

## **APPENDIX IV QUALITY ASSURANCE AND PROGRAM INTEGRITY**

### **SECTION I. GENERAL QUALITY CONTROL PLAN REPORTING REQUIREMENTS**

- (a) The Company shall provide the following quality control information with its annual Plan of Operations, in accordance with section IV(j) of Appendix II:
  - (1) A detailed description of the Company's Quality Control Plan that demonstrates that it meets or exceeds the following internal control elements:
    - (A) **Control Environment.** The control environment sets the tone of an organization, influencing the control consciousness of its people. Factors include the integrity; ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the Company's management.
    - (B) **Risk Assessment.** A precondition to risk assessment is establishment of objectives that shall be identified in the Quality Control plan. Risk assessment is the identification and analysis of relevant risks to achieve the stated objectives of the Company's Quality Control plan, and form the basis for determining how the Company will manage risk to the crop insurance program.
    - (C) **Control Activities.** The Company shall identify the way the policies and procedures that help ensure management directives are carried out. These controls help ensure that necessary actions are taken to address risks and limit non-compliance. They include a range of activities as diverse as approvals, authorizations, verification, reconciliation, reviews of operating performance, security of assets and segregation of duties. The Company plan will also include under Control Activities all the required reviews and obligations required by Appendix IV.
    - (D) **Information and Communication.** The Company's plan shall include how pertinent information is identified, captured and communicated in a form and timeframe that enables the Company and its affiliates to carry out their responsibilities. Include an explanation of standard reports containing operational, financial and compliance related information that make it possible to run and control the business.

- (E) Monitoring. The Company shall articulate the process used to monitor their Quality Control Plan. The process will assess the quality of the Company’s performance during each reinsurance year. This is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two. The process will also identify how quality control deficiencies are reported up through the chain of command and how the most serious matters are reported to the Company’s top management.
- (2) Quality control review information:
  - (A) The name and title of the official in charge of quality control;
  - (B) The types of reviews that will be conducted and the time period when such eligible crop insurance contracts will be selected for each review; and
  - (C) A complete description of the process to be followed by the reviewers for conducting each of the reviews.
- (b) Approval of the quality control information required in subsection (a) provided by the Company in its Plan of Operations is not a determination of the sufficiency of the Company’s quality controls. The sufficiency of the Company’s quality controls will be determined through compliance reviews that evaluate the effectiveness of the Quality Control Plan to ensure compliance with this Agreement.

## **SECTION II. TRAINING OF AGENTS, LOSS ADJUSTERS, AND OTHER PERSONNEL**

- (a) General Company Responsibilities
  - (1) The Company is responsible for establishing a “Training and Performance Evaluation Plan” (TPEP) and submitting the TPEP in the Company’s Plan of Operations, in accordance with Appendix II. Nothing in these requirements precludes the Company from providing training that exceeds these requirements.
  - (2) The TPEP shall:
    - (A) State the measurement standards acceptable for:
      - (i) Test proficiency; and
      - (ii) Satisfactory work performance.

- (B) Describe the internal control measures used to assign work and track, monitor and evaluate work performance against the measurement standards under subparagraph (a)(2)(A);
- (C) Describe the additional training and monitoring applicable to any individual who fails to meet the measurement standards specified in subparagraph (a)(2)(A);
- (D) Describe the training curriculum developed from subsections (b) and (c) for:
  - (i) New agents and new loss adjusters;
  - (ii) Experienced agents and experienced loss adjusters;
  - (iii) Agents and loss adjusters with deficient work performance to meet the standards established in subsection (a)(2)(A); and
  - (iv) Employees performing functions relating to sales and service, loss adjustment, and underwriting.
- (E) Describe the individual training for employees, agents, loss adjusters, or other affiliates with respect to specific crops, areas, and plans of insurance serviced by such individuals;
- (F) List the names of the individuals responsible for the training under the TPEP;
- (G) Provide a timeline for training all individuals identified in subsection (a)(2)(D)(i-iv) prior to the time the work is performed;
- (H) Describe the Company's plan for taking corrective, follow-up, or remedial actions when additional training does not correct the identified deficiencies.
- (I) Describe the procedure for the Company to maintain, retain, and provide to FCIC upon request:
  - (i) The tracking and evaluations of the historical performance of individuals identified in subsection (a)(2)(D); and
  - (ii) Records of all corrective, follow-up, or remedial actions taken with respect to any individual identified in subsection (a)(2)(D).

