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Highlights

Highlights of GAO-06-878T, testimony before the Subcommittee on General Farm Commodities and Risk Management, Committee on Agriculture, House of Representatives

CROP INSURANCE

More Needs to Be Done to Reduce Program's Vulnerability to Fraud, Waste, and Abuse

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 2005, the program cost $2.7 billion, including an estimated $117 million in losses from fraud, waste, and abuse. The Agricultural Risk Protection Act of 2000 (ARPA) provided new tools to monitor and control abuses, such as providing RMA sanction authority to address program abuse and having USDA's Farm Service Agency (FSA) inspect farmers' fields. This testimony is based on GAO's September 30, 2005, report, *Crop Insurance: Actions Needed to Reduce Program's Vulnerability to Fraud, Waste, and Abuse* (GAO-05-528). GAO assessed (1) USDA's processes to address fraud, waste, and abuse, and (2) the extent to which the program's design makes it vulnerable to abuse.

What GAO Recommends

GAO suggested that the Congress consider reducing premium subsidies to farmers who repeatedly file questionable claims. GAO recommended that USDA (1) improve field inspections, (2) recover payments from operations that failed to disclose farmers' ownership interests, (3) strengthen oversight of insurers' use of quality controls, and (4) issue regulations for expanded sanction authority. USDA agreed with most of GAO's recommendations. However, it stated that it had insufficient resources to conduct all inspections.

www.gao.gov/cgi-bin/getrpt?GAO-06-878T.

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

What GAO Found

RMA has taken a number of steps to improve its procedures and processes to address fraud, waste and abuse in selling and servicing crop insurance policies and has reported more than $300 million in savings from 2001 to 2004. However, RMA is not effectively using all of its tools. GAO identified weaknesses in four key areas:

- *FSA 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, farmers 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 required. Without this information RMA was unaware of ownership interests that could help it prevent potential program abuse. FSA did not give RMA access to the data needed to identify such individuals or entities. USDA should be able to recover up to $74 million in improper claims payments.
- *RMA is not effectively overseeing insurance companies' efforts to control program abuse.* GAO's review of 120 cases showed that companies did not complete all of the required quality assurance reviews of claims and those that were conducted were largely paper exercises.
- *RMA has infrequently used its new sanction authority to address program abuse.* RMA has not issued regulations to implement its new sanction authority under ARPA and imposed only 114 sanctions from 2001 through 2004, although it annually identifies about 3,000 questionable claims, not all of which are necessarily sanctionable.

RMA's regulations to implement the crop insurance program, as well as some statutory requirements, create program design problems that hinder RMA's efforts to reduce program abuse. For example, RMA's regulations allow farmers to insure fields individually rather than all fields combined. This option enables farmers 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 farmers from the full effect of paying higher premiums associated with frequent claims.

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 the issues GAO noted. These cases show how farmers, sometimes in collusion with insurance agents and others, falsely claim prevented planting and low production. 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.