United States Department of Agriculture

Office of Inspector General



RMA: Rainfall and Vegetation Index Pilot—Pasture, Rangeland, Forage – Interim Report

Audit Report 05601-0003-31(1)

What Were OIG's Objectives

Our objective was to evaluate RMA's methodology for setting county base values for PRF covered under the rainfall and vegetation index pilot plan of insurance.

What OIG Reviewed

We non-statistically selected seven producers in Colorado and New Mexico who received a total of over $8.5 million in PRF indemnity payments for crop years 2010 through 2013.

What OIG Recommends

We recommended that RMA suspend offering PRF coverage for non-irrigated hay in Colorado and New Mexico based on combined yield until it can establish a method to account for the substantial difference in production capability of irrigated and non-irrigated land. RMA should also determine if this problem is prevalent in other dry, western States.

OIG reviewed how RMA administers its PRF insurance program to determine if the level of protection is reasonable.

What OIG Found

The Risk Management Agency (RMA) administers the Federal crop insurance program and helps insure producers against crop failures due to crop diseases, hurricanes, and other risks. Beginning in crop year 2007, RMA offered a rainfall and vegetative index plan of insurance for pasture, rangeland, forage (PRF) as a pilot program that provides insurance protection for forage produced for grazing or harvested for hay.

The Office of Inspector General's (OIG) review of this program found that, in Colorado and New Mexico, RMA insures non-irrigated hay producers at the same level as irrigated hay producers, even though irrigated land is capable of producing much more hay. When RMA and its contractor designed PRF, they used a State-wide average yield that combined non-irrigated and irrigated hay yields without considering the substantial differences between such land. As a result, non-irrigated producers received indemnities substantially in excess of the value of their lost hay production. For example, our initial sample of seven producers received over $8.2 million in indemnity payments for non-irrigated forage acres, based on average yields that they could not feasibly produce. In one case, a producer insured land that has the potential to produce about $27.54 worth of hay per acre, but he was indemnified $335.79 per acre.

USDA will continue to pay indemnities at such excessive rates until RMA takes steps to correct the program. In crop year 2014, these same producers have a total liability of over $14.6 million and indemnities of over $1 million paid on land insured under PRF, as of July 1, 2014. We are issuing this interim report so that RMA can correct this problem before the offering of PRF coverage for crop year 2015. Based on its response, RMA generally agreed with our finding; however, further action from the agency is needed before management decision can be reached for the two recommendations.

United States Department of Agriculture

Office of Inspector General

Washington, D.C. 20250

DATE: September 11, 2014

AUDIT NUMBER: 05601-0003-31(1)

TO: Brandon C. Willis
Administrator
Risk Management Agency

ATTN: Heather L. Manzano
Deputy Administrator for Compliance

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: RMA: Rainfall and Vegetation Index Pilot Program – Pasture, Rangeland, Forage - Interim Report

This report presents the results of the subject audit. Your written response to the official draft, dated August 22, 2014, is included in its entirety at the end of this report. Your response and the Office of Inspector General's (OIG) position are incorporated into the relevant Finding and Recommendation sections of the report. Based on your written response, we are unable to accept management decision on the two recommendations in the report. Documentation or action needed to reach management decision for these recommendations are described under the relevant OIG Position sections.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframes for implementing the recommendations for which management decisions have not been reached. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance, and final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publically available information and will be posted in its entirety to our website (http://www.usda.gov/oig) in the near future.

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Background and Objective

Background

The Department of Agriculture's (USDA) Risk Management Agency (RMA) administers the Federal crop insurance program, and helps insure producers against crop failures due to crop diseases, hurricanes, and other risks. Federal crop insurance is available solely through private companies, known as approved insurance providers (AIP), that market and service crop insurance policies and process claims for loss. AIPs directly insure producers and their crops, and RMA then reinsures the AIPs against a portion of the losses they may suffer.

Beginning in crop year[1] 2007, RMA offered a rainfall and vegetative index plan of insurance for pasture, rangeland, forage (PRF) as a pilot program that provides insurance protection for forage produced for grazing or harvested for hay. Producers do not need to file a claim or submit any documentation for a loss under PRF. The PRF program also does not require a suitability or feasibility determination, history of production, or onsite inspection as part of the underwriting process. Instead, for much of the United States, the program is based on a rainfall index, while for a smaller portion of the western United States, it is based on a vegetative index. PRF insures producers based on either the average rainfall or the average satellite-derived "vegetative greenness" value in their geographic area, instead of the specific conditions experienced at the producer's individual farm. Indemnities are paid based on the difference between the "trigger grid index"[2] and the actual grid index experienced.

