



United States Department of Agriculture

# Risk Management Agency: Preventing Fraud. Protecting Farms.

Program Compliance and Integrity  
Annual Report to Congress  
January 2002-December 2002



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# Preface

The Federal Crop Insurance Program is the primary source of risk protection for our Nation's farmers. Based on the most recent data, the program provided over \$37 billion in protection on about 75 percent of the Nation's insurable acres in 2003. This protection cost taxpayers approximately \$3.5 billion in fiscal year 2002. Producers paid about \$1.2 billion in premiums and received about \$4 billion in indemnity payments. However, to ensure that benefits are distributed equitably among producers and that the costs to taxpayers can continue to be justified, it is essential that there be adequate safeguards in place to avoid potential abuses.

The Agricultural Risk Protection Act of 2000, which enhanced the incentives for producers to buy higher levels of coverage, also provided the Department with new tools for monitoring and controlling program abuses. In particular, it required the Risk Management Agency, which administers the program, and the Farm Service Agency to work together to strengthen local level oversight, and to reconcile inconsistencies in their databases on crop production and yields. Further, the Act provided for the use of data mining as a new technology for targeting compliance reviews and investigations. It also increased the sanctions that can be imposed for program abuses.

Our second annual report under the Federal Crop Insurance Act (7 U.S.C. § 1515) documents the Department's progress toward implementing these new tools. It provides information on how the program is monitored for compliance and describes the steps that have been taken to change the way compliance activities are conducted. The report also contains information on the potential for data mining to target compliance reviews and investigations. The results show how data mining is being used in identifying areas of potential abuses. However, it should be noted that these results do not necessarily reflect the full extent of abuse that may be occurring in the crop insurance program.

As indicated in the report, the number of crop policies reviewed increased by 30 percent over the previous year. These reviews reduced program costs by an estimated \$125 million by preventing payments on potentially fraudulent claims or deterring fraudulent claims. An additional \$34 million has been recovered or found on claims that should not have been paid. Efforts are underway to achieve more refined targeting results. The Department is fully committed to preserving the integrity of the Federal Crop Insurance Program and expects to be able to demonstrate continuing progress toward that goal in future reports.

Ann M. Veneman  
Secretary of Agriculture

# Executive Summary

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At its simplest, this is the Risk Management Agency's constant goal. Every day, we work to safeguard the integrity of America's agricultural community by inventing, creating, and implementing the best and most innovative methods to detect, deter, and prevent crop insurance fraud.

Preventing fraud. Protecting agriculture. At its simplest, this is the Risk Management Agency's constant goal. Every day, we work to safeguard the integrity of America's agricultural community by inventing, creating, and implementing the best and most innovative methods to detect, deter, and prevent crop insurance fraud. This annual report will demonstrate just how effective we have been at doing so.

This marks the second year this report has been issued, as is required by Section 515(i) of the Federal Crop Insurance Act (7 U.S.C. § 1515) (the Act) entitled "Program Compliance and Integrity." The Act mandates that the Risk Management Agency (RMA) report on the implementation of the Act and on specific instances of crop insurance fraud, waste, and abuse. It also requires we highlight both the actions we are taking and the collaborations we are conducting with our alliance partners—the Farm Service Agency (FSA), the Federal Crop Insurance Corporation (FCIC)-approved insurance providers (insurance providers) and the Office of Inspector General (OIG)—as well as with our other fellow agencies within the United States Department of Agriculture (USDA), to combat such instances of fraud. The report covers January 2002 through December 2002.

In the past, RMA had the resources to combat fraud, waste, and abuse only after the fact—when the damage had already been done. With the renewed support given to us by the Act, we retained some of our older practices, but also began to focus on approaches that would allow us to think ahead and act preemptively, thereby catching and eliminating the potential for fraud before it takes place. In 2001, our work focused primarily on the development of programs and systems to achieve such preventative goals and to foster improved collaboration. In 2002, those programs, now up and running, are already giving us the excellent results we had hoped for.

RMA accomplished an extraordinary amount of work toward our mission to fight fraud, waste, and abuse this year, and we have seen great successes as a result. Among our many accomplishments during 2002, we have:

- developed and used exciting, cutting-edge technologies that help us detect fraud before it happens, such as our digital infrared aerial photography project and our data warehousing and mining program;
- created innovative new tools to help our staff and partners conduct their work more efficiently, via our interactive, distance-learning training programs;
- strengthened our collaborations with FSA, insurance providers, and a number of other partners who help us in the fight against fraud; and
- achieved impressive results and savings in cost avoidance and recoveries.

The end results of all this work are significant, especially considering they were achieved in only a year's time. During 2002 we have produced more than \$125 million in cost-avoidance savings. In addition, the number of policies RMA has under review is up 30 percent from 2001. These new tools and approaches are having a positive effect on our work and are bringing substantial savings to the USDA, the U.S. Government, and the American taxpayer.

In the pages that follow, you will find more detailed descriptions of some of the exciting projects we have been focused on over the past year.

# New Technology

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This year, a number of conditions came together for raisin producers that created the potential for an increased amount of crop insurance fraud.

Monitoring and preventing fraud is an ongoing process that requires constant vigilance. As soon as one avenue for conducting fraudulent activity is discovered and closed, another, different one emerges. To combat this constantly evolving pattern, RMA—along with our alliance partners, FSA and the FCIC-approved insurance providers—needs to stay one step ahead of those who perpetuate fraud.

If such proactive approaches can be developed, potential fraud can be stopped before any damage is done. If this is possible, it means cost-avoidance savings for the USDA and for the American taxpayer.

To make this possibility into a reality, RMA is using cutting-edge technological tools and has created approaches to proactively uncover and combat potential cases of fraud, waste, and abuse and eliminate such cases in the future. In this section, some of those tools, namely, our digital infrared aerial photography and our data warehousing and mining projects are explained.

## Getting the Big Picture: Digital Infrared Aerial Photography

The challenges facing the California raisin crop in the fall of 2002 gave RMA the perfect opportunity to test an innovative technological approach that will have a lasting impact on deterring crop insurance fraud activity—digital infrared aerial photography.

In 2002, a number of conditions came together for raisin producers that created the potential for an increased amount of crop insurance fraud. The Thompson seedless grape crop (used for raisins) was large and plentiful. However, a surplus of raisins was already in storage, which meant a low market price for the upcoming harvest. Because of this market situation, the insurance indemnity price paid for a damaged raisin crop would actually be several hundred dollars higher per ton than the market price. In such circumstances, a failed crop would be of more benefit to producers than a harvested crop, i.e., they could cause their crop to fail—a situation that could easily lead to fraudulent activity.



Infrared aerial program: Raisins drying 2002.

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Using a digital camera mounted to an airplane, RMA was able to take digital infrared photographs of grape vineyards in the heart of the California raisin-producing area.

Rain damage is the only insurable condition covered in raisin policies, and the Thompson seedless grape crop that year was very heavy and thin-skinned, which meant that any amount of rain could create crop damage and result in an insurance indemnity payment. However, the weather during that growing season remained relatively dry. Because of this weather, there was the likelihood that some growers would leave the grapes on the vine as long as possible, waiting for rain to damage their crop so they could collect an indemnity.

Growers, however, are required to lay down their raisins for drying by a specific date. If a producer removes the grapes from the vine and lays them down for drying after the pre-determined final lay-down date, or if he or she intentionally leaves laid-down raisins dry enough to be picked up in the vineyard with the hope of getting rain damage, the crop becomes uninsurable. So many growers in one area hoping for rain damage, and therefore waiting until the last possible moment to lay down large volumes of grapes, created the potential for a shortage of labor crews, which could mean the lay-down for some producers would extend past the approved date. Thus, it became important for the

insurance providers to monitor whether farmers were either leaving their crops on the vine past the approved lay-down date, or on the ground past the pick-up date.

How could RMA support the insurance providers in their efforts to deter growers from engaging in fraudulent behavior and to monitor hundreds of thousands of acres of grape vineyards to detect such behavior? Monitoring efforts solely on the ground could not cover such a large amount of acreage. To meet this challenge, we turned to one of the latest, cutting-edge technologies— infrared aerial photography.

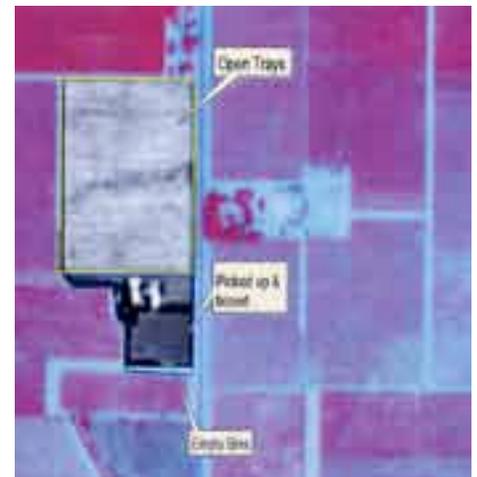
RMA's Western Regional Compliance Office (WRCO) helped implement this innovative program. Infrared aerial photography is a powerful tool that gives RMA and insurance providers the potential to effectively monitor the growth and vigor of crops, measure irrigation effectiveness, perform soil analysis, and detect the presence of disease and insects. Eventually, this technology will also allow us to estimate crop harvests.

