

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL

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Before the
SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK
MANAGEMENT
COMMITTEE ON AGRICULTURE
U.S. HOUSE OF REPRESENTATIVES

June 7, 2007



Good morning, Chairman Etheridge, Ranking Member Moran, and Members of the Subcommittee. Thank you for inviting the Office of Inspector General to testify on the Federal Crop Insurance Program. The crop insurance program represents a significant investment by the Department of Agriculture (USDA) and Congress in the Federal safety net for America's producers. OIG has conducted substantial audit and investigative work on the crop insurance program and its participants. As requested by the Committee, I will address issues of integrity and efficacy of the crop insurance program. My testimony will also review some of our most significant findings and recommendations on the program's current costs, regulatory requirements, and areas of continuing concern.

I. Introduction

Congress established the Federal crop insurance program in the 1930s as a safety net for American agricultural producers as they strove to recover from the Great Depression and the Dust Bowl. Over the years the program has gone through significant changes. The 1996 Farm Bill¹ created the Risk Management Agency (RMA) to provide supervision to the Federal Crop Insurance Corporation (FCIC) and have oversight of its insurance programs. The FCIC is a wholly-owned Government corporation that publishes insurance regulations and manages the Federal crop insurance fund.

RMA administers the Federal crop insurance program through a joint effort with approved insurance providers (AIP) under the Standard Reinsurance Agreement (SRA), a cooperative financial assistance agreement allowing AIPs to sell and service Federal crop insurance program policies. Under the SRA, FCIC reinsures or subsidizes a portion of the losses and pays the AIPs an administrative fee—a predetermined percentage of premiums—to reimburse the AIPs for their administrative and operating expenses associated with selling, servicing, and adjusting crop insurance and subsequent claims.

¹ The Federal Agriculture Improvement and Reform Act of 1996, P.L. 104-127.

The Agricultural Risk Protection Act of 2000

In 2000, Congress passed the Agricultural Risk Protection Act (ARPA).² ARPA significantly expanded Federal crop insurance assistance for producers by increasing their access to more affordable insurance, enlarging the role of the private sector, and raising premium subsidies paid by the Government. Premium subsidies were expected to increase by \$8.2 billion over 5 years to encourage more producers to participate and also purchase higher coverage levels. The Act enlarged the role of the private sector in the program by prohibiting RMA from conducting research and development for any new policies for agricultural commodities. Rather, the Act required that new product development be accomplished through contracts with the private sector.

The impact of these ARPA provisions is demonstrated by two program statistics related to the period of 2000–2006: the number of acres insured increased from 206 million to 242 million—a 17 percent increase; and the total gross liability for all policies increased from \$34 billion to \$55 billion—a 62 percent increase.

II. The Increasing Federal Financial Responsibility

The year before ARPA was enacted, OIG issued a report to the Department, entitled *Report to the Secretary on Federal Crop Insurance Reform*,³ that brought together the major problems we identified in prior audits and investigations. We believe that many of the issues and concerns it presented remain timely and relevant to the program and today's hearing. In our report, OIG concluded that one of the underlying factors substantially contributing to the program losses and management problems we observed was RMA's policy of underwriting most of the risk for the crop losses. OIG believed—and we continue to believe—that by assigning low overall risk to the AIPs, the AIPs have less incentive to administer the insurance policies in accordance with the Government's and the taxpayers' best interest. That is to say, incentives are lacking for AIPs to

² The Agricultural Risk Protection Act of 2000, P.L. 106-224.

³ Report To The Secretary On Federal Crop Insurance Reform, Revised as of April 19, 1999. OIG Report No. 05801-2-At.

effectively monitor risky policyholders, deny claims of questionable losses, and address inadequacies in their own practices. We concluded that the structural framework of the program had increased the risk or vulnerability to fraud, waste, and abuse.

To demonstrate the impact of RMA's risk-sharing policies, we reported that more Federal dollars were going to AIPs than were paid to producers to cover insurable losses. From 1995 to 1998, producers received a total of \$5.4 billion in indemnities, but because only \$3.4 billion was covered by the producers' premium, the Government paid the remaining \$2 billion to AIPs to cover the claims. In contrast, the Government paid AIPs a total of \$2.8 billion for underwriting gains⁴ and administrative and operating (A&O) expenses.