- (J) Contain a provision to conduct such other training that may be required by FCIC.
- (3) An annual Training and Performance Evaluation Report (TPER) shall be submitted with the Company's Plan of Operations, in accordance with Appendix II. The annual TPER shall provide:
- (A) An evaluation of each agent and loss adjuster. Such performance evaluation shall include a review of the loss ratios associated with such agent and loss adjuster and the number and type of any errors or omissions related to the compliance with obligations under the Agreement; and
  - (B) A report of any remedial actions taken by the Company to correct any error or omission or ensure compliance with the Agreement.
- (b) Sales Training Curriculum and Requirements
- (1) The sales training curriculum developed by the Company shall include those eligible crop insurance contracts the Company will be selling or servicing in the States identified in the Company's Plan of Operations, in accordance with Appendix II, and include at a minimum (for new agents and employees performing functions relating to sales or service, comprehensive information on all of the following, and for experienced agents and employees performing functions relating to sales or service, comprehensive information on updates or changes in the following), sufficient information to make such individuals proficient in:
- (A) The meaning of the terms and conditions of the Common Crop Insurance Policy, Basic Provisions and applicable Crop Provisions, published at 7 C.F.R. part 457, and the other available plans of insurance such as the Group Risk Plan published at 7 C.F.R. part 407, the revenue insurance plans, pilot programs, and other plans of insurance found on FCIC's website at [www.rma.usda.gov](http://www.rma.usda.gov), and any changes thereto;
  - (B) All applicable endorsements, Special Provisions and options and any changes thereto;
  - (C) The benefits and differences between the applicable plans of insurance specified in subparagraph (A) and their suitability to farming conditions and operations in the relevant area;
  - (D) The actuarial documents and their use;

- (E) The procedures applicable to the sales and service of eligible crop insurance contracts and any changes thereto;
  - (F) How to properly fill out and submit all applicable forms, documents, notices and reports;
  - (G) The requirements under applicable Federal civil rights statutes and methods to encourage program participation, including, but not limited to, participation of limited resource, women, minority, and underserved producers or in underserved areas;
  - (H) How to recognize anomalies in reported information and common indicators of misrepresentation, fraud, waste or abuse, the process to report such to the Company, and appropriate actions to be taken when anomalies or evidence of misrepresentation, fraud, waste or abuse exist;
  - (I) Compliance with applicable laws and regulations governing business conduct and ethics, including, but not limited to, rebating prohibitions, conflicts of interest, and controlled business, etc.; and
  - (J) Any other requirements as may be established by FCIC.
- (2) The Company shall ensure the following:
- (A) Any new agent or other individual who solicits or otherwise promotes crop insurance sales on behalf of the Company shall participate in a structured training program on all of the items listed in paragraph (1) before selling or servicing any eligible crop insurance contract.
  - (B) Any experienced agent shall annually complete structured training, on updates or changes specifically related to the items listed in paragraph (1), or that are identified by FCIC or the Company where errors or omissions were identified during quality control reviews or processing of the sales related documents.
  - (C) All new agents shall pass a basic competency test before they can sell or service an eligible crop insurance contract (all testing records, including test results, shall be maintained in accordance with section IV(g) of the Agreement). Basic competency tests shall specifically relate to the items listed in paragraph (1) and determine the proficiency of the individual who completed the required training. Additionally, the Company shall review the test results and document follow-up training for any deficiencies identified.