The rainfall index is based on weather data collected and maintained by the National Oceanic and Atmospheric Administration's (NOAA) Climate Prediction Center. The index reflects how much precipitation is received relative to the long-term average for a specified area and timeframe. The vegetation index is based on the U.S. Geological Survey's Earth Resources Observation and Science normalized difference vegetation index data, derived from satellites observing long-term changes in the greenness of the Earth's vegetation since 1989. Producers receive an indemnity payment when the final grid index (i.e., the rainfall or the "vegetative greenness" value in their area) falls below their selected "trigger grid index."

An individual producer's level of protection per acre is determined by the county-base value for his or her intended use (haying or grazing) multiplied by the coverage level (between 70 percent and 90 percent) and the productivity factor (between 60 percent and 150 percent) selected by the producer by the established sales closing date. RMA establishes PRF county-base values for forage using the 3-year average of the National Agricultural Statistics Service (NASS)-published "All Hay Yield/Value" for each State, which includes a blended yield of irrigated and non-irrigated production. This base value is applied to all counties within the State. Prior to 2008, NASS published separate irrigated and non-irrigated production data in only three States: Colorado, Montana, and Wyoming. After 2008, NASS discontinued publishing separate

[1] "Crop year" means the period of time within which the insured crop is normally grown, regardless of whether or not it is actually grown, and is designated by the calendar year in which the insured crop is normally harvested.
[2] "Trigger grid index" is equal to the coverage level selected by the producer multiplied by the expected grid index for rainfall or "vegetative greenness."

irrigated and non-irrigated yields for hay for these States as part of an effort by NASS to save on resources.

PRF policies are currently subject to a 3 percent random review and a review of any indemnities equal to or greater than $200,000.[3] Payments will be made after rainfall or vegetative greenness data are collected for each 2- or 3-month index interval and provided to RMA and AIPs. RMA annually publishes actuarial documents for this program by August 31.

RMA employed a contractor to develop the PRF pilot program and produce the rainfall and vegetation indices upon which the insurance products are based. This contractor has developed a computer system that downloads rainfall data from NOAA, and vegetation data from the U.S. Geological Survey. This system then converts these data into the indices used by AIPs to calculate indemnities for all producers insured under the PRF pilot program.

In 2009, we reported that RMA significantly over-insured non-irrigated producers and, to a lesser extent, under-insured irrigated producers for corn covered under a Group Risk Protection plan of insurance because the offer of insurance did not take into account counties where material differences existed between irrigated and non-irrigated yields.[4] We believe that RMA's experience with the PRF program is similar to what we reported in 2009.

We also note that these elevated liability values lead to increased premiums, a substantial portion of which is subsidized by the Federal Government.[5] RMA covered over $298 million, or 54.1 percent, of the $551 million in PRF-related premiums during crop years 2010 through 2013. In addition to the premium subsidy, RMA also provides an administrative and operating expense reimbursement based on the total premium.[6] In crop year 2013, the total amount of administrative and operating expense reimbursement paid to AIPs for the PRF program was over $39 million.

Objective

The objective of this review was to evaluate RMA's methodology for setting county-base values for PRF covered under the rainfall and vegetation index pilot plan of insurance. Since this is an interim report and our audit is ongoing, we plan to further evaluate the controls over setting county-base values and policy provisions that pertain to the intended use of acreage for PRF.

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[3] 2013 Standard Reinsurance Agreement, Appendix IV, section III, *Quality Control Guidelines*, dated July 1, 2012. Prior to the 2013 Standard Reinsurance Agreement, any claims equal to or greater than $100,000 were subject to a review.

[4] *Use of National Agricultural Statistics Service County Average Yields for the Group Risk Protection Plans of Insurance*, 05601-4-KC, March 4, 2009.

[5] FCIC 18010, *Crop Insurance Handbook*, Exhibit 1B, "Definitions," dated February 11, 2013, defines liability as the total amount of insurance, value of the insured's production guarantee, or revenue protection guarantee for the unit determined in accordance with the Settlement of Claim section of the applicable crop provisions.

[6] In crop year 2013, RMA paid 20.1 percent of the total premium associated with PRF policies to subsidize administrative and operating expenses incurred by AIPs.

We are not drawing any conclusions in this interim report as to whether offering rainfall and vegetative index plans of insurance to irrigated producers is practical. We also have questions regarding the suitability of some of this land for insurance and whether current livestock requirements in the policy are adequate and enforceable. We plan to examine these questions and others later in our review.

