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Annual Report to Congress
January - December 2005

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Preface

The United States Department of Agriculture's (USDA's) Risk Management Agency (RMA) administers the Federal crop insurance program, the primary source of risk protection for America's farmers and ranchers. In 2005, 246 million insurable acres of the Nation's farmland were protected by Federal crop insurance. The program provided $44.26 billion of coverage to American farmers and ranchers. Insurance premiums for 2005 totaled $3.95 billion. Indemnity payments of $2.37 billion were paid to farmers and ranchers for damage to crops by natural causes or lost revenue from 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 mistakes and correct abuse.

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 USDA's Farm Service Agency (FSA) to strengthen local level oversight by working together and sharing production and yield data information through compatible 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 fifth annual report, as required under the Federal Crop Insurance Act (7 U.S.C. §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 detection and enforcement activities are conducted. The report also shows how data mining and other tools are being used to identify areas of potential abuses.

The continued effectiveness of compliance-related efforts saved the Government $161 million in fraudulent or other incorrect payments that might not otherwise have been identified until after the fact. A strong contributing factor in success of the program is the collaboration and partnership among USDA agencies in compliance investigations. This includes the highly effective collaboration between FSA and RMA to refer cases of suspected abuse from FSA's field offices directly to RMA's field offices. USDA is fully committed to preserving the integrity of the Federal crop insurance program and expects to report continued progress toward this goal in future reports.

Thomas J. Vilsack
Secretary of Agriculture

Executive Summary

The United States Department of Agriculture's (USDA's) 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 uses targeted methods to strengthen program integrity, make cutting-edge technological innovations, and improve collaborative work with its partners in the anti-fraud alliance: the Farm Service Agency (FSA) and Federal Crop Insurance Corporation (FCIC)-approved insurance providers. This annual report highlights the progress RMA made in these areas in 2005.

This fifth annual report has been issued, as required by Section 515(i) of the Federal Crop Insurance Act (the Act) (7 United States Code §1515) entitled "Program Compliance and Integrity." The Act, as amended by the Agricultural Risk Protection Act of 2000 (ARPA), requires RMA to report on compliance with the Act by describing the methods employed to minimize fraud, waste, and abuse within the Federal crop insurance program. This report highlights specific cases of fraud, waste, and abuse and the specific actions RMA took to address them. This report also covers RMA's key collaborative efforts, specified by the Act, with FSA, FCIC-approved insurance providers, State insurance commissions, United States Department of Justice's Attorneys' Offices, the USDA Office of the Inspector General, 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, 2005.

In 2005 RMA achieved impressive results and savings in cost avoidance and recoveries. The results of these accomplishments have been significant, producing about $161 million in cost avoidance in 2005, and $52 million in findings and other recoveries.

A more detailed description of selected projects RMA focused on in 2005 is provided in this report.

Oversight

The Federal crop insurance program is a unique, public/private collaboration. It is a one-of-a-kind hybrid of Federal administration and private insurance company delivery of risk management products and services to American farmers and ranchers. In 2005, there were 16 Federal Crop Insurance Corporation (FCIC)-approved insurance providers delivering crop insurance across America. These approved insurance providers share the risk with the Federal Government and compete with each other for business. They operate within the rules and conditions in the Standard Reinsurance Agreement (SRA) that each company signs with FCIC. FCIC is a Government corporation managed by the Risk Management Agency (RMA). In 2004, RMA implemented critically important changes to the SRA that greatly reduced the risk of an approved insurance provider being placed under regulatory control by a state insurance commission due to its poor financial condition, which reinforced and strengthened program integrity by providing stronger controls and greater oversight.

Operations Reviews of Approved Insurance Providers

Operations reviews are used to assess approved insurance providers' compliance with the terms and conditions of the 2005 SRA and FCIC-approved policies and procedures in the delivery of the Federal crop insurance program. In 2005, RMA completed its first year of a 3-year, cyclical, program-payment, error rate protocol in conjunction with approved-insurance provider operations reviews. This effort makes the best and most efficient use of limited compliance resources. Using this protocol, RMA reviews operations of one-third of the approved insurance providers each year. RMA reviews the approved insurance providers' books of business by randomly selecting 750 policies (50 from each approved insurance provider) every 3 years. RMA's data mining contractor, the Center for Agribusiness Excellence (CAE) at Tarleton State University, Stephenville, Texas, selects the policy samples. CAE has stored all of RMA's crop insurance data since 1996. This protocol provides a larger sample and therefore a more accurate error rate estimate than any past, random, statistical sample review of approved insurance providers' operations by RMA or any of the Agency's oversight groups in a 3-year period.