- (D) All agents shall retake and pass the basic competency test (in accordance with the standard established in subsection (a)(2)(A)(i)) every three years.
  - (E) If the agent was not employed by or did not contract with the Company in the previous year(s), the Company shall obtain, and make available upon request, documentation that the agent has passed the basic competency test within the past 3 years with another AIP.
  - (F) Proficiency is established by passing a written test meeting the standards of the TPEP, and maintaining satisfactory work performance during the respective crop year measured against the measurement standards established under subsection (a)(2)(A).
  - (G) In addition, the agent is considered to maintain satisfactory work performance if the results of reviews to respond to producer complaints, State Departments of Insurance or FCIC inquiries, or other quality control reviews identify no material errors.
- (c) Loss Adjustment Training Curriculum and Requirements
- (1) The loss adjustment training curriculum developed by the Company shall include those eligible crop insurance contracts which the Company will be selling or servicing in the States, identified by the Company in its Plan of Operations, in accordance with section V(b) of Appendix II, and include at a minimum (for new loss adjusters, or employees performing functions related to loss adjustment, all of the following and for experienced loss adjusters or employees performing functions related to loss adjustment, updates and changes), sufficient information to make such individuals proficient in:
    - (A) The items listed in subsections (b)(1)(A), (B), (C), (D), (F), (H), (I), and (J);
    - (B) The procedures applicable to loss adjustment of eligible crop insurance contracts and any changes thereto;
    - (C) How to properly verify the accuracy of the information contained on applicable forms, documents, notices and reports;
    - (D) How to properly determine the amount of production to be used for the purposes of determining losses;
    - (E) The requirements under applicable Federal civil rights statutes; and

- (F) Any other requirements as may be established by FCIC.
- (2) The Company shall ensure the following for loss adjusters or employees that adjust or sign any claim for any eligible crop insurance contract:
- (A) Any new loss adjuster shall participate in a structured training program on all of the items listed in paragraph (1) before signing any claim under an eligible crop insurance contract.
  - (B) Any experienced loss adjuster shall annually complete structured training on updates or changes specifically related to the areas listed in paragraph (1) or that are identified by FCIC or the Company as errors or omissions discovered during quality control reviews or processing of the loss related documents.
  - (C) All new loss adjusters shall pass a basic competency test (all testing records, including test results shall be maintained in accordance with section IV(g) of the Agreement) before signing any claim under an eligible crop insurance contract. Basic competency tests shall specifically relate to the areas listed in paragraph (1) and determine the proficiency of the individuals who completed the required training to accurately and correctly determine the amount of the loss and verify applicable information. Additionally, the Company shall review the test results and document follow-up training initiatives for any deficiency.
  - (D) All loss adjusters shall retake and pass the competency test every three years.
  - (E) If the loss adjuster was not employed by or did not contract with the Company in the previous year(s), the Company shall obtain, and make available upon request, documentation that the loss adjuster has passed the basic competency test within the past 3 years with another AIP.
  - (F) Proficiency is established by passing a written test meeting the standards of the TPEP, and maintaining satisfactory work performance during the respective crop year measured against the measurement standards established under subsection (a)(2)(A).
  - (G) In addition, the loss adjuster is considered to maintain satisfactory work performance if the results of reviews to respond to producer complaints, State Departments of Insurance or FCIC inquiries, or other quality control reviews identify no material errors.

(d) Minimum Hours of Training for Agents and Loss Adjusters

(1) In order to sell or service any eligible crop insurance contract:

