NORTHERN REGIONAL COMPLIANCE OFFICE

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RMA Compliance Mission

- Protect the integrity of crop insurance by conducting reviews of program complaints;
  Evaluating results of company reviews;
  performing systematic reviews to detect/prevent abuse; reporting program weaknesses; and reporting SRA violations.
RMA Compliance Goals

- Facilitate the establishment of effective program and internal controls to prevent and detect fraud, waste and abuse in crop insurance;
- Facilitate program integrity in the delivery of USDA farm programs; and,
- Represent the taxpayer interest in crop insurance transactions.
NRCO Open Cases by Source (1,186)

- FSA SURE: 442 (37%)
- FSA ARPA: 183 (15%)
- FSA CDP: 284 (24%)

NRCO Closed Cases FY2011 by Source (473)

- FSA SURE: 313 (66%)

1,186 Cases
3,346 Policies
As of 9/1/2011

473 Cases
733 Policies
As of 9/1/2011
NRCO Findings FY2011 (481 Errors)

- Acreage: 188 (39%)
- Share: 84 (18%)
- Entity/Tax-id: 76 (16%)
- PP: 34 (7%)
- Type: 13 (4%)
- APH: 14 (3%)
- Appraisal: 11 (2%)
- PTP: 10 (2%)
- WA: 10 (2%)
- Other: 10 (2%)

294 Cases
450 Policies
481 Errors

NRCO Closed Cases

- FY05: 546
- FY06: 327
- FY07: 279
- FY08: 507
- FY09: 428
- FY10: 363
- FY11: 473
Reminder!

Nothing said today can modify or establish new procedure or be used as a defense for failing to follow FCIC approved policy and procedure.

Current Issues

- Appendix IV Reviews
  - 100K Reviews
- Rebating
- Prevented Planting
- SURE Payment Reconciliation
- Spot Checks
Appendix IV Reviews

- Data Mining Reviews
- Individual Policy Reviews
- Operational Reviews
  - Conflict of Interest Reviews
  - Consecutive Loss Adjuster Reviews
  - 100,000 Indemnity Reviews
  - Biotechnology Endorsement Reviews
  - Rainfall Index Reviews
  - Actual Production History Verification

Appendix IV – Data Mining Reviews

- Data Mining will replace the automatic audit trigger (150% of producer’s normal APH)
  - However, 400% trigger still remains
- Not to exceed 3% of eligible crop insurance contracts for the reinsurance year
- Reviews that meet multiple review criteria will be given credit in all such review requirements
- FCIC/AIPs will meet annually regarding reviews
Appendix IV-Individual Policy Reviews

• As Determined Necessary by FCIC
• NRCO sent 745 policy referrals to the AIPs for review out of 3,346 open policies

Appendix IV – Operational Reviews

• Conflict of Interest Reviews are mandatory when individual making a disclosure:
  – Has a share in a crop insured
  – Has a relative with an SBI
    (AIP may also perform discretionary reviews)

• Consecutive Loss Adjuster Reviews
  – 15% of ECICs where adjusters worked claim in three consecutive claim years for that AIP
  – 15% of ECICs identified by FCIC between AIPs
Appendix IV – Operational Reviews

• 100K Reviews - Changes
  – PP and all other losses now separate
  – Specific relief granted to high-loss areas

• Actual Production History (APH) Verification
  – New SRA
    • New ECIC (First year crop is insured)
      – review all years used to support APH
    • Continuous ECICs
      – Review most recent year
      – If no errors, determine remaining years have existing records
      – If error exists in most recent year, review all available records
      – If error exists and required records do not exist, assign yield adjustments

Appendix IV – Operational Reviews

• Biotechnology Endorsement (BE)
  a) 2.5% of ECICs with Liability < $500,000
  b) 5% of ECICs with Liability ≥$500,000
  c) 100% of ECICs with Indemnities ≥$100,000
  d) 100% of ECICs with possible BE compliance issue
     (Does Not Count Towards the 2.5 or 5 percent)
Appendix IV – Operational Reviews

• Biotechnology Endorsement (BE) - Continued
  – ECICs are selected by AIPs at specific intervals of July 15, August 1, August 15, and September 5
  – All reviews must verify:
    • Qualifying Hybrid Corn Seed
    • Sufficient Amount
    • Independent Plant Tissue Sample

Appendix IV – Operational Reviews

• Rainfall Index Reviews/Vegetation Index Reviews
  (Reviews required no later than 120 days after the crop reporting date)
  – All ECICs receiving indemnities for which an COI has been reported
  – All ECICs with acreage reductions
  – 3 percent random sample
  – Must verify:
    • Actual Acres
    • Actual Colonies
    • Insurable Interest/Share
    • Insurability and timely reporting.
 Rebating - The Federal Crop Insurance Act

The Act was amended by the 2008 Farm Bill and section 508(a)(9) states:
(9) PREMIUM ADJUSTMENTS.—
(A) PROHIBITION.—Except as provided in subparagraph (B), no person shall pay, allow, or give, or offer to pay, allow, or give, directly or indirectly, either as an inducement to procure insurance or after insurance has been procured, any rebate, discount, abatement, credit, or reduction of the premium named in an insurance policy or any other valuable consideration or inducement not specified in the policy.