Once an entire 3-year cycle of reviews is completed, RMA begins replacing previous error rate data with new data as each approved insurance provider's subsequent review is completed. This protocol provides RMA a rolling error rate with one-third of the error rate findings replaced annually. RMA completed the first 3-year cycle with the reviews conducted in 2007.

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

In 2005, RMA conducted reviews of four insurance providers. The program payment error rate on these four insurance providers averaged 2.3 percent. The report issued to the insurance provider as a result of the Operations Review identifies the errors and the corrections that were required.

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. RMA strives to improve the methods it employs continually to adapt these technologies to the Agency's unique mission.

Data Mining and Warehousing

RMA highlighted its data warehousing and data mining projects in earlier reports. RMA partnered with CAE to incorporate the latest advances in database technology to create a single, centralized "data warehouse" of all crop insurance-related data collected in RMA databases. Investigators and other RMA staff then use this centralized data warehouse to search, or "mine," all 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 quickly focus its efforts on the most problematic areas in the crop insurance program so they can be investigated and corrected. Prior to the development of these tools, it was extremely difficult, and sometimes even 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 maintains the data warehouse and conducts data mining analysis for RMA. The data warehouse contains more than a billion records, including:

- RMA's reinsurance year policyholder data beginning in 1991;
- 30 years of weather data;
- Annual USDA National Agricultural Statistics Service (NASS) data beginning in 1950;
- RMA's actuarial data; and
- RMA's reinsurance accounting system data.

The data warehouse is updated monthly. RMA is currently mining the warehouse, and the findings from such activities continue to save RMA and American taxpayers millions of dollars each year by preventing cases of fraud, waste, and abuse before they occur. In 2005 alone, the CAE spot check list, created from data mining, saved the insurance program $140 million in potential costs.

Data Mining and the Spot Check List

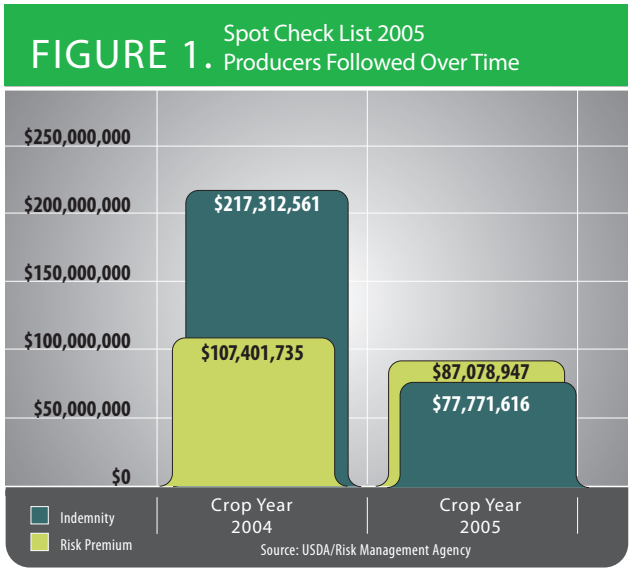
The RMA spot check list has proven to be the data mining method that is the most effective and proactive deterrent to fraudulent activity. Each year, RMA develops a list of agricultural producers whose operations warrant an onsite inspection during the growing season. After RMA's Compliance field offices review the list, it is sent to FSA staff to conduct growing season inspections.

CAE produced the 2005 spot check list by mining data collected in 2004. The evaluation produced a list of 2,696 producers whose patterns appeared to be atypical compared to others in their region. RMA's Compliance field offices then reviewed the list of names and removed some produc-

ers from the list. The field offices then added some producers based on their observations (This list is referred to as the Regional Compliance Office Spot Check list.). The combined list was shared with each producer's local FSA office and approved insurance provider. FSA conducted growing season inspections and sent letters to the producers identified in the spot check process, informing them they were on the list and identified for a growing season inspection.

Statistics show a substantial reduction in indemnities paid to producers that were on the 2005 spot check list. For instance, in 2004, all the producers who eventually would be named on the 2005 spot check list claimed $217 million in indemnity payments. However, in 2005, after they had been informed that they were on the spot check list, these producers only claimed indemnities of $77 million.