### Seeing Red: Images on a Different Wavelength

Using a digital camera mounted to an airplane, RMA was able to take



Infrared Image



NDVI Normalized Difference Vegetative Index

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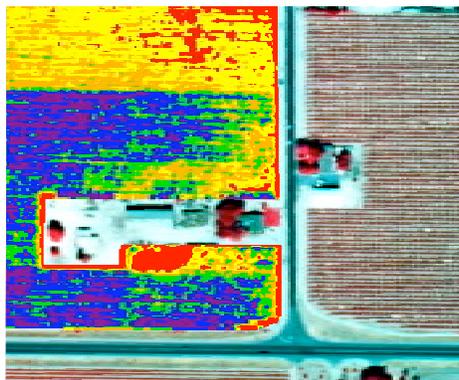
Since the project was completed, insurance providers have requested infrared images from RMA to determine compliance with lay-down and pick-up regulations.

digital infrared photographs of grape vineyards in the heart of the California raisin-producing area. Unlike aerial photographs taken with more standard 35-millimeter film, these special digital images capture a light wavelength invisible to the human eye that is displayed as different shades of red on the photographic image. By monitoring the reflection of light radiated from the ground, infrared images can detect the health of a crop. The healthier the vegetation, the brighter red the image appears in the photograph. But what makes the technology even more valuable is that infrared sensing detects not only variations in plant life—but also the soil condition beneath the plants. In the case of the California raisin crops, this means that because light radiation from the raisins lying on the ground reflected differently from the vines under which they were lying, aerial infrared images could show RMA and insurance providers not only whether the crop had been laid down on trays, but also whether the raisins were still on the ground or had been picked up.

RMA worked with a local remote sensing company to conduct the imaging project of the California

raisin crop. In a four-hour flight, the contractor was able to capture images of 100,000 acres of raisin grape vineyards located on the 400,000 acres imaged overall. To monitor the progress of lay-down and pick-up activities on the farms in this area, RMA conducted five of these image-taking flights, with the first flight on the final lay-down date and the last on the days after the final pick-up date. At the same time, RMA sent press releases to local Farm Service Agency (FSA) offices and newspapers in the raisin producers' area. The hope was that informing local growers about the project would discourage any of them who might have been considering laying raisins down after the final lay-down date.

Since the project was completed, insurance providers have requested infrared images from RMA to determine compliance with lay-down and pick-up regulations. The low number of claims made that year suggests that the program and the dissemination of information about it had a significant preemptive effect in deterring fraud and ensuring that proper growing practices were conducted.



**NDVI, Vigor Image:** A classified Normalized Difference Vegetative Index or NDVI. This is the ratio of the near infrared band and the red band. Classification helps the user to identify low and high vigor areas throughout the vineyard.



**False Color Infrared:** Digital image with the near infrared band substituted for the green band. The near infrared band indicates plant stress and level of vigor.

It is our belief that this technology will become a tool of great significance nationwide in monitoring crop conditions and compliance, and in influencing how growers conduct their growing practices.

### A Multitude of Benefits for Crop Monitoring

The results of this digital aerial infrared imaging pilot program indicate that the benefits of using this technology for crop monitoring are numerous, and can save the crop insurance program time, money, and labor. First, these images can be taken from a greater height than regular aerial photographs, which allows the photographer to capture more image area in fewer shots and in a shorter amount of time. These larger, more comprehensive images also lessen the chance of distortion that can occur when piecing together a large number of 35-millimeter shots.

Second, because the images are taken with a digital camera, they can be immediately and directly downloaded to a computer, where they can be geo-referenced, indexed, superimposed with a grid system for identification, and copied onto a CD-ROM or transmitted anywhere over the Internet in almost no time. This process marks a significant improvement when compared with the time and clarity of detail that is lost by manually scanning multiple 35-millimeter photographs into a computer and piecing them together.

Third, remote sensing imagery is able to cover and analyze a larger ground area than any human effort on the ground could handle, even if allowed far greater amounts of time. This indicates a significant savings in time, money, and labor costs, and allows our on-the-ground investigators to be focused more clearly—and more quickly—on the potential trouble spots identified by the images. As the vice president of the remote sensing company says, “This high-tech tool saves valuable time in monitoring agricultural fields. The quick turn-around time puts critical digital information in the hands of staff, so they can make time-sensitive decisions.”

Finally, along with the particular crop RMA is monitoring, these aerial photographs also capture infrared images of other farms in the surrounding area. This will allow insurance providers, FSA personnel, and interested RMA staff to request images of other crops in the area for which they may want to monitor conditions.

It is our belief that this technology will become a tool of great significance nationwide in monitoring crop conditions and compliance, and in influencing how growers conduct their growing practices (Table 1).

**Table 1. Comparison of Digital Infrared versus 35mm Imaging**

Digital Infrared	35mm
Fewer images, larger area covered per shot	Many photographs, smaller area covered per shot
Shows image of crops through reflected light wavelengths—easily differentiates between healthy and stressed crop conditions	Shows image of crops as they would be seen by the human eye—therefore difficult to monitor condition of crop
Digitized. No scanning necessary. Downloads immediately to computer. High clarity image.	Not digitized. Requires time to scan and reproduce. Scanning degrades image clarity.
Reveals condition of ground	Does not reveal condition of ground beneath crop

## Small Details, Big Savings: Data Warehousing and Mining

Over the years, RMA had collected large amounts of data that could be extremely useful in detecting fraudulent activity. However, until recently, these data were stored in different databases that used conflicting data models. This situation hindered investigators from comparing, or sometimes even finding, records that would have allowed them to uncover fraudulent activity more quickly and clearly.

The solution to this problem was clear and mandated by the Act: RMA needed to incorporate the latest advances in database technology to develop and create a single, centralized model—or “warehouse”—of all the data that were dispersed across the agency. Then, once this data warehouse was established, RMA investigators could “mine” all existing crop insurance data records for important information on specific cases, as well as uncover larger patterns indicating structured schemes for fraud, allowing us to investigate preemptively.

In the 2001 annual report, we discussed our plans to do just that by developing a data warehouse system with the Center for Agribusiness Excellence (CAE), a partnership between Tarleton State University and Planning Systems Incorporated. In 2002, we are proud to report the results of our continuing partnership with CAE. The data warehouse we have developed is now fully operational for analyses. Data mining activities are currently taking place from the warehouse database, and the findings of such mining activities are saving RMA and American taxpayers a significant amount of money by preventing cases of fraud, abuse, and loss before they occur. In fact, statistics show that in the first 2 years of the project, we have saved the crop insurance program more than \$160 million in cost avoidance of indemnity payments for questionable insurance claims. We expect such savings to

continue and perhaps increase as we move forward with the program.

### A Tour of the Data Warehouse

The RMA/CAE data warehouse is unique. It is the only crop insurance data warehouse in existence to house all its records in one place and on a single, standardized platform. It now contains more than 800 million records, including all FCIC Reinsurance Year policyholder data from 1991 to today, 30 years of weather data, annual National Agricultural Statistics Service (NASS) data from 1950 onward, as well as FCIC actuarial data. It is updated monthly and serves as a powerful statistical information tool for compliance investigators.

The data warehouse has many uses and advantages. For instance, over time, insurance policies are frequently changed, cancelled, or updated, but the data warehouse does not overwrite or erase the old policies already in the system. Instead, the system records the changes while maintaining copies of all previous policy records in their original state. Thus, RMA compliance investigators can examine the policies for changes over time, and they can uncover older policy information in a few minutes that might be unrecoverable anywhere else.

Moreover, the CAE warehouse provides secure, high-speed, broadband access for all FCIC/RMA compliance investigators. This technology allows investigators fast, easy access to data for analysis and supports ongoing information and reviews. Getting this information more quickly means the investigators save valuable time and can act more quickly—and potentially prevent improper claim payments before they occur.

Finally, and perhaps most importantly, this single physical model for storing data allows RMA and CAE to develop data-mining tools that can seamlessly scan the entire database to uncover

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As previously mentioned, the CAE data warehouse allows RMA to use robust data-mining tools that can scan and analyze data across many years to uncover patterns of fraud, waste, and/or abuse.

patterns of behavior and identify any irregularities in these patterns that might indicate crop insurance fraud or abuse. Before this standardized model was created, this kind of automated, multi-year analysis was nearly impossible to produce.

### Uncovering Patterns of Fraud With Data Mining

As previously mentioned, the CAE data warehouse allows RMA to use robust data-mining tools that can scan and analyze data across many years to uncover patterns of fraud, waste, and/or abuse. These patterns are uncovered through a cyclical analysis method, wherein:

- a hypothesis is formed of a possible scheme to obtain suspicious crop insurance indemnity payments;
- queries are made of the data warehouse to test the hypothesis;
- data-mining and/or statistical analyses are run to test the hypothesis;
- results of the data mining are reviewed;
- hypotheses are modified based on the results; and
- the cycle is continued until a pattern emerges.

Some of the patterns investigators have uncovered using this method have revealed valuable information to RMA as we continue to refine our efforts to prevent fraud, waste, and abuse. For instance, some recent data-mining studies have discovered patterns that reveal:

- probable fraud exists in reporting excessive harvested production, which can ultimately result in inflated loss claims;
- certain producers file claims year after year that far exceed their premiums—a statistically abnormal occurrence that often indicates fraud;

- relationships among producers, agents, and adjusters that create fraudulent claims;
- many insurance providers misunderstand (or even possibly deliberately misuse) the circumstances under which multiple policies are allowed;
- unscrupulous producers move production between units (yield switching) to create or inflate losses; and
- a clear association between planting dates and the probable filing of a claim, indicating a problem either in the planting date or in the reporting.

