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Highlights

Highlights of GAO-05-528, a report to the Chairman, Committee on Homeland Security and Governmental Affairs, U.S. Senate

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CROP INSURANCE

Actions Needed to Reduce Program's Vulnerability to Fraud, Waste, and Abuse

Why GAO Did This Study

Federal crop insurance protects producers against losses from natural disasters. In 2004, the crop insurance program provided $47 billion in coverage, at a cost of $3.6 billion, including an estimated $160 million in losses from fraud and abuse. The U.S. Department of Agriculture's (USDA) Risk Management Agency (RMA) administers this program with private insurers. The Agricultural Risk Protection Act of 2000 (ARPA) provided new tools to monitor and control abuses, such as having USDA's Farm Service Agency (FSA) conduct field inspections. GAO assessed, among other things, the (1) effectiveness of USDA's processes to address program fraud and abuse and (2) extent to which the program's design makes it vulnerable to abuse.

What GAO Recommends

To reduce program fraud, Congress should consider reducing premium subsidies to producers who repeatedly file questionable claims. In addition, USDA should (1) improve the effectiveness of growing season inspections, (2) recover payments from operations that failed to disclose producers' ownership interests, (3) strengthen oversight of insurers' use of quality controls, and (4) issue regulations for its expanded sanction authority.

USDA agreed with most of GAO's recommendations. However, it stated that it does not have the resources to conduct all growing season inspections.

www.gao.gov/cgi-bin/getrpt?GAO-05-528.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Robert A. Robinson at (202) 512-3841 or robinsonr@gao.gov.

What GAO Found

While RMA employs a range of processes to help prevent and detect fraud, waste, and abuse and has reported more than $300 million in savings over the past 4 years in the crop insurance program, GAO found that RMA does not effectively use all the tools it has available. Specifically:

- *Inspections during the growing season are not being used to maximum effect.* Between 2001 and 2004, FSA conducted only 64 percent of the inspections RMA had requested. Without inspections, producers may falsely claim crop losses.
- *RMA's data analysis of the largest farming operations is incomplete.* According to GAO's analysis, in 2003, about 21,000 of the largest farming operations in the program did not report individuals or entities with an ownership interest in these operations. As a result, USDA should be able to recover up to $74 million in claims payments. FSA did not give RMA access to the data needed to identify such individuals or entities.
- *RMA is not effectively overseeing insurance companies' quality assurance programs.* GAO's review of 120 cases showed that companies completed only 75 percent of the required reviews and those that were conducted were largely paper exercises.
- *RMA has infrequently used its new sanction authority to address program abuses.* RMA has not issued regulations to implement its new sanction authority under ARPA. RMA imposed only 114 sanctions from 2001 through 2004. Annually, RMA identifies about 3,000 questionable claims, not all of which are necessarily sanctionable.

Eight recent crop insurance fraud cases, investigated by USDA's Office of Inspector General and resulting in criminal prosecutions between June 2003 and April 2005, reflect these issues. Totaling $3 million in insurance claims, these cases show how producers, sometimes in collusion with insurance agents and others, falsely claim prevented planting, weather damage, and low production. In some cases, producers hid or moved production from one field to another. Several of these cases also demonstrate the importance of having FSA and RMA work together to identify and share information on questionable farming practices/activities.

RMA's regulations, as well as statutory requirements, create program design problems that hinder RMA officials' efforts to reduce program abuse. For example, RMA's regulations allow producers to insure fields individually rather than all fields combined. This option enables producers to "switch" reporting of yield among fields to either make false claims or build up a higher yield history on a field to increase its eligibility for higher insurance guarantees. High premium subsidies, established by statute, may also limit RMA's ability to control program abuse because the subsidies shield producers from the full effect of paying higher premiums associated with frequent or larger claims.