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WASHINGTON, D.C. 20548

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OCT 3 1977

The Honorable Ed Jones, Chairman
Subcommittee on Conservation and Credit
House Committee on Agriculture

Dear Mr. Chairman:

This letter refers to H.R. 7111, 95th Congress, a bill which, if enacted, would be cited as the Farm Production Protection Act of 1977. The bill would provide a voluntary self-help program designed to assist producers of agricultural products to protect themselves against loss when natural or uncontrollable conditions adversely affect production. On the basis of reviews we had made of presently authorized crop protection programs--which H.R. 7111 would substantially revise--we offer the following observations which the Subcommittee may find useful in considering the proposed legislation.

In our May 4, 1976, report to the Congress, entitled "Alleviating Agricultural Producers' Crop Losses: What Should the Federal Role Be?" (RED-76-91)(copy enclosed), we discussed the two Department of Agriculture programs now in effect, the Commodity Credit Corporation (CCC) disaster payment program and the Federal Crop Insurance Corporation (FCIC) crop insurance program. The report analyzed several options to be considered in connection with legislation introduced in the 94th Congress and in deciding on the Federal role in agricultural disaster protection, and it discussed the advantages and disadvantages of these options to producers, the Government, and the taxpayers.

H.R. 7111 would substantially expand the coverage of the present FCIC program and would, in the scope of the new program, include and broaden the protection now afforded by the present CCC disaster payment program. The principal features of the legislation are:

--A new Farm Production Protection Corporation would replace the present FCIC.

- The new corporation would be authorized, if sufficient actuarial data were available, to protect producers of a wide range of agricultural products, no longer limited by number of crops and counties which FCIC presently may cover, and including such additional products as timber, livestock, and poultry.
- The corporation would offer disaster loss protection beyond the scope of the present CCC program which only protects producers with acreage allotments for upland cotton, wheat, rice, and three feed grains (corn, grain sorghum, and barley).
- Protection would be offered against loss of production cost up to the cost of production for a representative period, adjusted so that the average cost fixed for farms in the same area would be equitable among producers. Present limitations applicable to FCIC coverage in terms of usual crop investment in the area and 75 percent of a farmer's average yield would no longer apply.
- Protection could be denied in any county or area or for any farm not suited to the production of the agricultural product in question or where it is administratively impractical to establish a county program.
- The new program would be financed from producer premiums at rates sufficient to cover claims for "normal" loss of production. "Catastrophic or disaster" losses would be chargeable to a Disaster Relief Fund which would be initially funded through borrowings from the Treasury and subsequently through appropriations.
- Operating and administrative costs of the corporation, including the direct cost of loss adjustment and agent commissions, would be financed from appropriations. Administrative and operating expenses in connection with catastrophic losses would be payable from the Disaster Relief Fund.

In our discussions with FCIC officials, we were informed that the new program would be operated strictly according to sound actuarial principles which would govern the protection to be offered for specific products and areas; the fixing of premiums; the determination of losses chargeable to premium income or the Disaster Relief Fund, respectively; and the determination of production losses subject to recovery. We were further advised that the new corporation's board of directors should have broad latitude in administering the protection program in order to provide reasonable protection for a maximum number of producers at reasonable cost to the Government.

In considering the need for such latitude--which H.R. 7111 as now drafted would provide--the Subcommittee may wish to delineate, if not in the legislation itself in its legislative report, some of the principles that shall guide the corporation's program. One such matter to be covered in the bill or its legislative history would be the required application of sound actuarial principles. Another matter of concern is the proper distinction between "normal" and "catastrophic and disaster" losses, now only loosely defined in section 117(b) and (h).

Section 107(b) would provide for premiums sufficient only to cover claims for normal loss of production and would prohibit inclusion of catastrophic or disaster losses in the experience used for fixing premium rates. The bill defines in section 117(b) "catastrophic and disaster loss" as occurring when the amount of production falls below the normal production level for a given area or county as determined by the corporation's board of directors.

The Subcommittee may wish to obtain for the legislative record assurances from Department of Agriculture officials regarding (a) the manner in which premiums will be computed, based only on normal losses, so that inequities among producers will not result, and (b) the manner in which payments to producers will be charged to the Disaster Relief Fund, to supplement charges to regular premium monies, as determined by the board of directors for an individual county or area.

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We offer the following specific suggestions with respect to the provisions of the bill.

1. It is not clear whether protection would be available under H.R. 7111 to producers incurring losses because they were prevented from planting crops due to natural disasters or other adverse conditions.

Under the present CCC program, a producer prevented from planting acreage of certain agricultural products is eligible for prevented-planting payments. H.R. 7111 does not specifically provide for protection of farmers' losses due to prevented planting.

If the Subcommittee wishes to continue under the new program the protection of farmers against loss from prevented planting, we suggest that the bill be clarified by making a special provision for this type of protection under the new corporation's program.