When suspicious patterns are uncovered, RMA has solid, statistical information that helps us quickly focus our efforts on the most problematic areas in the Federal crop insurance system so they can be investigated and corrected. This ability to find “big picture” problems clearly shows the value of the data-mining project.

But data mining brings many other valuable benefits as well, because it not only gives us “big picture” scenarios that we can learn from, but also allows us to focus in on the “small picture” as well. Using an established pattern, the CAE can repeatedly mine data over time to uncover specific individual producers whose data reveals behavior corresponding to a pattern that usually indicates abuse. For instance, one pattern has been developed that can identify specific producers whose loss patterns are highly unusual (i.e., a likelihood of 1 in 10,000).

Another excellent example of how targeted data-mining techniques are used to great effect is the RMA spot-check list. Each year, RMA develops a list of agricultural producers whose operations warrant an on-site inspection during the growing season. After RMA Compliance Office reviews the list,

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it is passed on to FSA, so its staff can conduct field inspections.

Using data-mining techniques, the CAE this year produced an initial list of 2,916 producers whose patterns appeared to match one of seven possible scenarios:

- Triplets —Agents, adjusters, and producers linked in irregular behavior that suggests collusion
- Frequent Filers —Producers with repeated yearly indemnities higher than their insurance premiums
- Prevented Planting Frequent Filer —Producers who for 8 years in a row receive most of their income from prevented planting indemnity payments
- Yield Switchers —Producers who appear to have claimed the production amounts for multiple fields as only one field's yield, thereby creating an artificial loss on their other field(s)
- Rare Big Losses —Anomalous producers identified as having unusual consecutive multi-year losses
- Under-Reported Harvested Production —Producers who have excessive harvested losses over many years relative to their peers
- High Yield Units —Producers who have very large approved yields relative to their peers and large multi-year claims

RMA Regional Compliance Offices (RCOs) then reviewed the list of names and felt that at least 1,837 of the cases identified required a spot-check by FSA representatives. They also added another 640 producers based on their observations out in the field.

Statistics show a substantial reduction in indemnities paid to producers on the spot-check list this year, decreasing from more than \$230 million in 2001

to just over \$120 million in 2002 (Fig. 1). From these results (\$110 million in reduced indemnities), it is evident that producers who knew they were on the list chose to file far fewer claims for much less indemnity than ever before.

The impact of the spot-check list is demonstrated by comparing the indemnity reduction for the producers on the spot-check list against the overall 2002 indemnities trend for all producers in the United States (Fig. 2). Crop insurance indemnities nationwide *increased* by \$1 billion in 2002. Compare this figure with the sharp drop in indemnities claimed by the spot-check producers over the same period. Clearly, the spot-check list shows how invaluable a tool data mining and warehousing is for preventing fraud and erroneous indemnity payments.

It should be noted that the reduction in indemnity claims for the spot-check group is completely inconsistent with their prior years' indemnity trend. Following their placement on the spot-check list some of the producers in the spot-check group bought less insurance, and some (very few) dropped insurance entirely, but most simply changed their behavior regarding loss claims. Moreover, while we are only reflecting first-year behavior changes, our studies indicate this behavior change continues into subsequent years. It should also be pointed out that the rise in claims saving appears to be correlated with the size of the spot-check group. However, we would note that data mining uncovers patterns consistent with the potential for fraud and abuse. Currently, the spot-check list includes producers whose patterns suggest a high degree of likelihood that they are engaged in fraudulent behavior. While we would expect overall savings to increase as the size of the spot-check list increases, the average savings would likely decline as producers exhibiting patterns less consistent with fraud and abuse are included.

More program cost savings through the use of these innovative technological tools will be reported in the future.

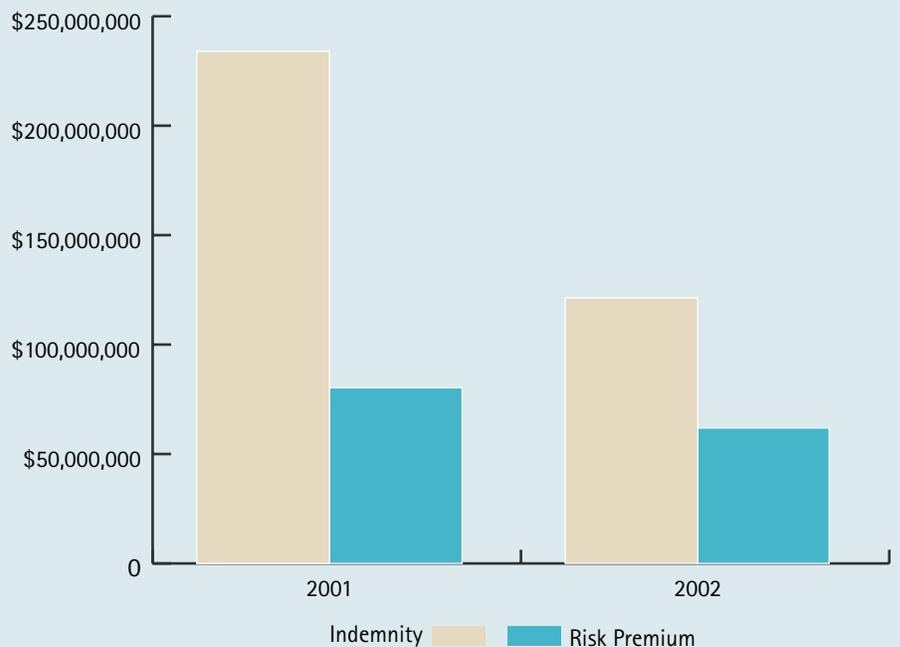
The data-mining project cost under \$8 million from December 2000 to December 2002. But, as mentioned earlier, in only the first two years of the project, the spot-check list alone has saved the crop insurance program more than \$160 million in cost avoidance through lower claims and indemnity payments. This means that for every dollar RMA has spent on the spot-check data mining, we have saved more than \$20 in program costs. Further, besides the spot-check list, the CAE is working on several dozen other data-mining products that have produced savings we are not yet able to estimate. More program cost savings through the use of these innovative technological tools will be reported in the future.

### What's Ahead for Data Mining

The results of the first 2 years of this project have encouraged us to move forward, developing more investigative data-mining scenarios. The following are some of the projects CAE is currently working on, which we plan to use as soon as possible:

- developing a “scoring system” so RCOs can prioritize entities for investigation;
- identifying individual adjusters who work all or almost all of a particular agent’s claims and comparing these adjusters’ claims and actions against those of their peers;
- identifying insurance providers with overpaid claims and providing an overall account of the overpaid indemnities paid each year;

Figure 1. Spot-Check List Indemnities, 2001–2002

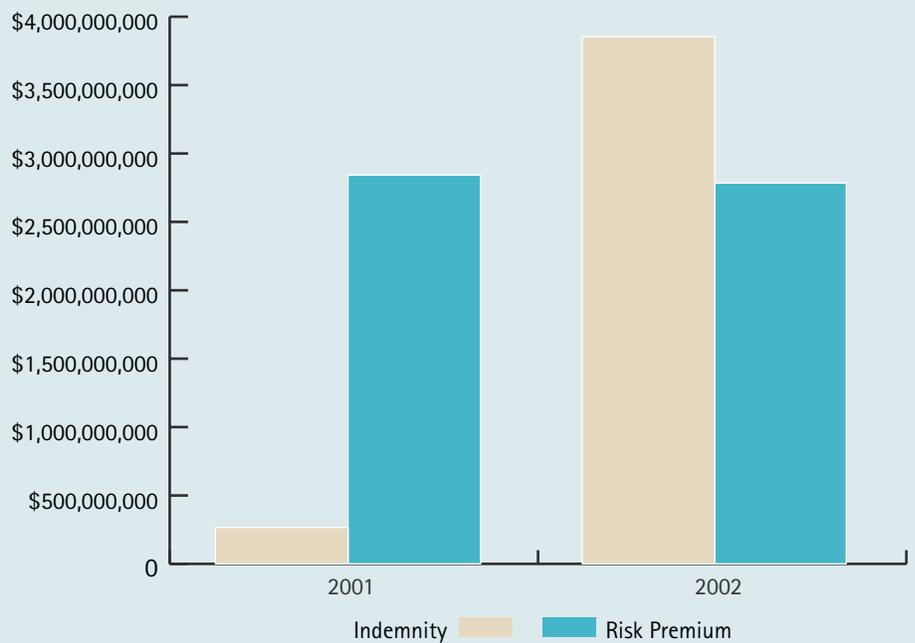


Source: USDA/Risk Management Agency 2002.

- discovering “lost producers”—those who were previously on the spot-check list, but have started insuring under some other Social Security number or tax ID number; and
- developing a simple, user-friendly interface that allows executive-level users to access and identify necessary information easily.

These projects merely touch the surface of the research and development the CAE has planned for 2003–2004. As the CAE gains more insight into fraud, waste, and abuse, it will continue to develop and introduce additional products to assist with program integrity activities by RMA. We are confident that significant savings will continue to result.

Figure 2. All Producer Indemnities, 2001–2002



Source: USDA/Risk Management Agency 2002.

# New Tools

Combating insurance fraud is no easy task. It is an enormously complex effort that involves a team of many people who must be able to work together in a clear, organized, efficient way to achieve the big goal.