Figure 1. Spot Check List (Producers Followed Over Time) for 2005 (Produced from 2004 Data)
Reduction of Crop Year 2005 Indemnity from $217 Million to $77 Million



The data table for Figure 1 is located on page 17 of this report

This pattern had been consistent since the spot check list was first used in 2001 (Figure 1). As a result of the 2001 spot check list, indemnity claims for producers 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. In 2004, indemnities dropped from $222 million to $151 million. Indemnities dropped from $217 million to $77 million in 2005. From these 5-year results ($452 million in reduced indemnities), it is evident that producers who knew they were on the list chose to file fewer claims for less indemnity.

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

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 5 years with a total expected cost of approximately $18 million. However, in only the first 5 years of the project, the spot check list alone has saved the crop insurance program more than $452 million in potential costs through lower claims and indemnity payments.

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

A "scoring system" so regional compliance offices 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 approved insurance providers with overpaid claims and an overall account of indemnities that are overpaid each year;

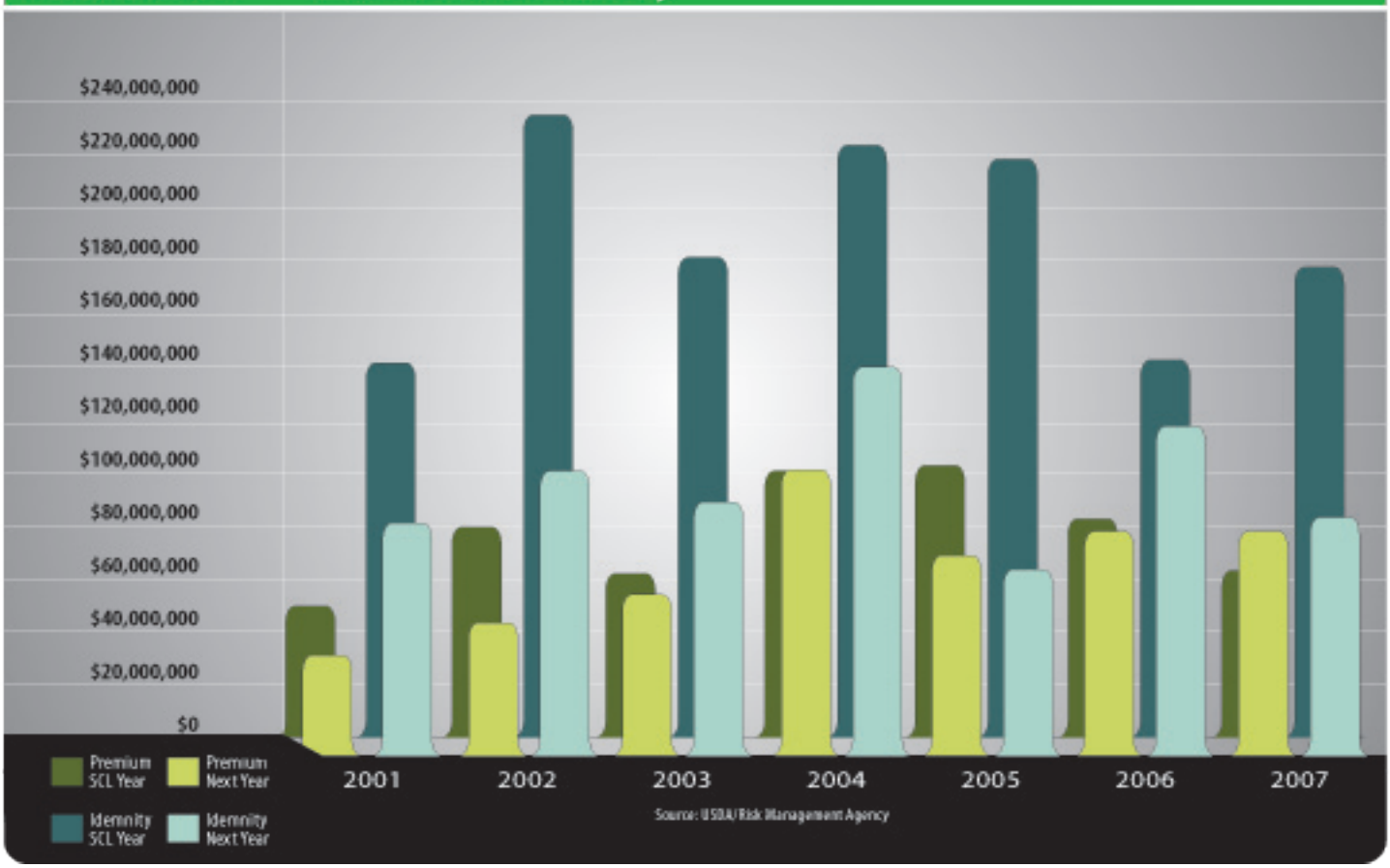
Discovery of "lost producers"—those who were previously on the spot check list, but have started insuring under some other Social Security number or tax identification number;