The upward trend in payments (A&O expenses and underwriting gains) to AIPs that OIG observed in 1999 continues today. From 2000 to 2006, total payments to AIPs for underwriting gains and A&O expenses have increased to record levels—from \$834 million to \$1.852 billion, an increase of 122 percent. Although RMA renegotiated the SRA in 2004 and included provisions to reduce the A&O subsidy rate, total reimbursement for A&O expenses has increased from \$552 million to \$958 million during 2000 – 2006, an increase of 73 percent.

This has resulted in almost a 100 percent increase in the Federal Government's reimbursement to A&Os for each producer policy—from \$417 to \$829. This increase is due to ARPA increasing the percentage share that the Government pays for most coverage levels of insurance and the fact that more producers opted for higher levels of coverage. (Commodity price increases may have further impacted this increase.) Additionally, total premiums paid during this period (2000-2006) increased from \$2.5 billion to approximately \$4.7 billion; thereby increasing the Government's subsidy⁵ of

⁴ An underwriting gain (loss) is the profit (deficit) that remains after paying claims and expenses. Insurers generate profits from underwriting and from investment income. Their chief business is insuring against risks for a profit, and one measure of success is whether there is money left after paying claims and expenses. This amount, if any, is their underwriting gain.

⁵ The Government subsidizes a share of the producer's premium. ARPA increased the percentage share that the Government pays for most coverage levels of crop insurance, effective with the 2001 crop year. The Government's share significantly increases for all levels of coverage but declines as producers select

the premiums from \$951 million to \$2.680 billion—an increase of 182 percent. In 2000, the Government’s subsidized share of total premium amounted to 37 percent; in 2006, it was 59 percent of total premium.

While ARPA has been successful at significantly broadening the safety net for producers, we believe that policymakers and program managers should reassess what constitutes an acceptable cost to the Government.

In addition to our observations regarding the crop insurance program’s structure and assignment of risk to the AIPs, our report summarized a number of management control weaknesses we are still seeing today. These include conflicts of interest⁶ among sales agents, loss adjustors, and/or policyholders; inadequate verification of losses and errors by the loss adjustors (who verify the losses reported by producers and determine the indemnity amounts owed); and inadequate or non-existent quality control processes by AIPs and RMA. OIG continues to focus on these issues of concern in our crop insurance program audits.

III. Strengthening the Integrity of the Federal Crop Insurance Program

As the Federal crop insurance program evolved, Congress has recognized the need to strengthen the program’s integrity. While the passage of ARPA significantly expanded Federal crop insurance assistance to producers, Congress also included several mandates to improve program compliance and integrity. For example, ARPA requires annual reconciliation of all relevant producer information by RMA and the Farm Service Agency (FSA), authorizes the use of data mining as a new technology for targeting compliance reviews and investigations, and requires RMA to coordinate and work with FSA to monitor crop conditions throughout the growing season. RMA was also authorized to

higher levels of coverage. After ARPA, the Government’s share of the premium ranged from 67 percent at 50-percent coverage to 38 percent at 85-percent coverage.

⁶ Business or other (familial) relationships that could encourage or prejudice independent and accurate reporting of data such as yields, acreage, and payments.

renegotiate the SRA's terms and conditions once during the 2001 through 2005 reinsurance years.

The 2002 Farm Bill⁷ required the Secretary to develop a comprehensive information management system (CIMS) for RMA and FSA. Historically, RMA and FSA kept separate data about their program participants, even though the two agencies serve the same community of producers and some of their program data and payments are used to support producer eligibility for other program benefits. Congress recognized the value of reducing the waste associated with duplicative systems and simplifying the process for producers. Implementation of a common information system would help ensure consistency and accuracy of producer data and is, in our view, critical to improving integrity within farm programs and reducing risk of improper payments.