RMA works very closely with our partners in what we call our “anti-fraud alliance”—FSA and the insurance providers in conjunction with OIG. Working together, our three allied organizations create a network of connections extending from the smallest farm in the most remote area all the way to the Nation’s capital. By working together, our alliance can prevent fraud, waste, and abuse more effectively and efficiently than any one of us could ever do alone. RMA values our ongoing partnership with these important partners and is dedicated to working with them to create tools that will make our network of communication run smoothly and allow each of us to conduct our particular roles in the anti-fraud effort with clarity and ease. This section discusses the new, interactive, distance-learning tools we have developed to achieve these goals.

## Training Goes High-Tech

Combating insurance fraud is a complex effort that involves a team of many people who must be able to work together in a clear, organized, efficient way to ensure and improve the integrity

of the crop insurance program. And like any good team, we needed good, solid training.

RMA wanted to develop such a training program game plan for our staff and our alliance partners, so that everyone involved in the compliance process would understand what the overall goal was, how each team member’s work fit into that goal, and how to conduct that work in the most effective way possible. However, with RMA offices and the offices of our collaborative partners spread out across the country, we needed to come up with a simple, cost-effective method to train everyone involved, and make sure they all received the same information in the same way. To accomplish this, we turned to the latest technology and created electronic, interactive, distance-learning courses.

In 2001, RMA began developing a four-part training program to instruct RMA staff and our alliance partners about fraud practices and how to prevent them. In the first year, we conducted classroom training modules on loss adjustment and compliance and oversight. This year, we focused on the



Antifraud training: The First Line of Defense

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In December 2002, RMA and National Crop Insurance Services (NCIS) joined forces to conduct an anti-fraud "train-the-trainer" workshop.

second half of the training program, producing two training modules that will allow us to move out of a physical classroom setting and into the electronic classroom. By doing so, we garner significant savings over traditional classroom training methods. Plus, we make it possible for anyone to take the training at any time and, with the help of interactive technology, to teach themselves effective anti-fraud practices.

### Anti-Fraud Training

The first of these two modules is our anti-fraud training, which RMA developed with Business Television Services. Intended for RMA, FSA, and insurance provider staff, the program is designed for a variety of training possibilities: it can be administered via an interactive CD-ROM, through a web-based medium, or even in a traditional classroom setting. The program focuses on each member of the alliance's responsibility and the skills needed to enhance the early detection of potential fraud, waste, or abuse.

Entitled *The First Line of Defense*, the program explains the important roles that RMA, State, and County FSA Offices and the insurance providers play in investigating fraud, and walks the trainee through practical skills, including how to identify fraud indicators and the individual steps involved in developing a fraud investigation. The course also includes interactive quizzes and a full video case study, where each step of the entire investigative process is acted out and explained in a series of short films, so that trainees can see the entire process in action from start to finish.

*The First Line of Defense* anti-fraud training program is already being used by insurance providers. In December 2002, RMA and National Crop Insurance Services (NCIS) joined forces to conduct an anti-fraud "train-the-trainer" workshop. Crop insurance industry representatives were invited to attend. The response was so good that the one-day training workshop had to be held twice to accommodate all of the registrants. More than 35 insurance provider representatives attended and were trained how to use the program to train their companies' employees. Many of these companies have indicated that they will incorporate the material into their 2003 annual loss-adjustment training.

*The First Line of Defense* will also be incorporated into the online management learning system currently being developed by RMA, so that RMA and FSA employees can access and use it through the Web.

### Crop Monitoring Training

The second module being developed is the Crop Monitoring Training, which RMA developed with mGen Incorporated. Designed as an interactive, web-based course, the program is intended to help the more than 3,000 FSA County and State office employees and district directors to better familiarize themselves with the information and procedures included in the 4-RM Loss Adjustment Manual. (The 4-RM Manual contains the specific procedural requirements to be followed by each partner in the anti-fraud alliance.) We rely on FSA employees as our eyes and ears in the field. The intent of this training is to give them blow-by-blow, descriptive information so they can more easily and efficiently file reports to us.

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## RMA is currently completing beta testing of the Crop Monitoring Training.

The course walks trainees through key sections of the Loss Adjustment Manual that relate to crop monitoring. By using animation, photos, visuals, as well as interactive quizzes and calculations throughout each section, the manual's somewhat complex information becomes engaging and easy to understand. Such interactivity enhances the educational experience by capturing learners' attention throughout the modules rather than having them just read text on a page. The end result is a training experience that does not suffer in quality, content, or design, while providing savings to the taxpayer, and

availability to those who, due to budget constraints, would not have been able to take the training otherwise.

RMA is currently completing beta testing of the Crop Monitoring Training. We are currently coordinating rollout plans with FSA for the coming year and have sent out notices to FSA State and county offices about the training so that they can plan ahead which of their staff will take the course.

# Successful Collaboration

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RMA relies not only on the work of our own staff, but also on our partnerships with FSA and the insurance providers. We also collaborate with many other partners as well, including the OIG and others.

## Working Together To Detect, Deter, and Prevent Fraud

As indicated previously, in working to eliminate fraud, waste, and abuse, RMA relies not only on the work of our own staff, but also on our partnerships with FSA and the insurance providers. We also collaborate with many other partners including the OIG and others. This year, RMA has continued to develop and refine collaborative efforts among these partner agencies and ourselves because we understand that the stronger our collaborative partnerships are, the stronger the integrity of the crop insurance program will be. In this section of the report, we discuss our many collaborative efforts and their resulting successes.

### Good Collaboration Gets Big Results: The Huber Case

On November 27, 2002, a significant victory was gained in RMA's efforts to combat fraud. On that day, a Federal jury found Wimbledon, North Dakota, farmer and crop insurance agent Duane Huber guilty of defrauding the United States of approximately \$14 million in farm program benefits.

The case proved that from 1994 through 1999, Huber used an elaborate racketeering scheme to defraud Federal farm programs. It was the largest farm fraud conviction in North Dakota's history, and the Nation's eighth-largest judgment in a farm fraud case since 1995. And it could have never come to justice without the collaborative efforts of RMA, FSA, and the OIG.

### Building the Case

It all began with a standard, randomly selected end-of-the-year review list from FSA national office. One of Duane Huber's farming operations, Huber Farms General Partnership, was selected for an audit. At the same time, FSA

county committees had submitted their list of audits, which included a producer named Doug Bergan. Individual FSA teams began reviewing both operations, but the Bergan team soon noticed Duane Huber's name was showing up frequently in the Bergan file. Knowing Huber was also under review, they contacted that investigative team to compare notes, and it soon became evident from the records that the two operations had some questionable connections. This discovery prompted more questions and further examination, during which FSA came across a number of other farms run under the names of other individuals that also seemed to connect back to Huber in a similar fashion.

At this point, FSA felt it had enough material to imply potential criminal fraud and referred the case to USDA's OIG for investigation (Appendix). The OIG interviewed some of these suspicious operators and during these interviews, some of them signed statements admitting that they had signed on as operators of sham farms that were actually operated by Huber. The OIG then asked RMA to work with them on the case, as it was likely to involve crop insurance fraud.

RMA reviewed all FSA materials and the statements taken by the OIG and then conducted further interviews of those involved to prove that crop insurance fraud had taken place. We provided valuable data to the investigators, including records on all claims paid to those involved from 1994 to 1999, the interest claimed for each operation, and the premium subsidies. All of this resulted in a total of approximately \$3.5 million in crop insurance fraud.

It was eventually uncovered that Huber had set up five sham farm operations and had paid others to place the operations under their names so that he could acquire excessive crop insurance and Federal farm program payments.

Each of our collaborative efforts is ongoing, and we continue to refine and develop them as we work together with our partners to detect, deter, and prevent fraud.



Huber then helped the sham operators to prepare and submit false claim forms, false crop production worksheets, and supporting documents, and he helped them apply for farm program and crop insurance benefits for which they were ineligible. The payments attained from these false claims were then channeled back to Huber.

After building this case, the prosecuting team negotiated a settlement with Huber. RMA staff worked with the prosecuting team to help negotiate this settlement. Huber agreed to the settlement, but then reneged and chose to go to trial instead.

As the case moved toward trial, RMA assisted with witnesses, prepared a report for the U.S. Attorney's office, and helped them prepare and strategize for the trial. RMA staff involved in investigating the case also served as witnesses for the prosecution before the grand jury and testified during the criminal trial.

### A Groundbreaking Decision

A Federal jury convicted Huber of all 19 criminal charges brought against him, including money laundering, conspiracy to defraud Federal agencies, false statements, and filing false tax returns in connection with Federal farm and crop insurance programs administered by the USDA. The case was scheduled for sentencing, which is expected to include prison time.

The case sends a clear message to the agricultural community and to the American public that fraud will not be tolerated in the agricultural sector.

### The Benefits of Partnership: Collaborative Approaches

Each of our collaborative efforts is ongoing, and we continue to refine and develop them as we work together

with our partners to detect, deter, and prevent fraud. In this section, we discuss many collaborative efforts.

### Working with FSA

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

- spot-check referrals;
- 4-RM referrals; and
- consultation with State FSA committees.

*Spot-Check Referrals.* As explained in the Data Mining section of this report (page 9) each year, RMA develops a spot-check list of producers with notable policy irregularities such as unusually high loss ratios, high frequency of losses, and severe losses. This spot-check list is compiled by data-mining technology, analysis, and past loss experience. RMA provides this list every April to the appropriate FSA County Offices, whose staff helps us review these cases for potential fraud, waste, and/or abuse by performing inspections (spot-checks) of the crops on the list. The results of FSA County Offices' findings are then referred back to RMA, and we then provide these results to the appropriate insurance providers for those operations. At the same time, RMA sends notification by letter to all producers who are on the list.