Section 1: Improvements Are Needed to the PRF Program

Finding 1: RMA Provides Excessive Coverage to Non-Irrigated Forage Producers Under the PRF Program

In Colorado and New Mexico, RMA insures non-irrigated hay producers at the same level as irrigated hay producers, even though irrigated land is capable of producing from two to three times as much hay. When RMA and its contractor designed the PRF program, they used a State-wide average yield that combined non-irrigated and irrigated hay yields, without accounting for the substantial differences between such land. RMA officials did not work with NASS to develop separate rates for irrigated and non-irrigated land, nor did they develop the specific data they needed to operate the program. As a result, non-irrigated producers received indemnities substantially in excess of the value of their lost hay production. For example, our initial sample of seven producers[7] received over $8.2 million in indemnity payments from crop years 2010 through 2013 for non-irrigated forage acres based on average yields that they could not feasibly produce.[8] Moreover, USDA will continue to pay indemnities at such excessive rates unless RMA takes steps to correct the program. In crop year 2014, these same producers have a total liability of over $14.6 million and indemnities of over $1 million paid on land insured under the PRF program, as of July 1, 2014.

The PRF program is designed to give forage and livestock producers the ability to buy insurance protection for losses of forage produced for grazing or harvested for hay. RMA establishes PRF county-base values for forage, using the 3-year average of NASS-published "All Hay Yield/Value" for each State, which includes irrigated and non-irrigated production. When this method for determining values was established, RMA did not account for the fact that irrigated hay land can have significantly greater yields than non-irrigated hay land. The agency established a single county-base value to be used for all producers, whether or not they irrigate their land.

Irrigated land yields much more hay than non-irrigated land, as NASS demonstrated when it published yields for Colorado, Montana, and Wyoming in crop years 2000 through 2008. These yields show that non-irrigated hay acreage can only yield between one-half and one-third of the production that irrigated hay acres are capable of producing.[9]

When RMA used NASS' yields in its county-base value calculation, it did not account for the sizeable difference in production potential between irrigated and non-irrigated land. This differential is particularly notable in States such as Colorado, where the vast majority of forage producers utilize irrigation. In such States, if the irrigated yields are averaged with the

[7] One producer was sampled from New Mexico and the other six producers were sampled from Colorado.
[8] We reviewed a non-statistical sample of 7 out of 995 producers located in 2 States. For the 995 producers, indemnities totaled over $72.7 million for crop years 2010 through 2013.
[9] These are the only three States for which NASS published separate irrigated and non-irrigated yields. NASS ceased publishing separate yields for these States following 2008.

non-irrigated yields, then the average will skew[10] dramatically towards the irrigated yields. Consequently, in Colorado, non-irrigated producers with an intended use of haying are being allowed to insure their land at values far in excess of what they can actually produce, particularly once coverage levels and productivity factors are taken into account.[11]

The available soil survey data indicate that non-irrigated land will produce much less hay than what is being insured. For example, the most productive non-irrigated land in Baca County, Colorado (only 0.3 percent of the acres in the county) can produce up to 1.0 ton of dry-weight rangeland vegetation in a normal year. However, the county-base value for Colorado in 2013 is based on an average hay yield of 2.69 tons per acre, almost 3 times what the most productive non-irrigated land in Baca County can produce.

Similar circumstances exist in New Mexico. In southwest Quay County, the most productive non-irrigated land listed in the soil survey can produce up to 1.15 tons of vegetation in a normal year. However, the county-base value for New Mexico in 2013 is based on an average hay yield of 4.35 tons per acre.

Moreover, given how RMA's PRF program is designed, producers can choose to be insured at higher productivity rates. In Baca County, three out of our four sampled producers in the county were insured at the maximum available coverage of 3.63 tons per acre, and in Quay County the producer was insured at the maximum of 5.87 tons per acre—over 4 times what the most productive non-irrigated land in the respective counties could produce under normal conditions.[12] See the chart below for an illustration.

