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Highlights

Highlights of GAO-12-256, a report to the Ranking Member, Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

The U.S. Department of Agriculture (USDA) administers the federal crop insurance program with private insurance companies. In 2011, the program provided about $113 billion in insurance coverage for over 1 million policies. Program costs include subsidies to pay for part of farmers' premiums. According to the Congressional Budget Office, for fiscal years 2013 through 2022, the program costs—primarily premium subsidies—will average $8.9 billion annually.

GAO determined the (1) effect on program costs of applying limits on farmers' premium subsidies, as payment limits are set for other farm programs, and (2) extent to which USDA uses key data mining tools to prevent and detect fraud, waste, and abuse in the program. GAO analyzed USDA data, reviewed economic studies, and interviewed USDA officials.

What GAO Recommends

To reduce crop insurance program costs, Congress should consider limiting premium subsidies for individual farmers, reducing subsidies for all farmers, or both. GAO also recommends, in part, that USDA encourage the completion of field inspections. In commenting on a report draft, USDA did not agree that Congress should consider limiting premium subsidies, but GAO believes that when farm income is at a record high and the nation faces severe fiscal problems, limiting premium subsidies is an appropriate area for consideration. USDA agreed with encouraging the completion of field inspections.

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CROP INSURANCE

Savings Would Result from Program Changes and Greater Use of Data Mining

What GAO Found

If a limit of $40,000 had been applied to individual farmers' crop insurance premium subsidies, as it is for other farm programs, the federal government would have saved up to $1 billion in crop insurance program costs in 2011, according to GAO's analysis of U.S. Department of Agriculture (USDA) data. GAO selected $40,000 as an example of a potential subsidy limit because it is the limit for direct payments, which provide fixed annual payments to farmers based on a farm's crop production history. Had such a limit been applied in 2011, it would have affected up to 3.9 percent of all participating farmers, who accounted for about one-third of all premium subsidies and were primarily associated with large farms. For example, one of these farmers insured crops in eight counties and received about $1.3 million in premium subsidies. Had premium subsidies been reduced by 10 percentage points for all farmers participating in the program, as recent studies have proposed, the federal government would have saved about $1.2 billion in 2011. A decision to limit or reduce premium subsidies raises other considerations, such as the potential effect on the financial condition of large farms and on program participation.

Since 2001, USDA has used data mining tools to prevent and detect fraud, waste, and abuse by either farmers or insurance agents and adjusters but has not maximized the use of these tools to realize potential additional savings. This is largely because of competing compliance review priorities, according to GAO's analysis. USDA's Risk Management Agency (RMA), which is responsible for overseeing the integrity of the crop insurance program, has used data mining to identify farmers who received claim payments that are higher or more frequent than others in the same area. USDA informs these farmers that at least one of their fields will be inspected during the coming growing season. RMA officials told GAO that this action has substantially reduced total claims. The value of identifying these farmers may be reduced, however, by the fact that USDA's Farm Service Agency (FSA)—which conducts field inspections for RMA—does not complete all such inspections, and neither FSA nor RMA has a process to ensure that the results of all inspections are accurately reported. For example, RMA did not obtain field inspection results for about 20 percent and 28 percent of these farmers, respectively, in 2009 and 2010. As a result, not all of the farmers RMA identified were subject to a review, increasing the likelihood that fraud, waste, or abuse occurred without detection. Field inspections were not completed, in part because FSA state offices are not required to monitor the completion of such inspections. In addition, RMA generally does not provide insurance companies with FSA inspection results when crops are found to be in good condition, although USDA's Inspector General has reported this information may be important for followup. Past cases have revealed that some farmers may harvest a high-yielding crop, hide its sale, and report a loss to receive an insurance payment. Furthermore, RMA has not directed insurance companies to review the results of all completed FSA field inspections before paying claims that are filed after inspections show a crop is in good condition. As a result, insurance companies may not have information that could help them identify claims that should be denied.