In 2002, RMA provided a spot-check list of more than 2,000 policies to FSA. After analyzing the list and conducting field inspections, FSA referred 1,135

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Thus for 2002 the spot-check list has resulted in about \$110 million in claims reductions.

policies back to RMA for further review (Appendix). The policies were then reviewed by RMA's RCOs and referred to insurance providers where appropriate. The insurance providers then reported their findings to RMA.

To date, 85 percent of these policy checks have been completely resolved. A small percentage of others are still in process and are expected to be resolved shortly. The results of the reviews completed so far reveal that since the spot-check list procedure was put in place in 2001, there has been no increase in the amount of indemnities paid to spot-check list producers. This is in sharp contrast to the statistics for all U.S. crop insurance policies, which saw a significant increase in indemnity claims. That the spot-check referral indemnities did not follow the same upward trend proves that the spot-check list is serving as a significant deterrent to those who might otherwise be filing false claims. Thus for 2002, the spot-check list has resulted in about \$110 million in claims reductions.

*Collaboration in Action: Spot-Check Uncovers Fraud in Martin County, Indiana.* A spot-check on a crop insurance policyholder in Martin County, Indiana, revealed that since 1996, the policyholder had been insuring corn and soybean acreage without having a legal claim to the crop. RMA Midwest RCO (MRCO) referred the spot-check results to the insurance provider, which consequently denied the policyholder's prevented planting claim for that year and cancelled his policy. This resulted in approximately \$40,000 in cost avoidance for that year. The MRCO also referred the case to RMA's sanctions officer, who requested civil monetary penalties totaling \$72,000 and a two-year disqualification from participating in the FCIC program. RMA is also pursuing administrative action to recover overpaid indemnities of approximately \$115,000 from previous years.

*4-RM Referrals.* Another proactive collaborative effort between RMA and FSA is our 4-RM referral process. In contrast to spot-check referrals, which originate through data mining and are sent from RMA to FSA for on-the-ground investigation, 4-RM referrals originate from the observations of FSA personnel in the field and are then sent to RMA for follow-up. When FSA County Office personnel observe problems that they believe may indicate fraud, waste, or abuse, they document their observations and refer this information to RMA RCOs. To help conduct this referral process as easily and smoothly as possible, RMA and FSA developed a procedural guide for staff to follow called FSA/RMA 4-RM Handbook.

In 2002, FSA County Offices submitted 202 4-RM referrals to RMA, representing 408 crop policies in 27 States. RMA's review of these referrals shows a 13-percent increase since last year in the number of referrals that have ultimately proved valid cases worthy of correction. This demonstrates that our collaborative efforts have assisted FSA County Office personnel in their work to identify and report potential problem cases accurately. The rate at which RMA, FSA, and insurance providers are reviewing and resolving these cases has also increased significantly, up 30 percent this year from last. As for final results, those cases that were validated and resolved allowed insurance providers to deny improper indemnity claims, resulting in over \$2 million in cost avoidance (Appendix). Some of the 2002 referrals still remain under review, and we expect this amount to increase as further cases are resolved.

*Collaboration in Action: 4-RM Referral Results in \$553,000 in Savings.* The Ben Hill and Irwin County FSA offices in Georgia reported suspicion of producers engaged in poor farming practices, including planting their crops past the allowable planting date, and

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All of these recommendations contributed to a greater dialogue about and understanding of RMA programs, regulations, and procedures, and several of the recommendations were adopted by RMA.

allowing excessive weeds and grass to grow in their crops. The allegations were investigated and substantiated by the Eastern Regional Compliance Office (ERCO.) As such, when the policyholders for these crops tried to file claims, they were denied payment, resulting in a cost avoidance of more than \$553,000.

*Consultation with State FSA Committees.* Last year, RMA and FSA created procedures outlining the consultation responsibilities of each agency. This year, those responsibilities have been put into action and have proven to be very useful.

RMA has provided FSA State Committees with information about the Federal Crop Insurance Corporation Act, the crop insurance cycle, RMA policies, program deadlines, and how to access actuarial tables. We have also explained the crop insurance filing schedule and its impact on the timing of RMA program changes. Additionally, we provided FSA offices with program fact sheets for each State as well as other important information.

RMA has in turn received information from FSA State offices and State committees about changes to T-yields, actuarial maps, special provision statements, additional types and practices, program dates, and proposed crop insurance program expansion. FSA has made extremely helpful recommendations to us about policy changes, date changes, program expansion, and loss adjustment. All of these recommendations contributed to a greater dialogue about and understanding of RMA programs, regulations, and procedures, and several of the recommendations were adopted by RMA.

Finally, to build efficiency and to ensure that timely and appropriate action is given to all consultation requests

and recommendations shared among our agencies, RMA has developed an electronic system to log and track all such requests.

*Collaboration in Action: RMA and FSA Find Solution to Setting T-Yields in West Virginia.* RMA and the West Virginia State FSA Committee consulted on the proposed 2003 wheat T-Yields in that State. Due to the wide disparity of geographic conditions in the State, the usual method of determining a T-Yield based on State and district yield averages would not work, because the State average yield was not representative of the less productive mountain counties. Many mountainous counties have very little wheat acreage and there is insufficient county data on which to base a T-Yield, whereas three productive counties have over half the wheat acreage in the State and district. In order to reflect appropriate T-Yields for the State's different regions, the NASS data needed to be looked at using a different approach. RMA and FSA proposed subtracting the data of the three major wheat counties from the State data and use the resulting average of 45 bushels as the T-Yield in all the other counties in the State.

### **Working With Insurance Providers**

Along with FSA, the insurance providers—those agents, 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. Insurance providers are directly involved with the policies and producers/policyholders at the local level, and can therefore give RMA and FSA valuable information about suspicious claims activity, review and investigate claims, and manage the claims adjustment process. Referrals from insurance providers help us maintain a proactive approach to combating potential fraud, since the majority of those referred for suspected fraud are investigated before the insurance providers pay claims to

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The SIB conducts complex investigations that involve multiple suspects and encompass wide geographic areas.

the producers. RMA will continue to work closely with insurance providers to detect, prevent, and correct fraudulent activity.

*Collaboration in Action: Tip From Insurance Provider Exposes Missing Records in Tattnall and Candler Counties, Georgia.* This case came to light through a tip provided by a local insurance provider to RMA ERCO. A review disclosed that an insured producer did not have acceptable records to verify his Actual Production History (APH) yields on his onion crop, which resulted in two incorrect APH yields. This discovery led RMA to revise his APH records, resulting in an overstated premium of approximately \$81,500 for the producer's operations in Tattnall County and an overstated premium of approximately \$23,000 in Candler County, as well as recovery of an overpaid indemnity of approximately \$100,000 (Appendix).

#### Other Important Collaborations

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

The SIB conducts complex investigations that involve multiple suspects and encompass wide geographic areas. Such investigations often require a rapid and highly skilled investigative response to obtain and preserve crucial evidence. As such, SIB investigators coordinate and lead rapid-response investigative teams composed of both SIB investigators and investigators from the RCOs. The SIB also helps RMA investigate and identify the reasons why abuse occurred.

Once a suspected case of fraud is substantiated, SIB and RCO investigators refer the case to the 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 the OIG during their criminal investigations, such as executing search warrants, conducting interviews, and providing courtroom testimony.

Once a case is substantiated by the SIB and the OIG and referred on for prosecution, it may eventually result in criminal, civil, or administrative action. The SIB and RCOs also on occasion make referrals to State or local prosecutors for insurance fraud. They can also refer cases for Federal civil action to the U.S. Attorney's office through the OIG or the USDA's Office of General Counsel (OGC). Additionally, the Secretary of Agriculture, through the RMA Administrator, is authorized by the Act to disqualify producers, insurance agents, loss adjusters, insurance providers, and others who violate program rules.

This year, the SIB investigated nine major cases in which 492 crop insurance policies were reviewed. The total indemnity involved in these policies was over \$44 million. These reviews resulted in an operational cost avoidance of over \$5 million (Appendix).

Further, the SIB assisted the U.S. Attorney's Office in five cases involving either civil or criminal action, or both. In the civil cases, approximately \$578,000 in restitution and damages was ordered. In the criminal cases, approximately \$6 million in asset forfeiture and \$142,000 in restitution was ordered. These criminal and civil convictions were a significant part of the Huber case (see page 16), as they resulted in the suspension of Huber's insurance agent license.

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Finally, the investigation and further data-mining results also revealed that a number of producers in the area were being granted new producer status on their policies when in fact they were not new producers.

*Collaboration in Action: West Texas Investigation Leads to Big Savings.*

An ongoing SIB case in west Texas yielded significant savings in both 2001 and 2002 in denied claims, reduced indemnities, and overpayments. The case was originally referred to the SIB from FSA. It appeared that a number of producers in west Texas counties were involved in a number of poor farming practices, which resulted in excessive indemnity payments. One such practice involved producers planting crops in soil with deliberately reduced moisture content, thereby ensuring the crop would fail. Another practice involved planting and then deliberately failing as many as three or four crops on the same acreage in the same crop year for the purpose of collecting multiple insurance indemnities.