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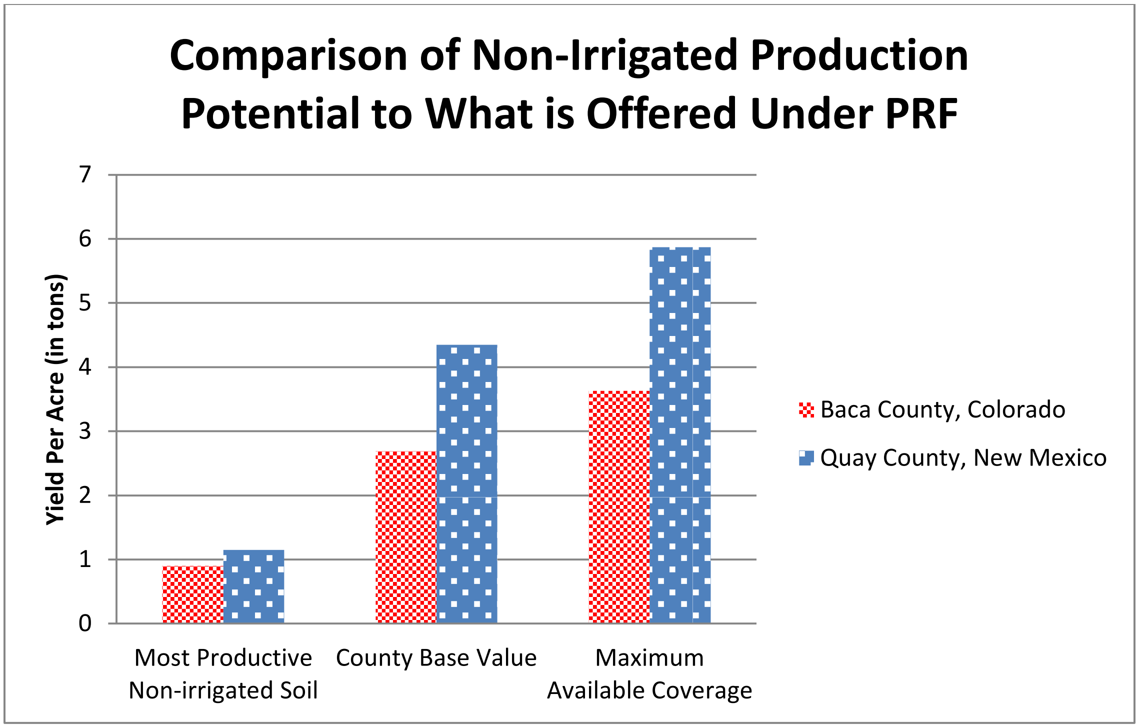
[10] Utilizing NASS' *Census of Agriculture Survey*, we have identified eight States, including Colorado, that currently offer PRF coverage for hay land where the vast majority of hay producers utilize irrigation. Accordingly, the issue noted above may also exist in these States. These States are Arizona, Colorado, Idaho, Nevada, New Mexico, Oregon, Utah, and Wyoming.

[11] Producers are able to elect a coverage level up to 90 percent and a productivity factor up to 150 percent. These figures are then multiplied with the county-base value as part of determining the producer's overall liability. If 90 percent coverage and 150 percent productivity are elected, the producer is in effect able to establish a liability that is based on 135 percent of the county-base value.

[12] We calculated the maximum available coverage by taking the county-base value expressed in tons times the 90 percent coverage level times the 150 percent productivity factor. For example in Baca County, the maximum available coverage is 2.69 tons per acre times the 90 percent coverage level times the 150 percent productivity factor equals 3.63 tons per acre.



As OIG learned during the course of our review, RMA's compliance officials have raised questions about the design of the program. At RMA's request, one AIP requested evidence from the Colorado State University Extension Service regarding one of our sampled producers with non-irrigated land. The Extension Service researchers stated that the land was not suitable for haying and would produce on average a potential yield of 360 pounds per acre (see photographs below). At the average per-ton hay price utilized by RMA for 2013, this yield would equate to a potential value of $27.54 per acre. However, given how RMA has designed PRF, the land still received an indemnity of $1,020,823 in 2013, an average of approximately $335.79 per acre, far exceeding the producer's potential value per acre.

It should be noted that this sampled producer selected the maximum available coverage, resulting in a liability of $551.21 per acre on approximately 3,040 insured acres. Accordingly, the average indemnity per acre could have been even higher if greater deviations from normal rainfall had been experienced.

This photograph illustrates the non-irrigated land insured by this producer. In crop year 2013, this land was rented for $5.50 per acre and insured for $551.21 per acre, and received indemnities of about $335.79 per acre.

In contrast, this photograph illustrates irrigated land in an adjacent county in Colorado. Under this program, both producers received the same level of protection per acre in crop year 2013.