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 during the first 5 years of this project encouraged RMA and CAE to develop more investigative data mining scenarios, including:

FIGURE 2. Crop Year 2001-2007 Spot Check Lists Premium & Indemnity



The data table for Figure 2 is located on page 17 of this report

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 producers encounter;

Developing simulation technology to help evaluate pilot programs; and

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

These developments are only a few examples of the research and development RMA has planned. 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 will continue through the use of the data warehouse and data mining programs.

Disparate Performance Agents and Loss Adjusters

Fraud, waste, and abuse in the crop insurance program are important problems recognized by RMA and its approved insurance providers. The Agricultural Risk Protection Act of 2000 (ARPA) mandates that USDA develops and provides 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 average for other agents in their local area—a disparity that can indicate fraudulent activity. Similarly, the data mining process identifies 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. CAE adjusts and refines its methodology for developing this list using experience and knowledge gained in producing previous years' lists.

ARPA also mandates that RMA develop procedures to require an annual review of the performance of each agent and loss adjuster. The program's approved insurance providers will conduct these annual reviews.

RMA included a requirement in the 2005 SRA, Appendix IV, Section II. A. (1) that states: "the Approved Insurance Providers are responsible for identifying and documenting the training needs of the employees, agents, agency employees, loss adjusters and contractors that act on behalf of the Company with respect to the applicable procedures and requirements associated with selling and servicing eligible crop insurance contracts." RMA expects the approved insurance providers to perform an evaluation of the performance of agents and loss adjusters in order to determine such training needs.

Non-Spot Check Compliance Office Data Mining
RMA's regional compliance offices use data mining to conduct specific types of reviews where the technology can reveal possible errors within a program. For example, one regional compliance office might discover, through data mining, a crop is over-insured by multiple approved insurance providers. Data mining can identify policies that do not adhere to rules limiting the highest levels of insurance. Regional compliance office, data mining based reviews account for savings of $22.6 million in potential costs avoided in 2005.

Remote Sensing and Imaging

RMA uses remote sensing data and related technologies to support its program compliance efforts and to aid RMA personnel and outside customers working on the Agency's mission-critical projects.

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. Investigators are trained to acquire Landsat 5 and Landsat 7 imagery from the USDA Image Archive, managed by FSA, and then to make preliminary determinations from the imagery to verify a crop insurance claim or forward it on to a remote sensing expert for further investigation. Such training has increased the number of image requests RMA has made to the USDA Image Archive.

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Collaboration

The mission to detect, eliminate, and proactively prevent fraud, waste, and abuse could not be accomplished without many parties working together. To meet goals and uphold the integrity of the crop insurance program, RMA relies not only on the cooperative and dedicated work of its own employees, but also on its strong anti-fraud alliance partnerships with FSA and the approved insurance providers. RMA also works with many other partners as well, including the USDA Office of Inspector General (OIG). RMA is dedicated to developing and refining its collaborative efforts with these partner agencies because the Agency understands that only through strong partnerships can America's farmers and ranchers be protected from those who would take advantage of the crop insurance program. Each year RMA improves its collaborations with its partners. The year 2005 continued to build on past successes. This section of the report will show how these collaborative efforts have resulted in bringing some high-profile cases of fraud and potential fraud to justice. It will also present RMA's many other 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. SIB investigates significant, high-profile cases of alleged fraud, waste, and abuse and collaborates on investigations with OIG, RMA's regional compliance offices, 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 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. Investigators can also refer cases for Federal civil action to the U.S. Attorney's office through OIG or the USDA's Office of the General Counsel (OGC). SIB may also refer cases to the RMA Administrator for disqualification of producers, insurance agents, loss adjusters, insurance companies, and others who violate program rules.

