Mr. Chairman and members of the Subcommittee, I am Eldon Gould, Administrator of USDA’s Risk Management Agency (RMA). I am also a life-long farmer in northern Illinois, with a 1,500-acre corn, soybeans and wheat farm and a 700-sow farrow-to-wean hog operation.

I appreciate the opportunity to provide an update on the efforts of RMA to continue to improve the integrity of the Federal crop insurance program. Any discussion of program integrity must include an update on our successes and challenges in implementing the Agricultural Risk Protection Act of 2000 (ARPA). In fulfillment of the mandates of ARPA, and under the direction of the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board), RMA continues to promote an aggressive agenda to bring new and innovative insurance products to the agricultural community, to validate the utility of current insurance products, to ensure outreach to small and limited resource farmers, to promote equity in risk sharing and to guard against fraud, waste and abuse within the program.

Through the private sector delivery system, the program in 2005 provided producers with over $44 billion in protection on approximately 246 million acres through about 1.2 million policies. There are 22 plans of insurance available and nearly 30 new insurance products under various stages of evaluation or development. Approximately 80 percent of acres of major program crops are insured, with many at higher levels of coverage. For 2005, crop insurance provided approximately $2.5 billion in indemnity payments to farmers and ranchers.

Program Integrity

The Federal crop insurance program itself is working as it was intended and it is working well. That is not to say that more cannot be done, especially with regard to reducing program fraud, waste and abuse. More can, should and must be done. RMA is responsible to the American taxpayer and works diligently to be a good steward of the tax dollar. America’s farmers and America’s taxpayers deserve a flexible, fair and fraud-free program. Program integrity is maintained through prevention, detection and enforcement.

RMA’s efforts to maintain program integrity within the Federal crop insurance program are comprised of numerous activities and initiatives: Quality Control and Assurance, Data Mining, Sanctions and Enforcement, IT System Improvements, Conflicts of Interest Guidelines and Program Simplification.
RMA is continually seeking new and creative ways to work with the other regulatory bodies, government agencies and the companies, agents and producers to ensure the integrity of the Federal crop insurance program. RMA compliance reviews continue to reveal that there is only a small number of producers who have been involved in fraud or illicit activity. While no level of criminal or abusive behavior is acceptable, RMA continues to believe the number of persons involved in criminal activity is relatively small.

Because they share in risk, the approved insurance providers (AIPs) have a vested interest in working with us to prevent fraud, waste and abuse. We have worked closely with the AIPs to strengthen program integrity, protect taxpayer dollars, and better assure that those who deliberately break the rules are caught and punished. The vast majority of people in the Federal crop insurance program -- farmers, insurance agents, loss adjustors, industry professionals and government employees-- are honest, hard-working men and women acting with the highest integrity and competence.

**Emphasizing Prevention through Better Quality Control and Assurance**

RMA’s Compliance function workload increased substantially due to the expansion of the Federal crop insurance program and the implementation of ARPA. The President’s Fiscal Year (FY) 2007 budget proposal requested 15 additional staff to strengthen and expand the compliance function, including addressing audits conducted by the USDA Office of Inspector General (OIG) and auditing insurance companies for improper payments.

RMA is emphasizing prevention through better quality control and assurance, while still aggressively pursuing program abuse by assisting USDA’s OIG and the Department of Justice. Improvements in quality controls and investigations continue to be assisted by new and better technology, specifically the use of data mining, remote sensing, geospatial information technologies and other computer-based resources.

It is important to note that RMA must refer all cases of suspected criminal activity to the OIG for investigation. We have provided this Subcommittee with illustrations showing the amount of time it can take to prosecute criminal activity in the crop insurance program. As depicted in the attached slides, even the most vigorous prosecutions can take several years to complete. The result is that in many cases, the statute of limitations has run out and no further action is possible. While all parties involved continue to work toward improving the process, there is little doubt that the amount of time required to correctly address criminal misconduct by a small number of policyholders does not effectively serve as a deterrent, except in the most public of cases.