Preventing Improper Crop Insurance Payments

The identification and elimination of improper payments is a major Governmentwide initiative mandated by the Improper Payments Information Act of 2002 (IPIA).⁸ All Federal agencies, including RMA, are required to find out where they are most susceptible to making significant improper payments, estimate the size of the problem, identify the cause of improper payments, and take action to prevent them.

OIG has monitored RMA's actions and progress in complying with these important mandates. In September 2003, OIG issued an audit report assessing the Department's actions to implement significant portions of ARPA.⁹ We found that, to its credit, the Department had initiated reasonable actions to implement most of ARPA's significant provisions. However, the required annual reconciliation of all relevant RMA and FSA data was not accomplished. We recognized that there were significant barriers to implementing an effective reconciliation, including differences in RMA's and FSA's program definitions. For example, RMA allows the producer to subdivide his/her

⁷ The Farm Security and Rural Investment Act of 2002, P.L. 107-171.

⁸ The Improper Payments Information Act of 2002, P.L. 107-300.

⁹ USDA Implementation of the Agricultural Risk Protection Act of 2000. Audit No. 50099-12-KC.

farming operation into separate units and to opt whether to have insurance coverage on each unit; FSA defines a farm unit as a total operational unit within a county and it issues payment to that unit.

We recommended that RMA and FSA establish a task force to re-engineer its data reporting for each producer, landowner, and policyholder under a single integrated comprehensive information system. In response, RMA stated that it intends to fulfill ARPA's requirements through its (and FSA's) current CIMS efforts. However, the recent timetable provided to us by RMA indicates that full implementation of CIMS is not expected until 2012. As a result, the mandated reconciliation of RMA and FSA data will not occur until that year or later. In the interim, we would recommend that Congress work with RMA and FSA to determine whether implementation of CIMS can be expedited or whether some other action can reasonably be taken to fulfill ARPA's mandate in this regard.

We are currently reviewing RMA's implementation of the IPIA. With the concurrence of the Office of Management and Budget (OMB), RMA has instituted an alternative to the process required by the IPIA. Due to its limited resources, RMA has developed a National Operations Review program that will review a sample of loss claims from AIPs on a 3-year cycle to establish an error rate for improper payments. Although OMB has approved RMA's approach, we are discussing with RMA our concerns that a statistically valid sampling method will not be used to select claims. Whether this process will be effective in fulfilling the goals and requirements of the IPIA may not be known for some time.

The Standard Reinsurance Agreement: Preserving Federal Interests

OIG monitored RMA's renegotiation of the SRA and offered RMA a number of suggestions to improve program integrity. We suggested that RMA include specific authority in the SRA that would allow the agency to establish a standard quality control review system by regulation, strengthen its conflict of interest provisions, strengthen the

oversight and monitoring of large claims, and reduce administrative reimbursement rates. We acknowledged and concurred with RMA's attempts to reduce the Government's share of the risk, the A&O reimbursement rate, and the amount of the premium AIPs could retain (underwriting gains).

Although RMA had some success in strengthening SRA provisions, much of what was unfavorable to the AIPs was modified during negotiations with the AIPs. Our report, *Renegotiation of the Standard Reinsurance Agreement*,¹⁰ issued in January 2005, summarized our suggestions on ways RMA could strengthen program integrity, as well as some of the significant changes made to RMA's proposals after public comment. RMA was successful in strengthening program integrity by improving the conflict of interest provisions and oversight of adjustors; establishing its option to review large claims before payments are issued (loss claims in excess of \$500,000); obtaining authority to have companies review policies under a quality control environment driven largely by data mining; and identifying anomalous financial behavior.¹¹ In its renegotiation of the 2005 SRA, and as required by ARPA, RMA established an entirely new process that requires AIPs to review policies identified as anomalous by RMA data mining. OIG will continue working to monitor and evaluate the effectiveness of RMA's efforts in these areas.

IV. Weaknesses and Vulnerabilities Persist in the Federal Crop Insurance Program

OIG Investigations of Fraud in the Crop Insurance Program

The great majority of producers and private sector business entities that participate in the crop insurance program are, of course, honest and determined to properly comply with its requirements. The improper conduct of a minority of participants can tarnish perceptions of the program's value as part of the Federal safety net for producers. OIG continues to investigate fraud and other criminal activity in the crop insurance program across the

¹⁰ Audit No. 05099-109-KC.