Collaboration in Action Highlighted 2005 Cases

Collaboration in Action: SIB Investigation Uncovers $912,364 in Indemnity Overpayments in Carroll County, Iowa – An investigation into Federal farm program and 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 to get a farm loan, making false statements to FSA and RMA 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 about their

true financial status to Mercantile Bank to obtain a $1.6 million loan. According to the indictment, the Hoffmans continued to submit materially false statements about their financial condition to keep US Bank (formerly Mercantile 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 beginning sometime in early 1998, 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 caused FSA to pay the Hoffmans and other individuals on behalf of the Hoffmans $746,700 in program benefits and caused RMA to pay the Hoffmans and other individuals on behalf of the Hoffmans $912,364 in crop insurance proceeds. All three Hoffmans pled guilty to the charges in 2005 pursuant to a plea agreement entered into with the Government. Mark Hoffman was sentenced to 20 months in prison, 3 years of supervised release, and ordered to pay $2.34 million in restitution. Justin Hoffman was sentenced to 5 years probation and was ordered to pay $116,000 in restitution to FCIC. Sue Hoffman was sentenced to 3 months home confinement, 6 months probation, and ordered to pay $93,000 in restitution to FSA. All three individuals are prohibited from participating in Federal farm programs. Mark and Sue Hoffman are subject to a lifetime exclusion from any USDA, farm-related subsidy or crop insurance program, and Justin Hoffman was prohibited from participating in any USDA farm program until 2010.

Collaboration in Action: Concerned Citizen Reports Elaborate Illegal Scheme in Iowa – A concerned citizen alerted RMA to a possible fraudulent scheme to defraud USDA of farm program benefits in the northern district of Iowa, which also spread to two counties in South Dakota. It was alleged that the scheme began in crop year 2000. SIB personnel, OIG, FSA county personnel, and OGC investigated the case for 3 years. In 2004, the producer, Don Kluver, pled guilty to defrauding USDA of nearly $250,000. In 2005 Kluver was sentenced to 6 months incarceration. He was also ordered to pay $379,000 in restitution to the Commodity Credit Corporation, US Bank, and RMA. 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, and 4,500 acres of soybeans in Tripp and Mellette Counties in South Dakota. Kluver admitted that 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 claim 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.

Collaboration in Action: SIB Investigation Uncovers $9.2 Million in Indemnity Overpayments in Candler, North Carolina – This investigation was conducted jointly by SIB, the Internal Revenue Service, and USDA's OIG. The Federal investigation was assisted by the North Carolina State Bureau of Investigation and the Henderson County, Tennessee Sheriff's Office. Robert and Viki Warren, tomato farmers from Candler, North Carolina, two of their employees, an insurance agent, and a loss adjuster were indicted and charged with participating in an extensive scheme to defraud FCIC and several private insurance companies of more than $9 million between 1997 and 2001, and attempting to obtain an additional $2.8 million between 2001 and 2003. In 2005, Robert Warren was sentenced to 76 months imprisonment, 3 years of supervised release, $7.3 million in forfeiture, and $9.15 million in restitution to USDA. Viki Warren was sentenced to 66 months imprisonment, 3 years of supervised release, $7.3 million in forfeiture, and $9.15 million in restitution to USDA.

The Warrens schemed to provide false production information to inflate their Average Production History (APH), shifted production between insured units, and underreported total production. They also inflated acreage to increase indemnity payments and falsified planting dates. The Warrens and their employees also staged a fake hailstorm to collect a replant payment. The employees of Warren Farms that were involved in the scheme and provided false testimony either pled guilty to perjury charges or were convicted in a jury trial of perjury charges.

The loss adjuster, Thomas Jeffrey Marsh, and the crop insurance agent, George T. Kiser, also pled guilty to charges that they assisted the Warrens in defrauding the Federal crop insurance program. Marsh cooperated with the investigation following his guilty plea. Though he was admonished by the judge for breaching his duty as the first line of defense against fraud, because of his assistance in the investigation, he was sentenced, in 2005, to 14 months imprisonment, 3 years of supervised release, and $767,000 restitution to USDA. Kiser also cooperated with the investigation following his guilty plea. As the Warrens' insurance agent, Kiser knew that the crop yield histories provided by the Warrens each year were false, and he advised them on methods to obtain coverage at inflated levels and how to receive payments for fictitious losses. Insurance agents are also considered part of the first line of defense against fraud and for his breach of duty even though he assisted with the investigation, Kiser was sentenced, in 2005, to 27 months of imprisonment, 3 years of supervised release, and $8.15 million in restitution to USDA.