2. Section 102 would require that the principal office of the new Farm Production Protection Corporation be located in the District of Columbia. In our report to the Congress entitled "Progress and Problems in Giving Rural Areas First Priority When Locating Federal Facilities" (CED-76-137, Sept. 7, 1976), we cited a similar provision in FCIC's authorizing legislation as conflicting with the intent of section 901(b) of the Agricultural Act of 1970, as amended (42 U.S.C. 3122(b), supp. V, 1975), that rural areas be given priority consideration in locating Federal offices and facilities. Language to the effect that the location of the principal office shall be designated by the Secretary of Agriculture--as contained in bills introduced in the 94th Congress--would be more in consonance with the congressional intent and provide desirable flexibility.

3. Section 106(a) would authorize the Secretary of Agriculture to require bond of such officers and employees of the corporation as he may designate. This authority seems no longer appropriate in view of Pub. L. 92-310, 86 Stat. 201, which provides that no agency of the Federal Government may require or obtain surety bonds for its employees in connection with the performance of their official duties. We therefore suggest deletion of the bonding authority on lines 13-15 of page 7.

4. Several sections of the United States Code contain references to the Federal Crop Insurance Corporation which, if H.R. 7111 is enacted, should be amended to provide for substituting the name of the Farm Production Protection Corporation. In particular, we recommend that H.R. 7111 should amend the Government Corporation Control Act (31 U.S.C. 846) by deleting in the listing of wholly owned Government corporations the name of the Federal Crop Insurance Corporation and substituting that of the Farm Production Protection Corporation. Other references to the Federal Crop Insurance Corporation are contained at 12 U.S.C. 1150(a), 16 U.S.C. 590(b), 26 U.S.C. 451(d), and possibly other places.

5. Section 112 would require our Office to (1) audit the financial transactions of the corporation at least once each year for the sole purpose of making a report to the Congress and (2) withhold issuance of our report until the corporation has had a reasonable opportunity to examine the exceptions and criticisms of the Comptroller General or the General Accounting Office, to point out any errors, and file a statement which the Comptroller General would be required to submit with his report.

We recommend deletion of these provisions. If the corporation is made subject to the Government Corporation Control Act, as recommended in the preceding comment, there would be no need for the bill to contain an audit requirement because the Government Corporation Control Act contains requirements for periodic audits of Government corporations. If the Subcommittee desires to retain an audit provision in the bill, however, we believe that the audit requirements should be made consistent with those of the Government Corporation Control Act. The requirement for annual audits should be changed to conform with Pub. L. 93-604, 88 Stat. 1962, which amended the Government Corporation Control Act by providing that, effective July 1, 1974, each wholly owned Government Corporation shall be audited "at least once in every three years."

This amendment was enacted to provide our Office with needed flexibility in using its limited resources. Also, the provision of the bill requiring that our financial audits be made for the sole purpose of making a report to the Congress might be interpreted as limiting our review to the corporation's financial transactions. We prefer authority which allows us to make not only financial audits but also reviews of the corporation's programs, activities, and operations. We have such authority to make comprehensive audits for corporations subject to the Government Corporation Control Act.

We believe also that there is no need for the provision requiring our Office to withhold issuance of an audit report pending receipt of the corporation's comments. It has been our Office's long established practice to obtain, to the extent practicable, agency comments on drafts of our reports before they are issued, to recognize such comments in the reports, and generally to include copies of agency comments in the issued reports. In any event, the bill's reference to exceptions should be deleted because it is inconsistent with the provision of section 105(i) that the corporation shall determine the character and necessity for its expenditures ***without regard to the provisions of any other laws governing the expenditure of public funds***and that such determinations shall be final and conclusive upon all other officers of the Government.

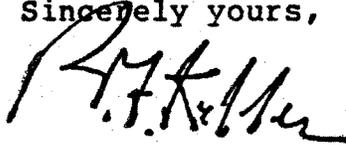
6. Section 114 would authorize the Secretary of Agriculture to appoint from time to time advisory committees consisting of members experienced in agricultural pursuits. In view of the concerns expressed by committees and Members of Congress over the justification for the large number of advisory committees appointed by the Federal Government and the costs associated with their operations, the Subcommittee may wish to more specifically circumscribe the number, duration, and purpose of such committees that may be established under the bill. The Federal Advisory Committee Act (Pub. L. 92-463, Oct. 6, 1972) states the policy of the Congress that new advisory committees shall be established only when they are determined to be essential and that their number shall be kept at the minimum necessary.

7. The bill does not state the date at which this law, if enacted, would become effective. We suggest that the bill specify the effective date, allowing for an appropriate transition period within which necessary actions can be taken to transfer the functions of the present Federal Crop Insurance Corporation to the new Farm Production Protection Corporation.

8. The bill does not specifically provide for an evaluation, by the Secretary of Agriculture, of the Farm Production Protection Program after it has been in effect for a representative period. It is our view that program evaluation is a fundamental part of effective program administration and that the responsibility for evaluations should rest initially upon the responsible agencies. In line with this concept, we believe the Congress should attempt to specify the kinds of information and tests which will enable it to better assess how well programs are working and whether alternative approaches may offer greater promise. We will be happy to work with the Subcommittee in developing specific language if you wish.

We shall be glad to further discuss our comments or provide any additional information we may have regarding the provisions of the bill, if you so desire.

Sincerely yours,



Acting Comptroller General
of the United States

Enclosure