When we met with AIP officials to discuss why the AIP paid this and similar claims in Colorado, despite the low production potential, an AIP official explained that the basis for the Extension Service's determination that the land was not suitable was based on the land's low production potential. However, despite this evidence, the AIP did not feel that the PRF policy and other guidance issued by RMA provided the necessary language to allow for the denial of a coverage based on hay production potential. The crop provisions only require that the land be suitable for haying, which, as described in the provisions,[13] does not place any production history or yield requirements on the land.

[13] The PRF Crop Provisions state that land that is "so steeply sloped or covered by water such that it is impractical or impossible to hay such acreage using normal haying equipment or is otherwise not suitable for haying using normal haying equipment, is not insurable under an intended use of haying."

OIG also found similar problems in New Mexico, indicating that this problem extends beyond Colorado's borders. In crop years 2012 and 2013, a New Mexico partnership insured land under the PRF vegetative index plan of insurance with an intended use of hay and received over $2 million in indemnity payments. When we interviewed the producers, they stated that the insured land could only be hayed about once in every 3 to 5 years and asserted that. in those years, they would hope to harvest about 3 to 5 tons of hay per acre. However, we believe that producing 3 to 5 tons of hay per acre is a gross exaggeration on the producers' part, as they have never baled any hay on the land. The district conservationist stated that she had lived in that area all of her life and had never seen this type of land hayed and did not believe that haying this land was economically feasible. The soil survey data available show that this land has the potential to produce about 0.75 tons of dry-weight rangeland vegetation per acre in a normal year, even though the producers were insured at the maximum of 5.87 tons per acre, or nearly 8 times what they could expect to produce under normal conditions. [14] Under PRF, producers are not required to have actually hayed the land; they need only to state their intent to hay the land and agree to pay their premium.

This photo illustrates the insured hay land for which the New Mexico producer received an average of over $340 per acre in crop year 2013.

When we spoke to RMA officials about our concerns regarding the substantial yield differential between irrigated and non-irrigated hay land and the resulting potential for non-irrigated producers to receive indemnities substantially in excess of the value of their lost hay production, RMA officials responded that the PRF program is a "feed replacement" program and is intended to cover the expenses that a producer incurs when he or she must purchase feed on the open market, following the loss of his or her feed crop. Based on the goal of "feed replacement," RMA officials stated that they believe the rates for the program may actually be too low. They explained that the PRF program is intended to be insurance against an expense, not insurance of a producer's production.

[14]The 0.75 ton-per-acre figure reflects the typical dry-weight production potential of the predominant soil type in the area in a normal year.

However, OIG maintains that, as currently structured, the PRF program is, in fact, insurance of production because producers' liabilities are, in part, determined based on NASS-published production yields of hay. Furthermore, the PRF policy does not actually require producers with an intended use of haying to have livestock.[15] In fact, based on interviews, four out of our seven sampled producers do not have cattle and have not had any cattle for a number of years. RMA was not able to provide us with data on what constituted "feed replacement" costs or what the costs levels were for the various States in which the PRF program is currently offered.

In our discussions with RMA officials, they suggested that they could limit the productivity factor for producers of non-irrigated hay land to 100 percent, but we do not believe that this proposal adequately addresses our concerns. OIG maintains that 100 percent is still far too high, given the current county-base levels.

Given the serious issues we have observed with PRF, OIG believes that it is imperative that RMA cease offering PRF coverage for non-irrigated hay in Colorado and New Mexico, and determine if this problem is prevalent in other dry, western States. Until RMA establishes a method to account for the substantial difference in production capability of irrigated and non-irrigated hay land, this program should remain suspended in these areas. One method the agency could consider is adjusting the Special Provisions within applicable States to allow coverage of non-irrigated land under a written agreement with the applicable RMA regional office, under which the liability will be established based on either the land's normal production potential, as determined by a custom soil survey or evidence of a production history, and the 3-year average NASS' "All Hay" price data currently utilized by RMA.

Since our review is still ongoing, we are not drawing any conclusions in this interim report as to whether offering rainfall and vegetative index plans of insurance to irrigated producers is practical. We also have questions regarding the suitability of some of this land for insurance and whether current livestock requirements in the policy are adequate and enforceable. We plan to examine these questions and others later in our review.

Recommendation 1

Suspend the crop year 2015 offering of PRF coverage with an intended use of hay in Colorado and New Mexico on non-irrigated land until RMA can establish county-base values by irrigated and non-irrigated practices, or take other actions that result in PRF coverage that takes into account the substantial difference in production capability of irrigated and non-irrigated hay land. One possible approach is to modify the Special Provisions to require a written agreement for non-irrigated hay land and require a production history of producing hay.

