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Preparing for a Crop Insurance Audit

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When weather and market conditions take a turn for the worse, many farmers rely on the Federal Crop Insurance Program to mitigate their losses. In especially challenging years, the amounts on crop insurance claims can rise quickly. Producers should be aware that higher crop insurance claims will trigger the Risk Management Agency's (RMA) crop insurance "indemnity review," which begins at $200,000. A producer who has crop insurance claims over $200,000 will be subject to the mandated indemnity review, which producers refer to as a crop insurance "audit." In this bulletin, we provide information to help producers understand and prepare for the crop insurance "indemnity review" or audit procedure.

Understanding the RMA's audit requirement

What triggers an audit? The amount of a crop insurance claim automatically triggers an audit. The RMA requires an audit for any crop insurance claim that is $200,000 or more on at least one crop in one county.

What is the purpose of an audit? An audit is not an indication that the producer is under suspicion or has done anything wrong. Rather, the RMA states that the purpose of an audit is to ensure that an AIP has internal controls in place to properly establish liability and indemnities in accordance with Federal Crop Insurance Corporation procedures. To do so, an AIP must be able to document that valid and accurate production records exist for any crop insurance claim over $200,000. The goal is not to find something wrong, but to complete the claim according to the required procedures.

Who conducts the audit? The RMA requires the approved insurance provider (AIP) to conduct the audit. The AIP is the insurance company that is authorized to sell and service federal crop insurance. A producer will work directly with an adjuster assigned by the AIP to complete the audit process. The producer's individual insurance agent is not involved in the audit.

When and where does the audit occur? The audit must occur before payment of the claim, and a producer will not receive payment until the audit is complete. The typical practice is for the adjuster to come to the producer's farm to conduct the audit.

What does the audit require of a producer? A producer must show actual production history (APH) for all grain production for three years, including the current crop year. A producer who was subject to an audit in the previous year need only update that information with the current year's production.

Preparing for the audit

Advance preparation begins with constantly maintaining at least three years of APH records on a unit basis for all acreage, and organizing the records in accordance with acreage. Begin by setting up a recordkeeping system, then maintain appropriate documentation of production for each unit in the system.

1. **Organization of records.** An organized recordkeeping system will ensure that a producer can confirm all production history and will expedite an adjuster's review. These tips may be helpful:

    - Organization begins by accurately establishing acres before a claim or an audit occurs. A producer should work with the insurance agent to understand how unit structure should be set up, which then forms the basis for organizing production records. Use the FSA Form 578 acreage report and maps as the organizing structure.
    - Keep separate bushel records in the same way acreage is listed on the schedule of insurance. The acreage on the claim paperwork must match the acreage numbers, and records must be separate to ensure accurate production per unit. If separate bushels for each acreage are not documented, an adjuster must allocate the total production within a unit to the different types.
    - Sort the records for each year by insured unit, crop type (irrigated or non-irrigated) and practice (single or double crop production).
    - Label all records with FSA farm number and farm name, and be sure each record has the date noted.
    - Make extra copies of records that may fade over time, such as settlement sheets or weight tickets.

2. **Acceptable production documentation.** A producer must produce APH records that establish acres and production for each unit—how much the producer produced, sold, stored and fed to livestock. The more information a producer can provide about bushels produced, the better. The records can derive from many different sources. The following provides guidance on acceptable types of records.

    - *Settlement sheets or weight tickets.* Settlement sheets should indicate the production sold by crop year, as well as the buyer's name and address, producer's name, load or ticket number, crop type, gross, tare and net weights, date weighed, and field identification.

- *On-farm storage.* Use a third party representative to establish grain bin measurements. Maintain load records and scale tickets for all grain added to storage. Don't add a new crop to a bin until the previous year is properly measured.
- *Feed records.* A producer should specify production fed to livestock by indicating the crop type and unit number; type, number and weight of animals; feeding date; and if applicable, the number and weight of bales fed. A record ledger works well for this type of information.
- *Combine monitor records.* Maintain all combine monitor records with settlement sheets, and make sure the records show field locations and unit number, type of crop, harvest date, and quantity of harvest. A producer should ensure that the technology is calibrated according to the manufacturer's specifications.
- *Appraisals.* Keep copies of all signed appraisals by approved insurance providers.

After the audit

If the producer's records are sufficient and there is not a dispute over the claim amount, the claim will proceed through processing and payment at the conclusion of an audit. However, if the audit reveals a mistake in the claim, the adjuster will adjust the claim. If a producer disagrees with the adjuster's amount, the producer has the option of resolving the dispute by submitting the matter to arbitration, as required by the FCIC insurance policy. In this case, the adjuster may fill out a second claim sheet with the adjuster's claim amount and note that the amount differs from the producer's amount. The arbitration proceeding must occur within one-year of the adjuster's determination. The insurance policy also provides that either party may appeal an arbitration decision to federal court.

In some cases, the dispute may be due to a decision by the RMA rather than by the AIP. In those situations, a producer must appeal the RMA decision to the USDA's National Appeals Division within thirty days of the adverse decision.

Producers who have concerns about the outcome of a crop insurance audit should seek the advice of an agricultural attorney who is experienced in federal crop insurance.

Other Resources

Grant Ballard, "Filing a Crop Insurance Claim: An Overview for Producers," NATIONAL AGRICULTURAL LAW CENTER (April 18, 2012), https://nationalaglawcenter.org/wpcontent/uploads/assets/articles/ballard_article.pdf.

Jeremiah Buettner, "What every farmer needs to know about the crop insurance appraisal process," McAfee & Taft AgLINC (Feb. 1, 2012), https://www.mcafeetaft.com/what-every-farmer-needs-to-know-about-thecropinsuranceappraisalprocess/.

Steve Johnson, "Preparing for a Crop Insurance Review of APH Yields," IOWA STATE EXTENSION AND OUTREACH, Ag Decision Maker (Sept. 2012) https://www.extension.iastate.edu/agdm/articles/johnson/JohSept12.html.