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Highlights

Highlights of GAO-07-944T, a testimony before the Subcommittee on General Farm Commodities and Risk Management, Committee on Agriculture, House of Representatives

June 7, 2007

CROP INSURANCE

Continuing Efforts Are Needed to Improve Program Integrity and Ensure Program Costs Are Reasonable

Why GAO Did This Study

The U.S. Dept. of Agriculture's (USDA) Risk Management Agency (RMA) administers the federal crop insurance program in partnership with private insurers. In 2006, the program cost $3.5 billion, including millions in losses from fraud, waste, and abuse, according to USDA. The Agricultural Risk Protection Act of 2000 granted RMA authority to renegotiate the terms of RMA's standard reinsurance agreement with companies once over 5 years.

This testimony is based on GAO's 2005 report, *Crop Insurance: Actions Needed to Reduce Program's Vulnerability to Fraud, Waste, and Abuse*, and May 2007 testimony, *Crop Insurance: Continuing Efforts Are Needed to Improve Program Integrity and Ensure Program Costs Are Reasonable.* GAO discusses (1) USDA's processes to address fraud, waste, and abuse; (2) extent the program's design makes it vulnerable to abuse; and (3) reasonableness of underwriting gains and other expenses. USDA agreed with most of GAO's 2005 recommendations to improve program integrity.

What GAO Recommends

Congress has an opportunity in the Farm Bill reauthorization to grant RMA authority to periodically renegotiate the financial terms of its agreement with companies to provide reasonable cost allowances and underwriting gains.

www.gao.gov/cgi-bin/getrpt?GAO-07-944T.

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

What GAO Found

GAO reported that RMA did not use all available tools to reduce the crop insurance program's vulnerability to fraud, waste, and abuse. RMA has since taken some steps to improve its procedures. In particular:

- *USDA's Farm Service Agency (FSA) inspections during the growing season were not being used to maximum effect.* Between 2001 and 2004, FSA conducted only 64 percent of the inspections RMA requested. Without inspections, farmers may falsely claim crop losses. However, FSA said it could not conduct all requested inspections, as GAO recommended, because of insufficient resources. RMA now provides information more frequently so FSA can conduct timelier inspections.
- *RMA's data analysis of the largest farming operations was incomplete.* In 2003, about 21,000 of the largest farming operations did not report all of the individuals or entities with an ownership interest in these operations, as required. Therefore, RMA was unaware of ownership interests that could help it prevent potential program abuse. FSA and RMA started sharing information to identify such individuals or entities, but have stopped temporarily to resolve producer privacy issues. USDA should recover up to $74 million in improper payments made during 2003.
- *RMA was not effectively overseeing insurance companies' efforts to control program abuse.* According to GAO's review of 120 cases, companies did not complete all the required quality assurance reviews of claims, and those that were conducted were largely paper exercises. RMA agreed to improve oversight of their reviews, but GAO has not followed up to examine its implementation.

RMA's regulations to implement the crop insurance program, as well as some statutory requirements, create design problems that hinder its efforts to reduce abuse. For example, the regulations allow farmers to insure fields individually rather than together. As such, farmers can "switch" reporting of yield among fields to make false claims or build up a higher yield history on a field to increase its eligibility for higher insurance guarantees. RMA did not agree with GAO's recommendation to address the problems associated with insuring individual fields. Statutorily high premium subsidies may also limit RMA's ability to control program abuse: the subsidies shield farmers from the full effect of paying higher premiums associated with frequent claims.

From 2002 through 2006, USDA paid the insurance companies underwriting gains of $2.8 billion, which represents an average annual rate of return of 17.8 percent. In contrast, according to insurance industry statistics, the benchmark rate of return for companies selling property and casualty insurance was 6.4 percent. USDA renegotiated the financial terms of its standard reinsurance agreement with the companies in 2005, but their rate of return was 30.1 percent in 2005, and 24.3 percent in 2006. It also paid the companies a cost allowance of $4 billion to cover administrative and operating costs for 2002 through 2006. USDA recommended that Congress provide RMA with authority to renegotiate the financial terms and conditions of its standard reinsurance agreement once every 3 years.