¹¹ For example, producers who have very large approved yields relative to their peers and large, multi-year claims.

United States. Since fiscal year 1999, our investigations have resulted in 70 indictments, 53 convictions, and over \$54 million in monetary results.

Our investigative work has shown these cases to be—compared to fraud affecting other USDA farm programs—particularly complex in their details and correspondingly time-consuming to investigate. Crop insurance cases frequently involve multiple subjects such as producers, landowners, sales agents, and insurance adjustors. It is not uncommon for individual crop insurance fraud cases to involve comparatively large amounts of monetary losses to USDA, sometimes reaching into the millions of dollars per producer. We continue to work with USDA and the U.S. Department of Justice to aggressively pursue fraudulent crop insurance schemes that undermine the program and burden taxpayers.

Common Fraud Schemes

OIG's investigation into potential criminal activity in the Federal crop insurance program has revealed a series of schemes that are used by some producers and business associates to defraud the program and improperly obtain crop insurance payments. Among the primary schemes we have observed are the following:

- Claiming losses on crops that were never planted or that were intentionally made to fail. (e.g., *responsible farming practices are intentionally not used, and the cause of the crop loss is inconsistent with other area producers.*)
- Agents and adjustors collude to manufacture losses. (e.g., *they change an ineligible cause of loss to an eligible cause of loss.*)
- Creation of sham farming entities to illegally obtain crop insurance indemnity payments. (e.g., *setting up new entities or contracts to hide prior losses.*)

- Concealing actual production of insured crops to receive higher indemnity payments. (e.g., *claiming crop losses when none have occurred.*)
- Falsely reporting planting dates to receive crop insurance payments. (e.g., *backdating forms in order to ensure that the producer's planting dates are within the planting dates approved by RMA.*)
- Shifting crops to create loss units, wherein a producer sells crops from one section of insured land to either a non-insured parcel of land, or another non-loss unit.

Major Investigations

OIG crop insurance investigations have resulted in successful prosecutions and monetary recoveries from individuals engaged in each of the above schemes. I would like to present summary information to the Committee about several prominent and representative cases.

In terms of numbers of individuals involved, convictions gained, and court-ordered monetary recoveries, one of our most significant cases was a 3-year OIG investigation that revealed a complex conspiracy to defraud the FCIC and several private insurance companies. The owners of a North Carolina corporation received more than \$9.28 million in crop insurance payments and attempted to obtain an additional \$3.8 million via schemes involving hiding and shifting tomato production (to inflate losses) and submitting false reports and documents to insurance companies. The corporation overstated its total insured acreage in order to collect larger insurance payments. Its owners staged a “hailstorm”—complete with cocktail ice, bruised tomatoes, and a chemical spray in lieu of actual frost—and photographed the scene in order to document non-existent crop damages. Eight individuals ultimately pled guilty to charges such as conspiracy, money laundering, crop insurance fraud, perjury, and false statements. Sentences ranged from 8 to 76 months of imprisonment and forfeiture/restitution totaled \$7.3 million and \$9.15 million, respectively.

An OIG investigation involving a North Dakota farmer and insurance broker resulted in a \$5.9 million order of forfeiture to the Government after he and his farm business entities were found guilty of 19 criminal charges. The scheme involved the creation of seven sham farming entities made up of family members and insurance agents employed by the insurance broker. Crop insurance policies were written for each of these fraudulent operations. Insurance losses were fabricated by shifting production from one sham farm entity to another, thereby creating false loss units. Parties with no insurable interests thereby received Federal indemnity payments. In June 2003, the insurance agent was sentenced to serve 60 months in prison and both of the farming entities were placed on probation for 5 years.