The renegotiation of the 2005 Standard Reinsurance Agreement (SRA) signaled significant changes in the way RMA will ensure program compliance in the future. RMA enhanced the reporting and monitoring of AIPs and their affiliates with respect to financial solvency and program integrity. The 2005 SRA was structured to place a larger responsibility on AIPs for internal controls in part to recognize the requirements of new laws, such as Sarbanes-Oxley, that are placed on the companies. These changes, along with Compliance’s new oversight methodology, are intended to increase the percentage of policies processed without errors in the future. Data mining is now a primary tool used by Compliance to isolate and detect policies that
are anomalous in comparison to other policies with similar characteristics so that they can be targeted for review.

In the area of enforcement, Compliance continues to build relationships not only with the Federal agencies that assist directly with prosecuting criminal activity, primarily OIG Investigations and the Department of Justice, but also with State insurance departments and the National Association of Insurance Commissioners. This approach is aimed at reducing both common errors and controlling the potential for abuse on the front end of the program and more effectively prosecuting or taking other administrative actions on those persons found to be in violation of the program rules.

In a time of limited resources and increased responsibilities, effective internal controls provide a significant cost-benefit compared to identifying and prosecuting program abuse alone.

**Detection via Data Mining**

RMA is making significant progress in preventing fraud, waste and abuse through the expanded use of data mining. As part of the ARPA legislation, data warehousing and data mining techniques were explicitly identified as tools to be used by RMA to strengthen the crop insurance program’s oversight efforts. RMA contracts with the Center for Agribusiness Excellence (CAE) at Tarleton State University to develop these technologies. Since employing these technologies in 2001, RMA has achieved substantial program savings through proactive efforts to identify program vulnerabilities and abuse.

One such effort combines the strengths of data mining technologies and the farm-level knowledge of another USDA agency, the Farm Service Agency (FSA), to identify and monitor those producers whose crop insurance losses are not consistent with those of their neighbors. This effort alone has achieved savings of more than $456 million dollars since the 2001 crop year. More importantly, these savings are achieved without RMA or FSA having to issue administrative sanctions or engage in lengthy and costly criminal investigations to curb program abuse. The savings from this effort alone represent a $23 return for every dollar spent by RMA on data mining since its inception. Our analysis shows that this change in claims behavior for most producers persists for several years, resulting in overall savings that are even higher over a longer-term period.

In addition, CAE conducts internal data mining research for RMA to assist compliance and underwriting efforts and any other research deemed necessary by the agency to improve the effectiveness and efficiency of the crop insurance program. CAE currently produces approximately 160 such research products per year for RMA, including products such as crop simulation models, planting date studies and methods for correctly identifying high-risk land.

Data mining findings also demonstrated that the considerable majority of producers participating in the crop insurance program used the risk management tools we offer exactly as they were intended. CAE, using an analysis technique known as a decision tree, classified the entire crop insurance book of business into a range of behavior, from those producers who almost never had losses to those who had frequent and severe losses. Through this method, CAE was able to
demonstrate that most producers used the risk management tools as intended and only a small percentage of producers exhibited behavior that warranted future review.

RMA also uses data mining to verify compliance with established rules and regulations. For example, data mining identified policies where a comparison of past claims and production data indicated that AIPs had often failed to use claim production data to establish future approved yields, as required by regulation. RMA is providing this information to the AIPs to assist them in correcting producer data for subsequent crop years.

Outside audit bodies such as the USDA’s OIG and the General Accountability Office (GAO) have also recognized our success with the use of data warehousing and data mining technologies. OIG recommended that USDA employ data mining in other farm programs. Further, both OIG and GAO have been customers, using CAE on occasion to assist them with audits of farm programs.

The benefits from using data warehousing and data mining technologies have increased every year since its inception. RMA expects the benefits generated from using these technologies to continue and plans to expand its use of data mining technologies to all areas of the program in the near future.

ARPA authorized program integrity funds for data mining purposes at a cost equal to $3.6 million a year for a period of five years. That authorization expired in FY 2005. Congress, through the appropriations process, allocated $3.6 million in FY 2006 so that data mining would continue. The President’s FY 2007 Budget included $3.6 million in the agency’s Administration and Operations account. The House recently passed the FY 2007 agriculture appropriations bill, which includes language providing RMA with flexibility to use other authorized funds for data mining.