 Rebating - The Federal Crop Insurance Act

(B) EXCEPTIONS.—Subparagraph (A) does not apply with respect to—
(i) a payment authorized under subsection (b)(5)(B); 
(ii) a performance-based discount authorized under subsection (d)(3); or
(iii) a patronage dividend, or similar payment, that is paid—
(I) by an entity that was approved by the Corporation to make such payments for the 2005, 2006, or 2007 reinsurance year, in accordance with subsection (b)(5)(B) as in effect on the day before the date of enactment of this paragraph; and
(II) in a manner consistent with the payment plan approved in accordance with that subsection for the entity by the Corporation for the applicable reinsurance year.
The Federal Crop Insurance Act

Section 508(b)(5)(B) states:

(B) PAYMENT OF CATASTROPHIC RISK PROTECTION FEE ON BEHALF OF PRODUCERS.—

(i) PAYMENT AUTHORIZED.—If State law permits a licensing fee to be paid by an insurance provider to a cooperative association or trade association and rebated to a producer through the payment of catastrophic risk protection administrative fees, a cooperative association or trade association located in that State may pay, on behalf of a member of the association in that State or a contiguous State who consents to be insured under such an arrangement, all or a portion of the administrative fee required by this paragraph for catastrophic risk protection.

(ii) SELECTION OF PROVIDER.—Nothing in this subparagraph limits the option of a producer to select the licensed insurance agent or other approved insurance provider from whom the producer will purchase a policy or plan of insurance or to refuse coverage for which a payment is offered to be made under clause (i).

(iii) DELIVERY OF INSURANCE.—Catastrophic risk protection coverage for which a payment is made under clause (i) shall be delivered by a licensed insurance agent or other approved insurance provider.

(iv) ADDITIONAL COVERAGE ENCOURAGED.—A cooperative association or trade association, and any approved insurance provider with whom a licensing fee is made, shall encourage producer members to purchase appropriate levels of coverage in order to meet the risk management needs of the member producers.

Anti-Rebating Certification

2012 Document and Supplemental Standards Handbook page 39

Insured Statement: “I certify that I have not directly or indirectly received, accepted, or been paid, offered, promised, or given any benefit, including money, goods, or services for which payment is usually made, rebate, discount, abatement, credit, or reduction of premium as an inducement to procure insurance or in exchange for purchasing this insurance policy after it has been procured. I understand that this prohibition does not include payment of administrative fees, performance based discounts, and any other payment approved by FCIC that are authorized under sections 508(a)(9)(B) and 508(d)(3) of the Federal Crop Insurance Act (Act) (7 U.S.C. §§ 1508(a)(9)(B) and 1508(d)(3)). I understand that a false certification or failure to completely and accurately report any information on this form may subject me, and any person with a substantial beneficial interest in me, to sanctions, including but not limited to, criminal and civil penalties and administrative sanctions in accordance with section 515(h) of the Act (7 U.S.C. §1515(h)) and all other applicable federal statutes.”
Anti-Rebating Certification

Agent Statement: “I certify that I have neither offered or promised, directly or indirectly, any benefit, including money, goods, or services for which payment is usually made, rebate, discount, credit, reduction of premium, or any other valuable consideration to this person either as an inducement to procure insurance or in exchange for obtaining insurance after it has been procured. I understand that this prohibition does not include payment of administrative fees, performance based discounts, and any other payment approved by FCIC that are authorized under sections 508(a)(9)(B) and 508(d)(3) of the Federal Crop Insurance Act (Act) (7 U.S.C. §§ 1509(a)(9)(B) and 1508(d)(3)). I understand that a false certification or failure to completely and accurately report any violation may subject me, and all agencies/companies I represent, to sanctions, including but not limited, to criminal and civil penalties and administrative sanctions in accordance with section 515(h) of the Act (7 USC §1515(h)) and all other applicable federal statutes.”

Rebating - Issues

- Financial Institutes being able to provide loans and crop insurance to an individual
  - Gramm-Leach-Bliley Act (1999) removed restrictions between commercial banks, investment banks and insurance companies. (SD and DE were first states to implement)
  - Employee of a lending institution cannot provide an inducement
    - An employee can provide both services without triggering a COI as long as they are not the approving loan authority
    - If they are approving authority then COI is required
### Rebating - Issues

- **MGR-08-01**: Conflict of Interest rules apply to all business dealings
- Agents offering incentives/inducements
- Cooperatives offering incentive plans/dividends
- **Case of Interest**: “Premium” Offer Program
  - Producers were offered a “premium” price for volume/locking in price. Had nothing to do with crop insurance program – was not MPCI “premium”

### Prevented Planting

- **FAD110**: Acres Must be Physically Available
- **FAD112**: Increased PP Coverage Levels
- **FAD119**: Fall Tillage Does not Determine Availability for Spring PP
- **IS-11-009** – Claims Alert (SPOI on Eligible Acres Begins in 2012)
Prevented Planting – SPOI Changes

• Crop grown and harvested in one of four
• Marsh vegetation (has or recently had)

SURE Payment Reconciliation
A National View

• 5,409 FSA SURE referrals (CY2008-2009)
• 6,781 FSA CDP referrals (CY2005-2007)
• There is no tolerance for reconciliation of FSA and RMA data
• Please reinforce correct reporting from the outset to avoid corrections
Spot Checks

- Scenarios Range from Identifying Producers with Multi-year Losses, to Producers that May Have Colluded to Undermine the Integrity of the Crop Insurance Program
- Most Scenarios Use Entity Matching Algorithms in Order to Tie Together the Production History of Related Entities, Such as Ownership or Spouses
- All Scenarios Exclude Nursery, Clams, Oysters, Livestock Insurance and Group Insurance
SDAA Spot Check List Cost Avoidance

SCL Loss Cost Relative to County Loss Cost

- Before FSA Inspection

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<th>Loss Cost Difference</th>
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SDAA Spot Check List Cost Avoidance

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<th>Year</th>
<th>Cost Avoidance In Millions</th>
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<tr>
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</tbody>
</table>

Total Cost Avoidance: $838 Million
Questions/Concerns?
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Thank You