104,721 in overpaid indemnities, \$8,743 in overstated premium, and \$6,260 in indemnity overpayments on the original policy. The RCO recommended administrative sanctions against several individuals including the policyholder, the loss adjuster, and two AIP claims managers.

Collaboration in Action: OIG Audit Uncovers \$17,889 in Overpaid Indemnities

As a result of an OIG audit of crop-insurance, claim payments, OIG alleged program abuse and/or improprieties in the losses paid by an AIP on six wheat and grain sorghum policies in the State of Kansas. RMA's review verified that errors by the AIP resulted in indemnity overpayments totaling \$17,889. For each of the six policies, RMA's review determined the loss adjuster's cause of loss entries were changed by the AIP without supporting documentation. The primary cause of loss (drought) determined by the loss adjuster was changed, because drought is not a valid cause of loss on irrigated acreage. In addition, an error in the determination of production to count was identified.

SANCTIONS

RMA has the authority to impose administrative sanctions on producers who abuse the Federal crop insurance program. RMA is able to disqualify and impose civil fines against producers, agents, loss adjusters, and AIPs involved in fraudulent activities. RMA can impose a civil fine for each violation, up to the total dollar amount the individual obtained as a result of the false or inaccurate information provided, or \$10,000, whichever is greater. Further, RMA has the authority to disqualify these individuals from both the Federal crop insurance program and most other farm programs.

RMA's Sanctions Office and Appeals, Litigation, and Liaison staff (A&L) process referrals for sanctions.

Sanctions Office and A&L responsibilities include:

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- Reviewing all incoming sanction recommendations for adequate evidence and completeness;
 - Preparing complaints;
 - Working with OGC to secure legal sufficiency;
 - Briefing the RMA Administrator on all cases and securing required signatures;
 - Filing documents with the Administrative Law Judge;
 - Participating in all aspects of the appeals process when invoked, including providing litigation support and attending hearings;

Ensuring that all interested parties are notified when sanctions are imposed;

Collaborating with OGC to develop evidence and documentation standards for sanctionable activities; and

Working with RMA's RCOs to ensure that their sanctions referrals meet these newly developed standards.

A&L also processes referrals and appeals for suspension and debarment (7 C.F.R. sec. 3017), and performs similar functions to those listed above for that process.

This year, both offices continued their lead role in processing disqualification actions against those involved in fraudulent crop insurance activities. Between January and December 2004, 81 sanctions referrals were received and 67 sanctions were imposed, in the form of disqualification from the program, debarment, suspension, and/or civil fines. Another 69 sanctions cases are pending legal action, a process that can span more than one reporting period.

Collaboration in Action: Sanctions Referral Results in Disqualification and Civil Fines

RMA RCOs conduct High Loss Ratio Reviews to evaluate the reason for high loss ratios, ensure that proper loss determinations were made, and establish if the program met its intended purpose.

One such review in Delta County, Colorado, found that a Colorado producer sold his apple orchards in early 1995, yet retained crop insurance from 1995 through 2000, as part of an agreement with the buyer. The buyer paid the premiums and received the indemnities. The review determined that, since the seller had no insurable interest or share in the crop, he was ineligible to obtain crop insurance according to RMA rules and regulations. In addition, the RCO determined that the buyer failed to obtain crop insurance on additional apple acreage in the county. The case was referred for administrative sanctions based on false information provided by both parties. The sanctions hearing was held in 2003. The Administrative Law Judge's decision on the sanctions was issued in 2004 in RMA's favor. The sales agent that sold the policy stated that she was aware of the arrangement between the buyer and seller, and testified that it was her belief that this arrangement was

in accordance with approved RMA policy and procedure.

The Administrative Law Judge determined that the buyer and seller would receive \$10,000 fines and would be disqualified from receiving catastrophic risk protection or receiving non-insured crop disaster assistance from USDA for a period of 2 years and from receiving any other Federal crop insurance benefit for 10 years.

Collaboration in Action: Sanctions Referral Results in Disqualification and Civil Fines

An OIG Hotline Complaint, and several additional complaints to an RCO, alleged false planting dates. As a result of its review, the RCO recommended administrative sanctions against an Iowa policyholder for intentionally misrepresenting material facts relating to his 1998 insurance policy. The recommendation was based on evidence obtained in a joint investigation conducted by the RCO and the AIP. The investigation concluded that the policyholder falsified planting dates and falsely claimed volunteer soybeans as planted. Additionally, the policyholder filed a claim for prevented planting on 1998 corn acres where the 1997 soybeans had not been harvested prior to the final planting date for corn. The investigation concluded that the policyholder intended to use these misrepresentations to ensure crop losses that would result in significant financial gain. The AIP voided the policy, resulting in a premium overstatement of \$171,454 and cost avoidance of \$1,763,049 in liability.

Subsequently, the policyholder and his associates filed suit against the AIP. The jury found that the policyholders, or someone assisting them, intentionally misrepresented material facts and a judgment was entered in favor of the AIP.

A settlement agreement was signed in 2004 between RMA and the policyholder, in which he agreed to be disqualified from purchasing catastrophic risk protection or receiving non-insured assistance for a period of 2 years, and disqualified from receiving any other Federal crop insurance benefit for a period of 8 years. In addition to disqualification, the policyholder agreed to pay a civil fine of \$5,000.

Results

In 2004, the RMA Compliance Office continued to work towards an ever-increasing level of productivity, innovation, and collaboration in our efforts to fight fraud, waste, and abuse in the FCIC program. This work has produced a number of successful results. Among other achievements described above, in 2004, RMA Compliance has:

Conducted 9,722 policy reviews

Uncovered more than \$13 million in incorrect indemnity payments

Recovered approximately \$37 million in findings and recoveries

Produced more than \$78 million in cost avoidance; \$71 million from the spot check list and \$7 million from RCO non-spot-check-list data mining (p. 8)

Implemented ways to manage and prioritize our caseload more effectively (p. 6)

Employed innovative technologies to proactively fight fraud, waste, and abuse (pp. 5-15)

Investigated and uncovered high-dollar fraud cases and assisted in bringing them to justice (pp. 17-31)

Heightened our collaborative efforts with FSA, AIPs, OIG, and our other partners (pp. 20-31)

These are only a few highlights of our accomplishments during the 2004 calendar year. Such work adds to the efforts we have been making over the past 3 years to fulfill our ongoing mission to protect the integrity of the FCIC program for America's agricultural producers. Since we first issued this annual report in 2001, we have seen increasingly substantial results, including a total of almost \$165 million in findings and recoveries, and almost \$366 million in cost avoidance.

RMA will continue our efforts to support our country's agricultural producers in the important work they do, by striving to boost productivity, increase innovation, strengthen our collaborations, and eliminate fraud, waste, and abuse.