- (A) A new agent or other applicable individuals (including any other individual who solicits or otherwise promotes crop insurance sales on behalf of the Company) must participate in a structured training program of at least 12 hours on all of the items listed in subsection (b)(1).
- (B) An experienced agent or other applicable individual must annually complete at least 3 hours of structured training on updates or changes specifically related to the items listed in subsection (b)(1), or that are identified by FCIC or the Company as deficient during the quality control reviews or processing of the sales related documents.
- (C) All agents and other applicable individuals must pass a basic competency test before they can sell or service an eligible crop insurance contract (all testing records, including test results, shall be maintained in accordance with section IV(g) of the Agreement) . Basic competency tests must specifically relate to the items listed in subsection (b)(1) and determine the proficiency of the individual who completed the required training to sell and service eligible crop insurance contracts. Additionally, the Company must review the test results and document follow-up training initiatives for any area of identified weakness on the part of any one or more individuals.
- (D) All agents and applicable individuals must retake and pass the basic competency test every three years.
- (E) If the agent or other applicable individual was not employed by or did not contract with the Company in previous years, the Company must obtain and have available upon request, documentation that the agent or other applicable individual has passed the basic competency test within the past 3 years with another AIP.

(2) In order to adjust or sign any claim for any eligible crop insurance contract:

- (A) A new loss adjuster or other applicable individual must participate in a structured training program of at least 60 hours on all of the items listed in subsection (c)(1) (including at least 24 hours of classroom training).



- (B) An experienced loss adjuster or other applicable individual must annually complete at least 16 hours of structured training (including at least 8 hours of classroom training), on updates or changes specifically related to the areas listed in subsections (c)(1) or that are identified by FCIC or the Company as deficient during the quality control reviews or processing of the sales related documents.
- (C) All loss adjusters and other applicable individuals must pass a basic competency test (all testing records, including test results, shall be maintained in accordance with section IV(g) of the Agreement). Basic competency tests must specifically relate to the areas listed in subsection (c)(1) and determine the proficiency of the individuals who completed the required training to accurately and correctly determine the amount of the loss and verify applicable information. Additionally, the Company must review the test results and document follow-up training initiatives for any area of identified weakness on the part of any one or more new loss adjusters or experienced loss adjusters.
- (D) All loss adjusters and other applicable individuals must retake and pass the competency test every three years.
- (E) The Company must obtain and have available upon request, documentation for any loss adjuster or other applicable individual that has passed the basic competency test within the past 3 years with another AIP to fulfill the requirements of this subsection.

### **SECTION III. QUALITY CONTROL GUIDELINES**

(a) General Company Responsibilities

The Company is responsible for:

- (1) Establishing a system of internal controls to meet all FCIC quality control guidelines included in this Appendix.
- (2) Conducting all quality control reviews using objective and unbiased individuals, who were not involved in the sales, supervision of sales, or establishment of the guarantee and did not participate in adjusting the loss for the eligible crop insurance contract reviewed. Quality control reviews shall be independent.
- (3) Conducting an inspection.

- (4) Implementing procedures for timely detection and reporting of suspected misrepresentation, fraud, waste, or abuse by policyholders, employees or affiliates relating to the Federal crop insurance program.
- (5) Notifying FCIC of suspected misrepresentation, fraud, waste or abuse in accordance with section IV of this Appendix and assisting FCIC in subsequent investigations.
- (6) Implementing administrative procedures to resolve and correct errors and omissions identified during an inspection or review.
- (7) Correcting any errors or omissions identified during any inspection or review.
- (8) Maintaining, in accordance with section IV(g) of the Agreement, all documentation related to any inspection or review required by this Appendix.
- (9) Establishing a process to respond to complaints by policyholders, the public, or state insurance departments, or referred to the Company by FCIC, documenting the complaint and actions taken by the Company in response, and providing such documentation to FCIC upon request.
- (10) Ensuring that companion eligible crop insurance contracts in force for other individuals sharing in the crop are serviced consistently. Any Company procedure for ensuring such consistency shall include a mechanism for seeking an interpretation of policy or procedure from FCIC in the event that the Company and another AIP disagree.
- (11) Taking such actions necessary to correct any non-compliance with the Agreement.
- (12) Preparing and providing to FCIC within 20 business days of completing each review an Electronic Quality Control Review Record (EQCRR) detailing the results of the review in accordance with Appendix III.
- (13) Retaining all documents, in accordance with section IV(g) of the Agreement, obtained in the course of the reviews conducted and all forms completed by the quality control reviewer and providing such documents to FCIC upon request. All review documentation is considered part of the policyholder file.
- (14) Submit an annual Quality Control Report, signed and certified by Company's Chief Financial Officer, or individual with similar responsibilities, by April 30 following the reinsurance year, describing the overall results of the Company's reviews and any corrective actions taken,

and confirming the Company has performed sufficient reviews to provide a reasonable assurance that the requirements of the Agreement have been met.