The SIB investigation focused on 13 producers who appeared to be engaged in these practices. The SIB's review of these producers revealed a trend of increasingly larger indemnities for all 13 in the years prior to the SIB's arrival in 2001. During this period, RMA issued two Manager's Bulletins, which reemphasized the crop policy rules so that producers clearly understood program requirements relating to the farming practices mentioned above. These clarifications resulted in more stringent reviews, which ultimately deterred the 13 producers from collecting the level of indemnities they had in previous years. In total, the investigation resulted in approximately \$243,000 in denied and reduced indemnities.

Further, SIB's investigation of one of the producers in the case led to questions about the legitimacy of that producer's operation, which ultimately led to another significant savings for the government. FSA conducted an End-Of-Year Payment Limitation Review of the operation that resulted in the discovery of \$195,000 in FSA program

payments to certain producers in the operation who were not entitled to them.

Finally, the investigation and further data-mining results also revealed that a number of producers in the area were being granted new producer status on their policies when in fact they were not new producers. This resulted in the overpayment of indemnities on many claims. Preliminary evidence indicated that two different insurance agents were giving new producer status to producers without making any attempt to discover if they were eligible. Producer complicity with the agents is suspected and is still being investigated.

*Office of Inspector General.* RMA collaborates with the OIG in many ways. As explained earlier, the SIB and the RCOs provide significant support to the OIG during the investigation and prosecution of criminal fraud cases. Another vehicle for OIG-RMA collaboration is the OIG Hotline.

The OIG Hotline is a toll-free, confidential phone service to which anyone may report conditions they believe reflect dishonest agricultural practices. OIG Hotline calls referred to RMA typically involve allegations of poor farming practices, shifting/hidden production, collusion among producers/agents/adjusters, and abuse of specific policy provisions such as prevented planting (payments issued when a grower is unable to plant due to adverse conditions). After an initial screening of these calls to decide whether they warrant an immediate criminal investigation, the OIG refers cases to RMA for the appropriate RCO to research, investigate, and take any corrective actions needed. Once the RCO's review has been completed, the results are sent to the OIG so they can be entered on its hotline tracking system.

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To ensure such quality control, Manual 14 also requires that RMA conduct a regular nationwide review of insurance providers' compliance with FCIC procedures.

During 2002, RMA reviewed over 1,000 policies associated with OIG Hotline referrals. RMA was able to resolve 70 percent of these policies. These investigations resulted in more than \$2 million in cost savings (Appendix).

*Collaboration in Action: OIG Hotline Tip Uncovers More Than \$300,000 in Overpaid Indemnities.* The OIG hotline received a complaint regarding producers in Vienna, Georgia. The complaint was forwarded to RMA. The investigation into the complaint raised a number of concerns that were potentially problematic, including many individuals involved in joint farming operations, and irrigation issues. Although the investigation found no evidence of fraud, it did uncover policy discrepancies due to adjuster errors, an insured listed as a new producer who was not, and incorrect acreage determinations. The discovery of these discrepancies resulted in approximately \$312,500 in overpaid indemnities and \$32,500 in underpaid premiums. RMA has pursued payment in this case.

*Manual 14.* Manual 14, entitled *Guidelines and Expectations for the Delivery of the Federal Crop Insurance Program*, is a document that sets the minimum requirements for training, quality-control review procedures, and performance standards for insurance providers issuing FCIC policies. The purpose of Manual 14 is to establish oversight and quality control of insurance providers' performance. To ensure such quality control, Manual 14 also requires that RMA conduct a regular nationwide review of insurance providers' compliance with FCIC procedures. This year, RMA Deputy Administrator for Compliance (DAC), Western RCO (WRCO) completed this review.

WRCO reviewed 17 insurance providers' 2000 Annual Summary reports, which were submitted to RMA in May 2001. The reports were

reviewed to determine whether all 17 insurance providers had reported the minimum number of reviews required. WRCO also reviewed two of these insurance providers' quality control procedures to evaluate whether they had provided adequate oversight to properly underwrite the FCIC program, to ensure that the program was being administered in accordance with the Standard Reinsurance Agreement, and to determine whether the providers had conducted required quality control reviews and agent /adjuster training.

The WRCO's reviews of these 17 reports and two insurance providers revealed that Manual 14 needed to be significantly revised to accomplish meaningful quality control reviews with measurable results. WRCO made eight recommendations to improve and simplify RMA's quality control procedures for insurance providers. Currently RMA is working with a contractor to incorporate these recommendations and revise Manual 14.

*Claims Audits.* This report has highlighted many examples of how RMA works with FSA to prevent cases of fraud before they occur. However, FSA also collaborates with us on the other end of the process, helping us discover and correct any improperly paid crop insurance claims that have already occurred.

These improperly paid claims are investigated by conducting a claims audit (Appendix). The claims audit process requires FSA County Offices to assist RMA and insurance providers in detecting and correcting improperly paid claims. FSA County Offices' involvement in this process is important as they can provide third-party verification of producer information that helps insurance providers and RMA to validate that crop insurance indemnities were properly paid. To facilitate this collaboration, RMA worked with FSA to develop procedural

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Congress recently expanded RMA's ability to impose administrative sanctions on producers who abuse the FCIC program.

guidelines for FSA County Offices to follow when assisting during the claims audit process.

Manual 14 requires insurance providers to follow certain requirements in order to administer FCIC policies. One such requirement is that providers must review a certain number of statistically selected indemnity claims each year, based on the number of active contracts they have. Insurance providers must also verify that each of these examined claims was accurately reported to the FCIC, and that all documented information provided by the policyholder, sales agent, and loss adjuster is true and accurate.

RMA monitors the providers' compliance with these requirements by conducting regular evaluations of the insurance providers' claim audits to assess their accuracy. In reviewing the claims audit results for 2000 and 2001, RMA found that although the number of audits conducted stayed the same, the number of improper errors found on these claims increased by 12 percent. This significant increase shows that the process is increasingly more effective, and providers are catching more potential problem situations more quickly and accurately than ever before.

The claims audit process for Crop Year (CY) 2002 is underway, and RMA anticipates that approximately 1,700 claim audits will have been conducted by its conclusion. The statistically selected claims were provided to the insurance providers, who are currently conducting the reviews. FSA producer information, maps, and other program information and documents are available to the insurance providers conducting audits upon request from FSA State Offices. Upon completion, the insurance providers' claims audit reviews will be submitted to RMA Compliance, which will then spot-check the claims audits.

*Sanctions Office.* Congress recently expanded RMA's ability to impose administrative sanctions on producers who abuse the FCIC program. Previously, the only penalties RMA was authorized to impose on producers were disqualification from participating in the crop insurance program and civil fines not to exceed \$10,000. Such penalties were not a significant deterrent, since even if disqualified from the insurance program, producers would still be eligible for other types of farm program benefits.

RMA's newly expanded sanctions capabilities provides the authority to disqualify and impose civil fines against not only fraudulent producers, but also against agents, loss adjusters, and insurance providers involved in fraudulent activities. Further, RMA has the authority to disqualify producers from not only the insurance program, but most other farm programs as well. RMA can now also impose a civil fine for each violation up to the total dollar amount the individual obtained as a result of the false or inaccurate information provided, or \$10,000, whichever is greater.

With this expanded responsibility came the need for more administrative oversight, so in 2001 RMA created the new position of Sanctions Officer. In 2002, a second sanctions position was added, due to the high number of sanctions referrals being received.

The Sanctions Office processes administrative sanctions referrals in conjunction with RMA's Appeals, Litigation, and Liaison Staff (A&L). It also collaborates with the USDA Office of the General Counsel (OGC) to develop evidence and documentation standards for sanctionable activities. Additionally, the Sanctions Office is responsible for working with RMA RCOs to ensure that their sanctions referrals meet these newly developed standards.

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Since this training and the expansion of RMA's sanction abilities, the number of sanction referrals has increased dramatically. From October 2000 through December 2001, only 27 sanction referrals were received from the field offices.

To assist the RCOs in understanding and implementing standards for sanctions referrals, this year the Sanctions Office, A&L, and a compliance investigator joined together to conduct a round of training sessions. In the training, compliance investigators were briefed on:

- how the current Act differs from the old Crop Insurance Act, and the expanded sanctions that had been created by the Act;
- sanctions-related regulatory issues;
- the elements needed to produce a successful sanctions referral;
- new tools available for proceeding against persons other than producers; and
- the essential facts the OGC needs to make a decision on whether to go forward with a sanctions case.

Participants were also walked through both a draft referral report and letter. The classes concluded with question-and-answer sessions, during which each training class helped suggest ways to further refine the training sessions and the referral report format.

Since this training and the expansion of RMA's sanction abilities, the number of sanction referrals has increased dramatically. From October 2000 through December 2001, only 27 sanction referrals were received from the field offices. In 2002, the Sanctions Office received and processed a total of 114 referrals, on cases involving producers, agents, adjusters, and insurance providers. Seventy of these 114 referred cases have resulted in formal referrals for consideration by the OGC.

A number of open sanction cases were resolved this year, including:

- a 1-year suspension for a producer, based on an OIG Hotline referral

from Texas that consequently led to the discovery of more than \$600,000 in fraud (see "Collaboration in Action" study below for more details);

- an indefinite suspension of producers discovered through an OIG investigation and criminal prosecution to have been involved in more than \$4 million in fraud;
- a disqualification imposed for 2 years after investigating a case initially reported by a concerned citizen in North Carolina; and
- an immediate suspension pending trial outcome in an OIG investigation and criminal indictment case in Minnesota.