Harold Dean Cole, an employee of the Warrens, was convicted in 2004 by a Federal jury for preparing false agricultural spraying records that purported to show that the Warrens had raised tomatoes on their Tennessee acreage from 1991 to 2000. These false records helped to establish the false high-production history on this farm, thereby tripling the guaranteed yield the Warrens should have had and increasing the indemnity they received by $2 million in 1 year. In 2005, Cole was sentenced to 46 months imprisonment, 3 years of supervised release, and $2.18 million in restitution to USDA.

Collaboration in Action: OIG Investigation Uncovers More Than $2 Million in Indemnity Overpayments in Au Gres, Michigan – In March 2005 a Federal jury convicted Alan Kuehnemund, a potato producer from Au Gres, Michigan, of 16 felony charges stemming from Kuehnemund's scheme to fraudulently obtain crop insurance between 1998 and 2003. Kuehnemund repeatedly supplied false information and falsified records to multiple insurance companies. He misrepresented his potato production, acreage, and yields on his APH and fraudulently collected over $2 million in crop insurance indemnities. Kuehnemund was sentenced, in 2005, to 87 months imprisonment and $2.29 million in restitution to USDA. Investigators from the Compliance field office and SIB worked with OIG and the Assistant United States Attorney's Office in this investigation.

Collaboration in Action: SIB Investigation Confirms Insurance Agent Falsified Documents Leading to Invalid Premium Payment in Franklin County, Florida – A complaint registered with RMA's Valdosta Regional Office and forwarded to the Eastern Regional Compliance Office alleged that a crop insurance agent, Waldo Rushy Scott, had created falsified documents and used these documents to solicit an insurance premium for clam crops in counties where it was ineligible to be sold. Clam insurance is a pilot program and is only available in limited counties. Agents receive commission on premiums in their book of business. Because of the collaborative investigation between the RMA field offices, SIB, and OIG, Scott and his company were sanctioned by RMA by being debarred from participating in the Federal crop insurance program.

Collaboration in Action: OIG and RMA Investigation Uncovers $1.35 Million in Farm Program Benefit and Indemnity Overpayments in Rapid City, South Dakota – Two producers, David and Connie Finneman of Rapid City, South Dakota, were indicted in 2004 in connection with a scheme they devised to fraudulently obtain farm program benefits and commit crop insurance fraud. The Finnemans owned and managed their farming operation. They provided the capital, labor, and equipment. Laborers are not entitled to farm program benefits. When the Finnemans reached the upper annual limit of their benefits, they set up "sham" or phony farming operations using two of their relatives and their son. The Finnemans convinced the local FSA office that these three men were also full-time farmers entitled to Federal benefits. In reality the two relatives were occasional workers on the farm. The son worked on the farm, but did not provide any management, capital, or equipment and was not entitled to benefits. The payments made to the relatives and to the Finnemans' son were transferred by Connie Finneman into the Finnemans' bank account. In 2005 the Finnemans were sentenced to 37 months imprisonment, 3 years of supervised release, and $1 million in restitution to USDA. The investigation was a collaboration between OIG and RMA Compliance investigators.

Working with FSA

FSA is one of RMA's strongest allies in the fight against fraud, waste, and abuse. FSA personnel serve as the eyes and ears in the field and provide investigators with invaluable, on-the-ground analysis and feedback about the farming operations in their areas. RMA works to provide them with the help and information they need to monitor agricultural producers as effectively as possible. RMA does this through:

Spot check referrals;

4-RM referrals; and

Consultation with FSA State committees.

Each of these areas will be presented below.

Spot Check Referrals

Each year RMA uses data mining technology, 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 (for a detailed description, see page 3 on data mining technology). RMA provides this list every April to the appropriate FSA County Offices, whose staffs help review these cases for potential fraud, waste, and abuse by performing inspections, or "spot checks," of the farming operations on the list. The FSA County Offices then refer their findings to RMA. Then RMA forwards these results to the appropriate approved insurance providers for those operations. At the same time, FSA sends notification by letter to all producers who are on the list.

4-RM Referrals

Another collaborative effort between RMA and FSA is the 4-RM referral process. 4-RM referrals originate from the observations of FSA County Office personnel in the field, which are sent to the RMA Compliance field offices for follow-up. 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.