(b) Review Requirements

The Company is required to identify and conduct the following reviews on a reinsurance-year basis unless otherwise specified herein and report the results to FCIC. A review that meets the criteria for more than one review requirement will count toward all such review requirements.

- (1) **Data Mining Reviews.** The Company shall conduct an inspection of eligible crop insurance contracts for which anomalies have been identified by FCIC, not to exceed three percent of eligible crop insurance contracts for the reinsurance year, unless FCIC provides notice that additional inspections are required to address specific program integrity concerns. These reviews will include, but are not limited to, eligible crop insurance contracts with anomalous Actual Production History certifications or identified misapplication of policy or FCIC procedures. FCIC will meet with AIPs annually to consult on the types and scope of data mining reviews to be conducted.
- (2) **Individual Policy Reviews.** The Company shall conduct inspections or monitoring programs of eligible crop insurance contracts, entities, agents, loss adjusters, or affiliates identified by FCIC as may be determined necessary by FCIC to protect program integrity.
- (3) **Operational Reviews.** These reviews are intended to ensure that the Company's internal controls are in place, operational, and provide reasonable assurance that the liability and indemnities are properly established in accordance with FCIC procedures.
  - (A) **Conflict of Interest Reviews:** In accordance with section VI of Appendix I, the Company shall, prior to the payment of a claim, conduct an inspection for all eligible crop insurance contracts for which a conflict of interest has been disclosed or otherwise been identified as follows:
    - (i) A conflict of interest review is mandatory when the individual making a disclosure:
      - (I) Has a share in a crop insured under any eligible crop insurance contract insured by the Company, or
      - (II) Has a relative with a substantial beneficial interest in any insurance contract insured by the Company.

- (ii) An AIP discretionary review may be conducted on any disclosure category not included in subparagraph (i) above, as determined by the Company.
- (B) Consecutive Loss Adjuster Reviews. The Company shall conduct an inspection of at least:
  - (i) 15 percent of the eligible crop insurance contracts where the same adjuster has been involved in three consecutive claim years for their Company; and
  - (ii) 15 percent of any additional eligible crop insurance contracts, identified by FCIC, where the same adjuster has been involved in three consecutive claim years between multiple AIPs.
- (C) \$100,000 Indemnity Reviews. The Company shall identify and conduct an inspection on any eligible crop insurance contract with an indemnity of \$100,000 or more, where:
  - (i) For prevented planting losses:
    - (I) Any single indemnity exceeding \$100,000; and
    - (II) Any aggregate indemnity, including claims that were closed, and subsequent claims exceeding \$100,000 .
  - (ii) For all other losses:
    - (I) Any single indemnity exceeding \$100,000; and
    - (II) Any aggregate indemnity, including claims that were closed, and subsequent claims exceeding \$100,000.
- (E) Biotechnology Endorsement (BE) Reviews.
  - (i) The Company shall perform a spot check on the following:
    - (I) A random selection of two and one-half percent of all eligible crop insurance contracts qualifying for the BE premium rate reduction that have a total liability for all insured corn under the eligible crop insurance contract of less than \$500,000;