A scheme involving collusion between a producer and a crop loss adjustor was uncovered during an investigation into a Texas crop insurance agency owner who was also a producer. He conspired with the adjustor in a scheme involving false statements about his wheat, cotton, and grain sorghum insurance policies and indemnity claims. Our investigation revealed that these individuals fraudulently obtained crop insurance benefits by having the crop loss adjustor prepare appraisal worksheets and production worksheets without conducting field inspections and appraisals. The producer also provided false and fictitious receipts on seed purchases. The producer was ultimately sentenced to 41 months in prison, 36 months of supervised release and was ordered to pay \$448,000 to RMA. He was also prohibited from engaging in the sale of crop insurance and was excluded from USDA programs. The crop loss adjustor was sentenced to 2 years' probation and a similar restitution.

The final investigative case that I would like to mention to the Subcommittee resulted in a \$240,000 restitution order in Federal court just over two weeks ago in the Eastern District of Virginia. After pleading guilty to conspiracy, the insurance adjustor involved was also sentenced to 24 months of probation for his misrepresentations about a producer's alleged tomato losses. The OIG investigation determined that the adjustor, working for an insurance company's supervisor, signed worksheets falsely stating that he

had visited a producer's fields to assess relevant crop losses. The supervisor recorded false production totals to ensure that the producer would realize a loss. The actions of the adjuster and supervisor resulted in a producer receiving a Federal crop insurance payment of over \$308,000 to which he was not entitled. The supervisor was sentenced earlier this year to 5 months' imprisonment and restitution of \$240, 301.

OIG Audit Findings: The Need for Improved Federal and Private Sector Oversight

OIG has identified the need for strong, integrated management controls and effective interagency communication, coordination, and program integration as major management control weaknesses in our 2004, 2005, and 2006 Management Challenges reports to the Secretary.¹² Our prior audits and investigations have led us to conclude that RMA must adequately address these challenges if it is to mitigate the risks for fraud, waste, and abuse in crop insurance programs. While we recognize the positive efforts taken by RMA (such as during the SRA negotiation), we believe that effective interagency communication and program integration is essential for ARPA's successful implementation, in addition to enhancing the program integrity of the various farm programs that build upon the data, payments, and compliance activities of several USDA agencies.

In our 1999 report, we made a number of suggestions to strengthen the program's structural framework and improve its management controls; several remain directly relevant for current discussions about the program. Our primary suggestions included the need for RMA to take a more proactive role in monitoring and providing oversight of the AIPs and, most importantly, to strengthen the quality control (QC) review system.

We reiterated many of these same recommendations in our March 2002 report on RMA's QC review system.¹³ We found that, despite an 8-year effort in response to earlier OIG

¹² The "Reports Consolidation Act of 2000," P.L. 106-531, requires OIG to annually identify and report on the most serious management challenges facing USDA and its agencies.

¹³ Monitoring of RMA's Implementation of Manual 14 Reviews/Quality Control Review System, Audit No. 05099-14-KC.

and Government Accountability Office reports, RMA had not developed a reliable QC review system capable of evaluating the private sector's (AIP) delivery of the program. Basic policy questions remain, such as what constitutes an error, the amount of improper payments made, and at what level program delivery needed to be assessed (e.g., the AIP or crop insurance program as a whole). Since program delivery relies on private AIPs, they must be the first line of detection and prevention of program abuse and waste and improper payments. It is essential for RMA to strengthen its oversight of the AIPs' QC review systems and to validate that systemic causes for errors are identified and corrected. To date, RMA and OIG have still not reached agreement on the actions necessary to correct the concerns we have raised.

Our audits and investigations have consistently identified problems in the underwriting and loss adjustment review processes and with conflicts of interest, resulting in fraudulent and/or improper payments. We believe that an effective and independent QC review system, in tandem with effective monitoring and oversight by RMA, could have prevented or detected many improper payments. I would like to briefly discuss several OIG audits that illustrate situations wherein effective QC systems and improved RMA oversight could better serve the Government's interest in preventing excessive or improper crop insurance payments.