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[15] The PRF policy does contain some livestock requirements for producers who insure their land with an intended use of grazing. However, there are no similar requirements for producers with an intended use of haying, despite the county-base values for the intended use of haying being substantially larger than those for the intended use of grazing in several States.

Agency Response

In its August 22, 2014, response, RMA believes the concerns expressed by OIG can be addressed through a couple Special Provision statements, which would address yields on non-irrigated hay land and the suitability of haying on non-irrigated land. The former would apply to Arizona, Colorado, Idaho, Nevada, New Mexico, Oregon, Utah, and Wyoming, and the latter would only apply to New Mexico and Colorado.

First, in order to address the issue of yields on non-irrigated land, RMA will add the following Special Provision statement for the 2015 crop year, limiting producers in Arizona, Colorado, Idaho, Nevada, New Mexico, Oregon, Utah, and Wyoming with non-irrigated hay acreage to a 60 percent productivity factor:

> In addition to Section 7(a)(2)(ii) of the Basic Provisions, if you insure any non-irrigated for the county, crop, and intended use.

Historical data suggests that limiting the productivity factor to 60 percent for non-irrigated hay adequately reflects the reduced production expected on non-irrigated hay acres. Lowering the productivity level to 60 percent would have reduced the cited indemnity payments by $5 million.

RMA believes this is a reasonable approach and mitigation factor that will address OIG's concern until an already underway, independent contracted evaluation of the PRF program is completed, and RMA can implement any changes recommended by the evaluation for the 2016 crop year.

Second, in order to address the issue of the land being suitable for haying on non-irrigated land, RMA will include the following Special Provision statement for all counties in New Mexico and Colorado:

> In addition to Section 4(b)(2) of the crop provisions, if you report any non-irrigated land with an intended use of haying, upon our request, you must substantiate the acreage is suitable for haying by either providing documentation that such acreage has been hayed in the past or by providing a determination by an agricultural expert that the acreage is physically suitable for haying. We will not insure any hay land that is determined by an agriculture expert, as defined in the Rainfall and Vegetation Index Plan Common Policy, as not being suitable for haying. Land determined under this section to be unsuitable for haying can be insured for grazing provided the livestock requirement is met.

Limiting this Special Provision statement to only New Mexico and Colorado will specifically address OIG's concerns regarding suitability of haying on non-irrigated land without imposing an additional requirement on ranchers in areas of the country where suitability for haying is not an issue. In sum, this Special Provision statement should eliminate ranchers featured in OIG's report from receiving indemnities for hay on non-irrigated land.

OIG Position

We are unable to agree with RMA's proposed corrective actions for this recommendation. The actions RMA proposes in its response do not account for the substantial differences between irrigated and non-irrigated production capabilities in Colorado and New Mexico and are not sufficient to prevent continued further risk and exposure of millions of taxpayer dollars through the administration of the PRF program. Specifically, we find the following inadequacies in RMA's response:

RMA's proposed special provision regarding suitability determinations will not prevent the producers cited in our report and others with similar non-irrigated hay land from obtaining PRF coverage with an intended use of haying. First, the language proposed by RMA would only require documentation substantiating acreage's suitability "upon request" without providing any guidance as to when or under what circumstances such documentation would ever be requested. Second, such documentation must substantiate that the land has been hayed in the past. However, it is not clear what type of documentation would be acceptable to prove this assertion or how often in the past the land must have been hayed to qualify. Third, the proposed language allows for an agricultural expert to be called upon to make a determination as to whether the land is "physically suitable for haying." However, "physically suitable for haying" is not adequately defined within the PRF crop provisions, which only describes land that is covered in water or so steeply sloped as to prevent the use of normal haying equipment as being unsuitable for haying. There is no language requiring consideration of the land's production potential, history of hay production, or the prevalence of haying similar land in the county.

In New Mexico, there is no production data available through NASS or any other source on which to base non-irrigated coverage for hay. According to the NASS State director, more than 99 percent of the hay in New Mexico is produced under irrigation. Limiting the productivity factor to 60 percent in New Mexico for crop year 2015 on non-irrigated land provides excessive coverage of over 3.0 times what the producer cited in our report could expect to produce in a normal year.

In Colorado, limiting the productivity factor to 60 percent brings the county-base value closer to non-irrigated production capabilities for hay in the State, but it does not fully account for the differences in production capabilities for the land cited in our report. Of the four counties in Colorado that our sampled producers insured acreage, the production capabilities for hay were substantially lower, averaging less than 20 percent of the county-base value.[16] RMA agrees that the land insured by the producers cited in our report should not be receiving indemnity payments for hay. Under RMA's proposal to reduce the productivity factor for non-irrigated land, these producers would receive about $3.3 million. However, based on the agriculture extension agent's determination, the cited producer's land should not have been insurable for hay and, therefore, should not have received any indemnity payments.