*Collaboration in Action: Fraudulent Claims Result in Fines, Debarment.* After a joint investigation between the Southern RCO (SRCO) and the OIG, the SRCO referred a case in Texas to the RMA Sanctions Office, recommending debarment of an insured producer from participating in the Federal Crop Insurance and Noninsured Assistance programs. The insured and his wife, who was also his insurance agent, were involved in a conspiracy to defraud the government by concealing production of wheat, cotton, corn, and grain sorghum, or failing to plant a crop entirely. The insured consequently pled guilty in the Eastern District of Texas to one count of false, fictitious, and fraudulent claims and was ordered to pay restitution of approximately \$633,000. The producer was suspended from participating in any USDA programs in any manner for 1 year and was debarred from participating in the Federal Crop Insurance program for 6 years. A plea agreement with the agent/wife barred her from involvement in any USDA program until 2006.

The appearance of an RMA employee at a judicial proceeding provides significant support to an insurance provider in its efforts to uphold the integrity of the Federal Crop Insurance Program.

*Appeals, Litigation and Legal Liaison.* RMA Appeals, Litigation and Legal Liaison (A&L) staff continues its lead role in processing disqualification actions initiated against producers and others involved with the crop insurance program. A&L's responsibilities include:

- reviewing all incoming sanction recommendations for adequate evidence and completeness;
- preparing complaints;
- working with the OGC to secure legal sufficiency;
- briefing the RMA Administrator on all cases and securing required signatures;
- filing documents with the Administrative Law Judge;
- participating in all aspects of the appeals process when invoked, including providing litigation support and attending hearings; and
- ensuring all interested parties are notified when sanctions are imposed.

A&L also processes referrals and appeals for suspension and debarment under 7 Code of Federal Regulations (C.F.R.) § 3017, and performs similar functions as described above for that process (Table 2).

A&L is also responsible for responding to both requests for RMA employees to appear as witnesses in cases in which RMA is not a party to the lawsuit and for subpoenas for the production of documents. The appearance of an RMA employee at a judicial proceeding provides significant support to an insurance provider in its efforts to uphold the integrity of the Federal Crop Insurance Program. As such, these witness requests have increased significantly during the past few years. In calendar years 2001 and 2002, RMA received 62 witness requests; whereas, over the entire period of 1992 to 2000, we only received 28 requests in total. This increase in witness requests, both those made and those subsequently approved by RMA (Table 3), demonstrates our willingness to provide support to FCIC insurance providers when policies are challenged in arbitration or other legal proceedings.

*Disputes and Board of Contract Appeals Cases/7 C.F.R. 400.169(b).* Insurance providers are able to dispute RMA RCO final findings in accordance with 7 C.F.R. 400.169(b). In such cases, RMA Deputy Administrator for Compliance (DAC) makes a final administrative determination. This final determination

**Table 2. Sanctions processed by Appeals and Litigation, Jan. – Dec. 2002**

	Disqualification	Debarment	Suspensions	Civil Fine
Referred (open)	51	7	13	12
Completed (sanction imposed)	7	0	10	0
Declined (lack of legal sufficiency)	11	3	0	0
Appealed/ Withdrawn	1	0	0	0
Pending (w/OGC, Administrative Law Judge, or Department of Justice)	32	4	3	12

Using data-mining technology, RMA can analyze 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.

may then be appealed to the USDA Board of Contract Appeals (BCA) in accordance with 7 C.F.R. 24.

In 2002, DAC received 22 new requests for final administrative determinations under 7 C.F.R. 400.169(b), which, when added to previous requests still open, created a grand total of 35 requests open during 2002. The total dollar amount in dispute for these cases was \$6,489,187. DAC issued 11 final determinations that upheld the RCO final findings, representing an amount of \$2,182,569 (Appendix). We also issued four final determinations that were granted to the insurance providers, which totaled \$40,232. Decisions in the remaining cases are pending.

The insurance providers appealed five cases to BCA in 2002, bringing the total number of cases at BCA during 2002 to 13, and representing an amount of \$2,564,324. During 2002, five of these cases, covering \$976,356, were settled before actually going before the BCA. Decisions in the remaining cases are pending.

*Detection of Disparate Performance.* Using data-mining technology, RMA can analyze 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 system can identify insurance adjusters who consistently reported significantly lower production yields (both harvested and unharvested) than their peers, which resulted in indemnified claims paid that were 150 percent or greater than the average for that area—another condition that may indicate problematic activity.

**Table 3. Witness Request Activity, 2002**

Number of Requests	27
Requests Approved	11
Requests Denied	6
Requests Withdrawn	6
Requests Pending	4

In July 2002 the CAE produced a report of agents and 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 topmost adjusters who consistently reported lower production yield figures than their peers.

This report revealed 75 agents with a history of disparate performance worthy of further investigation, representing a total indemnity of almost \$36 million. It also identified 74 adjusters whose performance reflected unusual disparity, representing over \$10 million in indemnity.

In the coming years, RMA and CAE plan to expand our investigative efforts beyond minimum Act regulations for detection of disparate performance. Because agent/adjuster fraud is usually committed with the cooperation of the producer, a more detailed and comprehensive data-mining analyses is planned to detect disparate activity not only by agents and adjusters, but also by the producers with whom these agents and adjusters conduct business.

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In the coming years, RMA and CAE plan to expand our investigative efforts beyond minimum Act regulations for detection of disparate performance.

*Data Reconciliation.* The Act mandates that RMA work with FSA to annually compare all information both agencies have on record about producers who obtain FCIC crop coverage. If any discrepancies are found when comparing these records, we are required to reconcile them.

In 2002, RMA and FSA began implementing this requirement by testing a process for sharing and reconciling such data. The process began with RMA transmitting 1.3 million insured producer crop share and acreage records to FSA. FSA reviewed the records and then sent 1 million of them to FSA County Offices for closer inspection. FSA County Offices did so, flagged 480,991 possible discrepancies requiring further attention, and sent these to their FSA State Offices.

FSA State Offices then reviewed the flagged items, removed any that represented allowable difference, and consequently certified 284,991 records as potential data discrepancies.

RMA received these certified records and then screened the data further to focus reconciliation efforts on those records that revealed the highest level of potential financial discrepancy. By doing so, we produced a list of 16,154 significant potential discrepancies. Then, to conduct an initial test of the reconciliation process, we selected a random statistical sample of 160 differences from that larger group, and sent them to the appropriate insurance providers for review.

To date, 157 of the 160 records have been received back from the insurance providers. Of these 157 records, 24 percent of the differences were deemed valid and in need of reconciliation, while the remaining 76 percent were deemed allowable program differences.

# Successful Results

This year's review of work has produced impressive statistics that show the progress we have made in the fight against fraud.

## The Sum of Our Efforts: Increasing Savings, Decreasing Fraud

To make sure we always remain solidly on the path toward our mission to detect, deter, and prevent fraud, waste, and abuse, RMA conducts an annual review of the agency's work overall. This review helps us ensure the effectiveness of all our mandates, policies, and procedures and allows us to verify that FCIC programs are operated in compliance with all legal and regulatory requirements. This year's review of work has produced impressive statistics that show the progress we have made in the fight against fraud (Fig. 1 and Appendix).

In 2002, RMA:

- reviewed 30 percent more policies over 2001;
- reviewed 12,674 referred policies (Table 3), representing \$1.2 billion in crop insurance liability (Table 4)
- recovered or in the process of recovering approximately \$34 million in FCIC funds that should not have been paid out (Fig. 3); and
- saved more than \$125 million in cost avoidance in FCIC funds, most notably through our effective collaborative efforts with FSA, OIG, and insurance providers.

Table 3. Policies Under Review by Category, January– December 2002

2002 Spot check	1,135
2001 Spot Check	884
2002 Data Mining	199
2001 Data Mining	175
2002 FSA 4-RM	408
2001 FSA 4-RM	646
Data Reconciliation	160
FSA CDP 2000	2,303
FSA CDP 1999	88
Claims Audit/ Manual 14	119
OIG Hotline	1,163
OIG Audit	66
OIG Investigations	253
Insurance Provider initiated	334
Program Reviews	1,992
Complaints and Inquiries	2,749

Total number of policies= 12,674

CDP= Crop Disaster Payment

OIG= Office of the Inspector General

Source: USDA/Risk Management Agency 2002.

## In Conclusion: An Extraordinary Year

This was a significant year for RMA and our continuing efforts to fight waste, fraud, and abuse. As the numbers above show, in 2002 we worked harder, more efficiently, and with ever-increasing vigilance to detect, deter, and prevent fraud. The hard work has paid off—resulting in cutting-edge technological approaches, unique training tools, groundbreaking court decisions, and stronger, more effective collaborations with our fellow RMA divisions and our partners in the fight against fraud,

most especially with our allies—FSA and insurance providers. Moreover, it has paid off in millions of dollars of savings for the USDA, the U.S. Government, and the American taxpayer.

Going forward, RMA will continue our efforts to develop, refine, and innovate our work. We are energized by the many achievements we have accomplished so far, and we are ready to use this energy to help us imagine and create even more of the pioneering thinking, new approaches, and collaborative models that have reaped such great success for us in 2002.

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As the numbers above show, in 2002 we worked harder, more efficiently, and with ever-increasing vigilance to detect, deter, and prevent fraud.