The Watermelon Insurance Pilot Program

In response to allegations of abuse in this program in Texas, we initiated three reviews. One focused on RMA's overall approval and review process and two focused on the eligibility of producers and the validity of their indemnity payments. OIG found that RMA, despite evidence that fall watermelons were not a suitable crop for South Texas and were not likely to produce a crop, approved this crop's inclusion in a pilot insurance program. RMA did not provide adequate oversight of the pilot program's development and approval process, particularly with respect to the actuarial risk associated with the crop. Our findings questioned \$21 million in indemnity payments to fall watermelon producers in the region. Prior to our audit, RMA promptly moved to suspend the pilot

program when it became aware of its impact on the market prices and allegations of abuses.

The two audits¹⁴ that focused on producer eligibility and the validity of their indemnity payments found that, because the risk associated with planting a fall crop had not been adequately determined, the pilot program created a “moral hazard,” whereby producers appeared to willfully neglect prudent management practices by planting an extremely large amount of acreage with a crop that had no more than a 10-percent chance of making it to harvest. Misrepresentation by the producer, inadequate loss adjustments, and a conflict of interest between the insurance agent (he leased acreage to the producer) and the producer caused over \$5.5 million in improper indemnities paid.

In response to OIG’s audits, RMA agreed to strengthen conflict of interest provisions to require disclosure of any business relationship between the insured parties and agents. RMA is in the process of implementing some of these provisions.¹⁵

The Adjusted Gross Revenue Program

OIG’s 2007 review of a second pilot program, the Adjusted Gross Revenue Program (AGR),¹⁶ substantiated our concerns about the AIPs’ review systems (including QCs). During insurance years 2002-2003, 9 insurance providers in 18 States paid AGR indemnities totaling over \$24 million. We reviewed 11 claims paid by 5 providers totaling \$6.9 million, and we questioned \$2.3 million of the \$6.9 million in indemnity payments issued. Four of the five insurance providers we reviewed had either issued policies to producers whose eligibility was unsupported or paid indemnities for unsupported loss claims. AIP reviews at multiple levels—the application, underwriting, loss adjustment, and QC reviews—did not ensure that policies and loss claims met RMA

¹⁴ Watermelon Claims in South Texas, Audit No. 05601-7-Te, August 2001; and Review of Large Insurance Claim for Watermelons in South Texas, Audit No. 05601-9-Te, September 2002.

¹⁵ Although the 2005 SRA strengthened the conflict of interest provisions, RMA issued notices in 2005 and 2006 to clarify the provisions. However, RMA’s conflict of interest disclosure form for AIPs and other parties is still in the clearance process.

¹⁶ The Adjusted Gross Revenue (AGR) Program is a non-traditional crop insurance pilot program where producers insure their farm revenue against losses caused by both natural disasters and market fluctuations. Adjusted Gross Revenue Program, Audit No. 50601-4-SF.

regulations. Furthermore, RMA was not aware of the problems and, therefore, could not correct the AIPs' noncompliance. RMA has since agreed to implement procedures requiring onsite file reviews during the implementation of selected pilot programs.

Current OIG Audit Efforts

We currently have a total of seven audits pertaining to crop insurance issues that are ongoing, and I would like to briefly describe for the Committee two of the more noteworthy audits. We have initiated an audit of RMA's compliance activities. We are focusing on (1) organizational structure (is the control environment adequate to support and sustain effective controls), (2) risk assessments (are internal and external risks and program vulnerabilities identified), and (3) policies and procedures (are controls over compliance activities in place and are they effective to identify and correct systemic weaknesses). We plan to report on this audit by the end of the year.

Another major effort we have underway is looking at RMA's management controls to ensure the timeliness and accuracy of indemnity payments for nursery crops resulting from Hurricanes Katrina and Wilma in Florida. As of January 2007, Federal crop insurance indemnity payments for losses of nursery crops in Florida due to hurricanes Katrina and Wilma totaled approximately \$264 million. We are evaluating the effectiveness of the AIPs' QC review system to detect improper payments and the effectiveness of RMA's oversight and monitoring of the AIPs on the indemnities paid.

V. Strengthening the Program Framework and Management Controls for the Crop Insurance Program: Administrative and Legislative Recommendations

Recommendations for USDA

If fully implemented, existing laws affecting the Federal crop insurance program (ARPA, 2002 Farm Bill, IPIA) would help strengthen the integrity of the crop insurance program.