RMA Consultation with FSA State Committees

RMA and FSA State Committees continued to work together in 2005 to improve program compliance and integrity. In 2005, RMA regional offices referred 128 issues to FSA State Committees for review and consultation. The FSA State Committee referred two issues to the RMA regional offices for their consideration.

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

Data Reconciliation

ARPA requires that RMA and FSA develop and implement a coordinated plan for the two agencies to reconcile all relevant information received from producers who have crop insurance. RMA and FSA initiated reconciliation efforts on the 2001 crop year data. However, these efforts were effectively negated by the hundreds of thousands of disparate records identified between the two agencies and lack of available resources necessary to reconcile and resolve each one.

Differences in definitions of basic terms, such as "producer" vs. "insured" and "farm" vs. "unit" hampered the data reconciliation effort as well as data sharing.

Since enactment of ARPA, Section 10706 of the Farm Security and Rural Investment Act of 2002 directed the Secretary of Agriculture to develop a Comprehensive Information Management System (CIMS) for implementing programs administered by RMA and FSA. Under Section 10706, all current RMA and FSA information is to be combined, reconciled, redefined, and reformatted in such a manner that the agencies can use the information management system. Under the direction of the Office of the Under Secretary for Farm and Foreign Agricultural Services, the Administrators for RMA and FSA established a working group to develop and implement the CIMS Project. RMA plans to meet its data reconciliation requirements specified in Section 515(c) of the Act, and address the Section 10706 requirements through implementation of the CIMS. RMA expects implementation of and benefits from CIMS to occur in phases beginning in 2005 with CIMS should be completed and in full operation by 2012.

RMA and FSA announced CIMS in May 2005. The CIMS project will improve the efficiencies of data exchange and reconciliation of common and unique producer information between RMA, FSA, and insurance providers. In the future CIMS will reduce the amount of duplicate acreage information that is now 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.

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 insurance provider applications collecting and reporting common information. CIMS will allow RMA, FSA, other USDA branches, and insurance providers to use the shared, common information reported by producers.

The CIMS project complied with President George W. Bush's E-Government initiative, the Office of Management and Budget's requirements, and USDA's Office of the Chief Information Officer's requirements.

Working with the Approved Insurance Providers

Approved insurance providers, 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. Approved insurance providers are directly involved with the policies and producers at the local level, and therefore can give RMA and FSA valuable information about suspicious claims activities. They can also assist by reviewing and investigating claims and managing the claims adjustment process. Referrals from approved insurance providers help maintain a proactive approach to combating potential fraud, since the majority of these kinds of referrals are investigated

before the approved insurance providers pay claims to producers. RMA will continue to work closely with the program's approved insurance providers to detect, prevent, and correct fraudulent activity.

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 on producers, agents, loss adjusters, and insurance companies involved in fraudulent activities. RMA can impose a civil fine for each violation up to the total dollar amount the individual received because of false or inaccurate information provided, or $10,000, whichever is greater. RMA also has the authority to disqualify these individuals from both the Federal crop insurance program and most other farm programs.

Referrals for sanctions are processed by RMA's Sanctions Office and the Appeals, Litigation, and Liaison staff (A&L). The Sanctions Office and A&L's responsibilities include:

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 USDA's Administrative Law Judge;

Participating in all aspects of the appeals process when invoked, including providing litigation support and attending hearings;

Ensuring all interested parties are notified when sanctions are imposed;

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

Working with RMA's regional compliance offices to ensure that their sanctions referrals met these standards.

A&L also processes referrals and appeals for suspension and debarment under 7 Code of Federal Regulations, Section 3017, and performs similar functions to those listed above for that process.

In 2005, both offices continued their lead role in processing disqualification actions against those involved in fraudulent crop insurance activities. In 2005, 32 sanctions referrals were received and 24 sanctions were imposed, in the form of disqualification from the program, debarment, suspension, and/or civil fines. The same year 57 sanctions cases were pending legal action, a process that can span more than one reporting period.

Results

In 2005, the RMA Compliance Office continued to work towards an ever-increasing level of productivity, innovation, and collaboration in its efforts to fight fraud, waste, and abuse in the FCIC program. This work has produced a number of successful results. Among other achievements described in this report, RMA Compliance has:

Conducted 10,941 policy reviews.

Uncovered more than $25 million in incorrect indemnity payments.