[16] The county-base value for Colorado in 2013 is 2.69 tons per acre. According to soil surveys, the average acre of rangeland in the four counties can produce less than 0.54 tons per acre, or less than 20 percent of the county-base value, in a normal year.

Based on RMA's inability to provide acceptable alternative actions to mitigate the issues identified in this report, we cannot accept these proposals and maintain that the best option is for RMA to suspend current- and future-year offerings of PRF coverage on non-irrigated land with an intended use of haying in Colorado and New Mexico until RMA can establish a sufficient upfront control to prevent the land cited in our report and similar land from receiving coverage for haying and establish county-base values that take into account the substantial differences in production capabilities of irrigated and non-irrigated land.

In order to reach management decision, RMA needs to suspend the crop year 2015 and subsequent offerings of PRF coverage with an intended use of haying on non-irrigated land in Colorado and New Mexico until separate county-base values can be established for irrigated and non-irrigated land or establish sufficient upfront controls to prevent the land cited in our report and similar land from receiving coverage for haying.

Recommendation 2

Evaluate Arizona, Idaho, Nevada, Oregon, Utah, and Wyoming to determine if non-irrigated and irrigated hay yields warrant establishing separate county-base values to account for substantial differences in production capabilities or taking other actions to resolve differences.

Agency Response

RMA's response to Recommendation 1 addresses Recommendation 2.

OIG Position

We are unable to agree with RMA's proposed corrective actions for this recommendation. We acknowledge that limiting the productivity factor for non-irrigated hay land in Arizona, Idaho, Nevada, Oregon, Utah, and Wyoming to 60 percent is a step in the right direction for crop year 2015. However, RMA should perform an evaluation of each State rather than relying and applying the collective historical data from only a few States. In addition, we have no assurance that the scope of the independent contractor evaluation currently underway, which RMA refers to in its response, will address the issues identified in this report.

In order to reach management decision, RMA needs to perform a separate evaluation prior to crop year 2016 to determine whether separate county-base values are needed to account for the substantial differences in irrigated and non-irrigated hay production.

Scope and Methodology

We conducted our audit of PRF at the RMA office in Kansas City, Missouri, and five counties in two States (see Exhibit B). We also interviewed RMA officials in the Davis, California, and Topeka, Kansas, regional service offices. This is an interim report and our work is ongoing.

Our audit covered PRF activity for crop years 2010 through 2013. Using RMA's database systems, we determined that, for this time period, PRF liabilities totaled over $2.6 billion on over 168 million acres. Indemnity payments totaled over $597 million.

We non-statistically selected six producers with PRF policies located in two States, primarily based on the total PRF indemnity amounts received by each producer for crop years 2010 through 2013. Additionally, we non-statistically sampled one PRF producer who is also a USDA employee. In total, we sampled seven producers who received a total of over $8.5 million in PRF indemnity payments over the 4-year period under review.

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

- Reviewed applicable laws, regulations, and agency procedures concerning the administration of the Federal crop insurance programs, specifically those provisions pertaining to the PRF program.
- Interviewed officials at RMA's Product Management Division in Kansas City, Missouri, to gain an understanding of the PRF program and its implementation, and RMA's expectations of the AIPs who administer the PRF program.
- Interviewed officials at the RMA Central Regional Compliance Office in Kansas City, to gain an understanding of their concerns about the PRF program and coordinate our efforts in order to avoid duplication of work.
- Interviewed officials at RMA regional service offices to identify any concerns they have regarding the PRF program.
- Interviewed Farm Service Agency and Natural Resources Conservation Service county and field office personnel regarding the operations of sampled producers and the prevalence of haying non-irrigated land in the area.
- Interviewed sampled producers regarding details of their operations and their experiences with the PRF program.
- Interviewed NASS officials to gain an understanding of the published data for hay and methodologies used for conducting surveys and the collection of production and pricing data for hay.
- Reviewed PRF indemnities, as well as policy and quality control review documents, associated with the policies and claims for the sampled producers.

- Interviewed AIP personnel to determine any concerns that they have about PRF and the reasoning behind the payment of several sampled producers' claims.

- Assessed the reliability of information systems by comparing specific data within RMA's policyholder database and insurance documents maintained by the AIPs.