Table 4. Liability Under Review by Category, January–December 2002

2002 Spot check	\$96,692,780
2001 Spot Check	\$60,034,796
2002 Data Mining	\$25,598,710
2001 Data Mining	\$41,099,600
2002 FSA 4–RM	\$18,403,410
2001 FSA 4–RM	\$45,253,714
Data Reconciliation	\$6,184,456
FSA CDP 2000	\$142,066,034
FSA CDP 1999	\$4,186,191
Claims Audit/Manual 14	\$26,834,349
OIG Hotline	\$146,406,646
OIG Audit	\$45,184,917
OIG Investigations	\$53,559,412
INS. Provider initiated	\$42,698,361
Program Reviews	\$103,499,616
Complaints and Inquiries	\$387,632,722

Total liability = 1.2 billion

CDP = Crop Disaster Payment

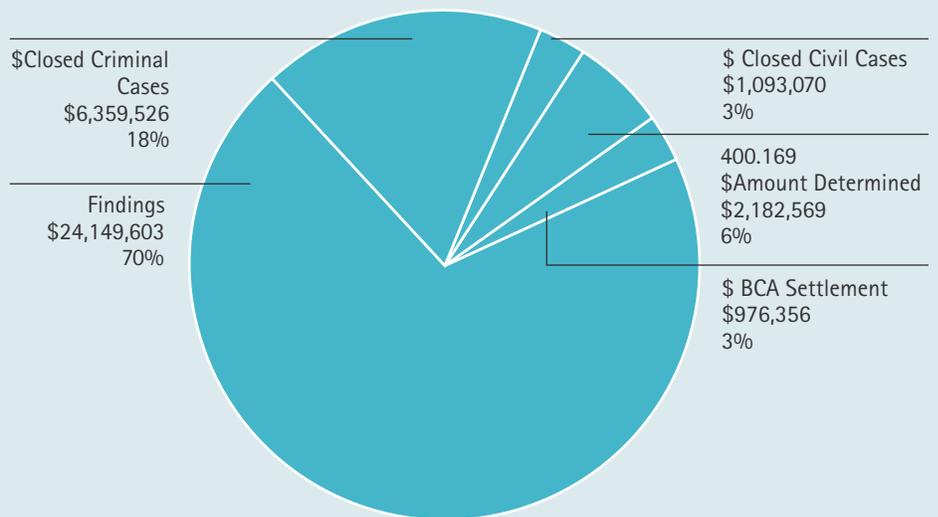
OIG = Office of the Inspector General

Source: USDA/Risk Management Agency/2002.

We are pleased with the progress we have made since our first annual report was published in 2001. And above all else, we are pleased that this progress allows us to accomplish our most important goal: to defend the integrity and safety of America's farmers. Our agricultural producers work hard every day to earn their living. We at RMA

appreciate and value that. So we also work hard every day, to make sure their important work and the industry they support will not be belittled or overshadowed by any of the negative connotations that fraud can create.

**Figure 3. Findings and Recoveries by Category, Jan-Dec. 2002**



Total Findings and Recoveries = \$34 million  
 BCA= Board of Contract Appeals  
 Source: USDA/Risk Management Agency/2002.

# Appendix

## OVERVIEW BY CASE SOURCE (Reporting Period January 1-December 31, 2002)

	2002 Spot Check	2001 Spot Check	2002 Data Mining	2001 Data Mining	2002 FSA 4-RM	2001 FSA 4-RM	Data Reconciliation	FSA CDP 2000	FSA CDP 1999	Claims Audit/ Manual 14	OIG Hotline	OIG Audit	OIG Investigations	INS Provider initiated	Program Reviews	Complaints and Inquiries	Total
<b>Total Policies</b>	1,135	884	199	175	408	646	160	2,303	88	119	1,163	66	253	334	1,992	2,749	12,674
<b>Total Premium</b>	\$9,369,589	\$6,953,086	\$2,271,881	\$6,952,737	\$2,345,321	\$6,902,167	\$794,983	\$13,405,298	\$537,533	\$1,933,594	\$17,080,656	\$5,723,442	\$11,161,332	\$6,849,678	\$10,345,068	\$41,019,814	\$143,646,179
<b>Total Liability</b>	\$96,692,780	\$60,034,796	\$25,598,710	\$41,099,600	\$18,403,410	\$45,253,714	\$6,184,456	\$142,066,034	\$4,186,191	\$26,834,349	\$146,406,646	\$45,184,917	\$53,559,412	\$42,698,361	\$103,499,616	\$387,632,722	\$1,245,335,714
<b>Total Indemnity</b>	\$11,343,609	\$8,067,855	\$3,775,902	\$6,821,439	\$1,622,041	\$12,529,984	\$2,223,451	\$24,016,425	\$1,825,011	\$6,049,590	\$28,998,534	\$31,759,071	\$34,430,383	\$8,340,013	\$27,398,196	\$100,768,121	\$309,969,625
<b>Closed Cases</b>	21	40	0	6	65	172	0	130	13	4	95	15	6	20	50	214	851
<b>Closed Policies</b>	963	681	0	110	203	307	0	1,975	85	88	774	25	17	29	298	642	6,197
<b>Closed Premium</b>	\$6,337,542	\$3,399,478	\$0	\$3,472,640	\$775,936	\$4,441,193	\$0	\$9,338,203	\$338,587	\$471,147	\$8,601,185	\$1,275,049	\$81,600	\$648,012	\$6,491,567	\$8,283,449	\$53,955,588
<b>Closed Liability</b>	\$74,473,645	\$30,235,340	\$0	\$28,557,678	\$4,458,232	\$29,659,561	\$0	\$108,587,866	\$3,116,912	\$6,169,533	\$75,665,229	\$13,493,401	\$692,919	\$5,940,700	\$73,422,337	\$68,765,531	\$523,238,884
<b>Closed Indemnity</b>	\$9,975,890	\$3,954,507	\$0	\$5,572,059	\$5,558,007	\$10,124,852	\$0	\$26,013,674	\$1,294,224	\$1,356,156	\$18,631,601	\$4,270,432	\$492,042	\$589,394	\$17,400,827	\$22,987,150	\$128,220,815
<b># Initial Findings</b>	2	2	0	0	16	4	0	75	1	1	7	6	17	2	34	66	233
<b>Initial Premium Discrepancy</b>	\$12,583	\$1,450	\$0	\$0	\$156,305	\$14,725	\$0	\$215,305	\$524	\$548	\$27,116	\$120,652	\$182,528	\$12,488	\$81,077	\$402,232	\$1,227,533
<b>Initial Indemnity Discrepancy</b>	\$40,942	\$37,124	\$0	\$0	\$441,340	\$74,461	\$0	\$847,830	\$36,307	\$8,802	\$16,784	\$412,273	\$6,556,069	\$460,338	\$685,693	\$2,356,862	\$11,974,825
<b># Final Findings</b>	6	4	0	0	5	15	0	241	21	0	14	15	0	4	32	67	424
<b>Final Premium Discrepancy</b>	\$24,850	\$662	\$0	\$0	\$1,213	\$190,028	\$0	\$246,877	\$50,016	\$0	\$79,288	\$43,257	\$0	\$12,152	\$69,972	\$379,736	\$1,098,051
<b>Final Indemnity Discrepancy</b>	\$0	\$38,049	\$0	\$0	\$39,487	\$398,367	\$0	\$4,381,634	\$988,623	\$0	\$448,771	\$393,879	\$0	\$14,305	\$1,062,932	\$2,083,147	\$9,849,194
<b># Cases OIG Investigation</b>	0	1	0	0	0	0	0	2	1	0	6	0	5	3	1	71	90
<b># Operation Recommendations</b>	0	0	0	0	0	1	0	28	1	0	0	0	0	1	9	18	58
<b>Operation Cost Avoidance</b>	\$233,424	\$386,914	\$0	\$31,829	\$660,102	\$2,887,309	\$0	\$1,505,581	\$65,268	\$0	\$2,337,314	\$0	\$4,513,633	\$362,078	\$388,191	\$2,861,532	\$16,233,175
<b>Operation Questioned Costs</b>	\$0	\$6,825	\$0	\$0	\$0	\$24,264	\$0	\$0	\$0	\$0	\$756,501	\$0	\$0	\$0	\$0	\$6,107,600	\$6,895,190
<b># Program Findings</b>	0	0	0	0	0	0	0	0	0	3	0	0	0	0	0	0	3
<b># Program Recommendations</b>	0	0	0	0	0	0	0	0	0	8	0	0	0	1	0	0	9
<b>Program Cost Avoidance</b>	\$0	\$0	\$0	\$0	\$0	\$1,162,481	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,162,481
<b>Program Questioned Costs</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b># Closed Criminal Cased</b>	0	0	0	0	0	0	0	0	0	0	0	0	6	0	0	0	6
<b>\$ Closed Criminal Cases</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$6,359,526	\$0	\$0	\$0	\$6,359,526
<b># Closed Civil Cases</b>	0	0	0	0	0	0	0	0	0	0	0	1	5	0	0	0	6
<b>\$ Closed Civil Cases</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$260,000	\$833,070	\$0	\$0	\$0	\$1,093,070
<b># 400.169 Determinations</b>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	11	11
<b>400.169 \$ Amount Determined</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,182,569	\$2,182,569
<b># BCA Decisions/ Settlements</b>	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	5	5
<b>\$ BCA Decision</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>\$ BCA Settlement</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$976,356	\$976,356