- (II) A random selection of five percent of all eligible crop insurance contracts qualifying for the BE premium rate reduction that have a total liability for all insured corn under the eligible crop insurance contract of \$500,000 or more; and
  - (III) All eligible crop insurance contracts qualifying for the BE premium rate reduction that have indemnities in excess of \$100,000.
  - (IV) All eligible crop insurance contracts qualifying for the BE premium rate reduction where the Company or RMA has reason to believe the insured is not in compliance with the BE terms and conditions. Reviews under this requirement do not count toward the random 2.5 and 5 percent required inspection.
- (ii) The eligible crop insurance contracts shall be selected for spot check at specific intervals of July 15, August 1, August 15, and September 5.
  - (iii) All spot checks shall include verification that:
    - (I) The corn seed obtained is a qualifying hybrid;
    - (II) The amount of qualifying hybrids the insured obtained is sufficient to meet the planting requirements for the unit(s) identified; and
    - (III) The required traits are present in selected plants by submitting plant tissue samples to an independent laboratory identified by RMA.
  - (iv) An APH review is not required under subparagraph (B) unless otherwise required under this subsection.
- (F) Rainfall Index Reviews and Vegetation Index Reviews.
- (i) The Company shall perform acreage/colony report reviews not later than 120-days after the acreage/colony reporting date for the crop, as listed in the Special Provisions or after an acreage adjustment is completed in the crop year as specified in the Rainfall Index and/or Vegetation Index Common Policies.

- (ii) Acreage/colony report reviews are required for:
  - (I) All eligible crop insurance contract receiving indemnities for which a conflict of interest has been reported under the Agreement;
  - (II) All eligible crop insurance contracts for which a written application for acreage reductions are made during the insurance year; and
  - (III) Not less than a 3-percent random sample for all Rainfall Index Pasture, Rangeland, Forage and Apiculture eligible crop insurance contracts and a 3 percent random sample for all Vegetation Index Pasture, Rangeland, Forage eligible crop insurance contracts with reported acreage/colonies.
- (iii) Acreage/colony report reviews shall include verification of:
  - (I) Actual acres (total including insured and uninsured acres) versus insured acres;
  - (II) Actual colonies versus insured colonies (colonies can be verified by FSA or other federal or state governmental reporting systems/requirements, tax records, transportation invoices, purchase agreements, bill of sales, etc.);
  - (III) Insurable interest/share in the crop; and
  - (IV) Insurability of the insured acreage located within the county, and that such acreage was reported on or before the acreage reporting date.
- (c) Actual Production History (APH) Verification

The Company is required to review and verify the records used to establish the APH for an eligible crop insurance contract in accordance with the eligible crop insurance contract and FCIC procedures. APH record reviews are required for all eligible crop insurance contracts reviewed under Appendix IV for which APH forms the basis for all or part of the guarantee and shall be conducted as follows:

- (1) For the first year in which a crop is insured, review all years of records used to support the APH to ensure the records are complete and were reported and certified as required by FCIC procedure; and

- (2) For continuous eligible crop insurance contracts, the reviewer shall:
  - (i) Review and verify the most recent year of records used to support the APH;
  - (ii) If no errors or omissions are identified, determine that the remaining years of records required to be maintained by the policyholder exist;
  - (iii) If any error is identified in the most recent year of records certified and prior year records exist, conduct a review and verification of all records required to be available for review; and
  - (iv) If records required to be available for review do not exist for any year, apply the yield adjustment requirements in 7 C.F.R. part 400, subpart G.

#### **SECTION IV. REPORTING SUSPECTED MISREPRESENTATION, FRAUD, WASTE, AND ABUSE**

In all cases where the Company or its affiliates reasonably suspect misrepresentation, fraud, waste, or abuse, the Company shall:

- (a) Immediately report such cases to FCIC;
- (b) Not take any action until the Company and FCIC have agreed to the appropriate course, except as necessary to preserve the timely adjustment of the claim or as otherwise authorized by FCIC procedures;
- (c) Take any action required by FCIC and, upon completion, forward all information and documents in the possession of the Company regarding the required action to the appropriate FCIC compliance office for the area; and
- (d) If the Company does not find adequate evidence to support a conclusion that a misrepresentation, fraud or waste and abuse has occurred, maintain all documents, in accordance with section IV(g) of the Agreement, relating to the suspected misrepresentation, fraud, waste, or abuse, and any actions taken.