We conducted fieldwork between May 2014 and July 2014.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Abbreviations

AIP .... Approved Insurance Provider
NASS .... National Agricultural Statistics Service
NOAA .... National Oceanic and Atmospheric Administration
OIG .... Office of Inspector General
PRF .... Pasture, Rangeland, Forage
RMA .... Risk Management Agency
USDA.......................... Department of Agriculture

Exhibit A - Summary of Monetary Results

This exhibit lists the finding and recommendation containing a monetary result, and includes the type and amount of the monetary result.

Finding	Recommendation	Description	Amount	Category
1	1	Producers paid indemnities based on average yields that they could not feasibly produce.	$8,290,314	Questioned Costs, No Recovery

Exhibit B - Counties Visited

This exhibit lists the counties visited in New Mexico and Colorado.

State	Counties
New Mexico	Guadalupe
	Quay
Colorado	Baca
	Bent
	Prowers

USDA'S
RISK MANAGEMENT AGENCY
RESPONSE TO AUDIT REPORT

United States Department of Agriculture

August 22, 2014

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

FROM: Dwight K. Lanclos /s/ DK
Acting Audit Liaison Official

SUBJECT: Office of Inspection General (OIG) Audit 05601-003-31, Draft Report, Rainfall and Vegetation Index Pilot – Pasture, Rangeland, Forage (PRF)

Outlined below is the Risk Management Agency's (RMA) response to the subject draft report.

RECOMMENDATION NO 1:

Suspend the crop year 2015 offering of PRF coverage with an intended use of hay in Colorado and New Mexico on non-irrigated land until RMA can establish county base values by irrigated and non-irrigated practices or take other actions that result in PRF coverage that takes into account the substantial difference in production capability of irrigated and non-irrigated hay land. One possible approach is to modify the Special Provisions to require a written agreement for non-irrigated hay land and require a production history of producing hay.

RMA RESPONSE:

RMA believes the concerns expressed by OIG can be addressed through a couple Special Provision statements, which would address yields on non-irrigated hay land and the suitability of haying on non-irrigated land. The former would apply to Arizona, Colorado, Idaho, Nevada, New Mexico, Oregon, Utah, and Wyoming, and the latter would only apply to New Mexico and Colorado.

First, in order to address the issue of yields on non-irrigated land, RMA will add the following Special Provision statement for the 2015 crop year, limiting producers in Arizona, Colorado, Idaho, Nevada, New Mexico, Oregon, Utah, and Wyoming with non-irrigated hay acreage to a 60 percent productivity factor:

> In addition to Section 7(a)(2)(ii) of the Basic Provisions, if you insure any non-irrigated for the county, crop, and intended use.

Historical data suggests that limiting the productivity factor to 60 percent for non-irrigated hay adequately reflects the reduced production expected on non-irrigated hay acres. Lowering the productivity level to 60 percent would have reduced the cited indemnity payments by $5 million.

RMA believes this is a reasonable approach and mitigation factor that will address OIG's concern until an already underway, independent contracted evaluation of the PRF program is completed, and RMA can implement any changes recommended by the evaluation for the 2016 crop year.

Second, in order to address the issue of the land being suitable for haying on non-irrigated land, RMA will include the following Special Provision statement for all counties in New Mexico and Colorado:

> In addition to Section 4(b)(2) of the crop provisions, if you report any non-irrigated land with an intended use of haying, upon our request, you must substantiate the acreage is suitable for haying by either providing documentation that such acreage has been hayed in the past or by providing a determination by an agricultural expert that the acreage is physically suitable for haying. We will not insure any hay land that is determined by an agriculture expert, as defined in the Rainfall and Vegetation Index Plan Common Policy, as not being suitable for haying. Land determined under this section to be unsuitable for haying can be insured for grazing provided the livestock requirement is met.

Limiting this Special Provision statement to only New Mexico and Colorado will specifically address OIG's concerns regarding suitability of haying on non-irrigated land without imposing an additional requirement on ranchers in areas of the country where suitability for haying is not an issue. In sum, this Special Provision statement should eliminate ranchers featured in OIG's report from receiving indemnities for hay on non-irrigated land.

RECOMMENDATION NO 2:

Evaluate Arizona, Idaho, Nevada, Oregon, Utah, and Wyoming to determine if non-irrigated and irrigated hay yields warrant establishing separate county base values to account for substantial differences in production capabilities or taking other actions to resolve differences.

RMA RESPONSE:

RMA's response to Recommendation 1 addresses Recommendation 2.

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