However, we also believe that more emphasis on program design, management controls, compliance, and interagency communication would reduce improper crop insurance payments. As we have recommended in our annual *Management Challenges* reports to the Secretary, we believe the following actions are critical to provide effective management of the crop insurance program and other farm programs and to prevent fraud, waste and abuse.

- **Accelerate development and implementation of CIMS.** Uniform program data and integrated data systems need to be developed and shared by RMA and FSA. Such a system may negate the time consuming reconciliation of producer information between the two agencies. We believe that this project can serve as a model for further information sharing and coordination to ensure compliance and integrity in other farm-related agencies (e.g., Natural Resources Conservation Service) in USDA. Currently, full CIMS implementation is not anticipated until 2012.

- **Accelerate development and implementation of an effective QC review system.** A QC review system needs to incorporate elements that would provide an assessment of the delivery of the crop insurance program, whether at the AIP level or the program as a whole. While RMA requires AIPs to report discrepancies in policy data that may affect premiums, liabilities, and indemnities, individual AIPs apply inconsistent criteria for identifying and reporting errors. These inconsistent criteria provide unreliable and inconsistent results with respect to error rates and evaluating program delivery. We also believe the QC system should include incentives for good performance and disincentives for excessive error rates.

- **Finalize Implementation of ARPA.** In addition to annual reconciliation of RMA and FSA data, ARPA required RMA to identify and review claim anomalies that

can be identified to any sales agent or loss adjustor.¹⁷ Also, ARPA allowed RMA to impose civil fines and to disqualify producers, agents, loss adjustors, and AIPs for up to 5 years for willfully and intentionally providing false or inaccurate information or failing to comply with a crop insurance requirement. RMA has taken some actions to implement these provisions, but they have not been finalized.

- **Finalize Conflict of Interest Policies and Procedures.** RMA issued stronger conflict of interest provisions in the 2005 SRA, but the disclosure process has not been finalized. OIG provided feedback to RMA as it moved forward to issue guidance clarifying these SRA provisions. Recently, OIG provided comments to RMA on the draft of the conflict of interest disclosure form that is to be completed by AIP employees, agents, and loss adjustors.

- **Expand Data Mining.** RMA could improve program integrity and deter fraud, waste, and abuse by expanding data mining of program data for anomalous behavior or patterns by the producers, agents, and loss adjustors. The Department should also expand its data mining capabilities to other farm programs.

Recommendations for Congress: USDA's 2007 Farm Bill Proposal

USDA's 2007 Farm Bill proposals acknowledge that crop insurance fraud and abuse continues to be a serious concern and that an expansion of program compliance and data mining activities is needed to identify and sanction "bad actors" who are abusing the program. We agree.

¹⁷ ARPA required RMA to identify and review: (1) any agent where the loss claims associated with such sales by the agent are equal or greater than 150 percent of the mean for all loss claims associated with such sales by all other agents operating in the same area, and (2) any person performing loss adjustment services relative to coverage where such loss claims resulted in accepted or denied claims equal to or greater than 150 percent of the mean for accepted or denied claims for all other persons performing loss adjustments in the same area.

USDA's Farm Bill proposal summary states that "[C]ertain statutory requirements of the crop insurance program have put its future integrity and actuarial soundness into question." The changes proposed by the Secretary can, if passed, help meet the challenge of materially improving the compliance, integrity, and actuarial soundness of the program, yet continue to provide the safety net to the American producers. We support the Department's proposals to improve the program with statutory adjustments, including the allowed loss ratio, renegotiating the SRA, AIP risk sharing, premium subsidies, and compliance activities.

OIG, through our audit and investigative efforts, will continue to support the Department's goal of improving the effectiveness and integrity of the Federal crop insurance program, as well as protecting the safety net for American producers.

This concludes my testimony. I again want to thank the Subcommittee for the opportunity to discuss OIG's work and perspectives regarding the Federal crop insurance program. I will be pleased to address any questions you may have.