Recovered approximately $62 million in findings and recoveries.

Saved more than $162 million in potential costs; $140 million from the spot check list and $22 million from regional compliance office non-spot check list data mining.

Employed innovative technologies to proactively fight fraud, waste, and abuse (pages 3 - 7).

Investigated and uncovered high-dollar fraud cases and assisted in bringing them to justice (pages 8 - 11).

Increased collaborative efforts with FSA, approved insurance providers, OIG, and other partners (pages 8 - 14).

These are only some of the highlights of RMA's accomplishments in 2005. This work has added to the efforts that have been made since 2002 to fulfill RMA's ongoing mission to protect the integrity of the FCIC program for America's farmers and ranchers. Since this annual report was first issued in 2001, RMA has seen increasingly substantial results, including a total of almost $62 million in findings and recoveries, and savings of almost $162 million in potential costs.

RMA continues its efforts to support the country's farmers and ranchers in the important work they do by striving to boost productivity, increase innovation, strengthen collaborations, and eliminate fraud, waste, and abuse.

Appendix

COMPLIANCE FINDINGS and RECOVERIES

as of 6/13/2008

	2002	2003	2004	2005	TOTAL
Recovered Final Findings	$9,849,194	$17,042,246	$9,266,473	$9,092,424	**$45,250,337**
Findings Subtotal	**$9,849,194**	**$17,042,246**	**$9,266,473**	**$9,092,424**	**$45,250,337**
$ Closed Criminal Cases	$6,359,526	$7,427,645	$3,183,724	$32,741,610	**$49,712,505**
$ Closed Civil Cases	$1,093,070	$14,500	$152,500	$0	**$1,260,070**
400.169 $ Amount Adjusted*	$1,047,642	$1,690,587	$3,930,029	$4,092,260	**$10,760,518**
$ BCA Settlement	$976,356	$925,720	$224,401	$6,157,561	**$8,284,038**
$ Sanctions Penalty	$0	$4,500	$30,000	$16,500	**$51,000**
Other Recoveries Subtotal	**$9,476,594**	**$10,062,952**	**$7,520,654**	**$43,007,931**	**$70,068,131**
Findings and Recoveries Total	**$19,325,788**	**$27,105,198**	**$16,787,127**	**$52,100,355**	**$115,318,468**

COMPLIANCE COST AVOIDANCE

CAE Spotcheck List Cost Avoidance	$111,353,382	$81,674,280	$71,353,529	$139,540,945	**$403,922,136**
Other Datamining Cost Avoidance	$14,626,197	$11,149,236	$7,337,085	$22,647,285	**$55,759,803**
Cost Avoidance Total	**$125,979,579**	**$92,823,516**	**$78,690,614**	**$162,188,230**	**$459,681,939**

2001-2003 data from RCO Annual Report spreadsheets

2004-2005 findings, criminal, civil data, Other Data Cost Avoidance from Magnum Quick Report 6/13/2008

Sanctions data from C. Simpson

2004-2005 400.169 data from DCO chron + s drive files

2004-2005 BCA Settlement data from appeal officer case + DAC records

CAE Spotcheck list Cost Avoidance data from S. Hughes SDAAS updated for 2005 from Micheal Schucking, CAE on 9/30/2009

*amount includes indemnity repaid to FCIC only

Figure 1 Data Table.
Spot Check List 2005
Producers Followed Over Time

	Crop Year 2004	Crop Year 2005
Risk Premium	$107,401,735	$87,078,947
Indemnity	$217,312,561	$77,771,616

Figure 2 Data Table.
Crop Year 2001 - 2007 Spot Check Lists
Premium and Indemnity

	2007		2006		2005	
	indemnity	**premium**	**indemnity**	**premium**	**indemnity**	**premium**
scl yr	178,526,078	70,512,903	150,399,548	90,953,565	217,312,561	107,401,735
next yr	93,745,253	89,413,570	123,641,369	92,540,851	77,771,616	87,078,947

	2004		2003		2002	
	indemnity	**premium**	**indemnity**	**premium**	**indemnity**	**premium**
scl yr	222,634,355	107,163,375	187,846,677	67,048,167	234,265,740	80,249,411
next yr	151,670,041	114,737,624	106,172,397	69,556,318	122,912,358	62,405,417

	2001	
	indemnity	**premium**
scl yr	145,440,842	54,746,124
next yr	97,196,674	51,299,181