**Enforcement**

RMA continues to make progress in the Administrative Sanctions arena. In 2005, RMA imposed 24 sanctions on producers, agents and loss adjusters found to have violated approved policies and procedures. For 2006, RMA has imposed 28 sanctions thus far. RMA publishes a list of imposed sanctions on its website as a reminder to program participants that maintaining integrity is critical.

We are improving the timing and quality of our sanctions requests as well. As of June 6, 2006, USDA’s Office of General Counsel (OGC) has declined only two sanctions referrals due to insufficient evidence in 2006. In 2005, OGC declined 10 such cases. This improvement is attributable to Compliance personnel becoming more proficient at identifying evidence and establishing cases that will pass legal sufficiency requirements.

The number of pending sanctions cases has also decreased. We currently have 50 requests for administrative sanctions pending, compared with 57 at the end of 2005.
Finally, modifications to the Administrative Sanctions regulations that were identified in a recent GAO report have been drafted and are in clearance, as RMA agreed to when GAO issued its report. These regulations will formalize the sanctions authority Congress provided RMA in ARPA.

In 2005, GAO audited RMA’s overall compliance activities for 2005, and recommended areas for improving our compliance efforts. GAO made several recommendations that RMA accepted and is working to implement. However, data mining remains central to our compliance efforts because it is cost efficient and cost effective.

Within current resources, compliance managers also continue to concentrate on the mission-critical tasks of evaluating and improving new processes to prevent and deter fraud, waste and abuse in the crop insurance program. We have dedicated significant resources to building and adapting a reporting and tracking system to complement and integrate the oversight mandates established by ARPA.

While RMA, FSA and the AIPs have prevented tens of millions of dollars of improper payments through these and other measures, RMA is constantly identifying ways to balance competing needs to make our products fraud-proof while seeking to provide responsive, useful risk protection to farmers. We still have work to do and improvements to make, but we are making good progress in our fight against program abuse.

**IT System Improvements**

A critical area in program integrity improvement is enhancing the capability of RMA’s IT system. ARPA also instituted new data reconciliation, data mining and other anti-fraud, waste and abuse activities that require the data to be used in a variety of new ways. The current IT system was not designed to handle these types of data operations. Consequently, the data must be stored in multiple databases, which increases data storage costs and processing times, and increases the risk of data errors.

In light of this, the 2007 Budget includes a proposal to require the AIPs to share in the cost to develop and maintain a new IT system. The AIPs would be assessed a fee based on one-half cent per dollar of premium sold. The fee is estimated to generate an amount not to exceed $15 million annually. After the IT system has been developed, the assessment would be shifted to maintenance and would be expected to reduce the annual appropriation.

**Conflict of Interest Supplementary Guidance**

RMA recognizes that certain types of interactions between agents, loss adjusters and policyholders pose serious conflict of interest challenges to the integrity of the crop insurance program. RMA investigations and independent audits by OGC and GAO have identified instances where crop insurance claims have been influenced by such conflicts.

The 2005 SRA contained new and enhanced provisions that strengthened RMA’s ability to prevent and detect those conflicts of interest that might adversely affect program integrity.
Specifically, the SRA strengthened provisions that 1) prohibited certain conduct by agents during the loss adjustment process, and 2) required increased conflict of interest disclosure by agents, loss adjusters and AIP employees.

To assist the AIPs in implementing new SRA provisions dealing with prohibited activities of agents during loss adjustment, RMA worked closely with AIPs and agents to develop a comprehensive guidance document that reflected tough but workable standards. RMA issued the resulting Managers Bulletin in October 2005. The reaction of the crop insurance industry, agent associations and oversight bodies has generally been very positive to these standards.

After addressing this first area of concern, RMA has now turned to the problem of developing guidance on conflict of interest disclosure. The SRA requires that all AIP employees and affiliates disclose any potential conflicts of interest to the AIPs and, in turn, to RMA. RMA has listened to the comments of the industry regarding conflict of interest disclosure to ensure that guidance will contain a workable standard that will be consistent across all AIPs and will provide important information for RMA’s data mining efforts. A draft of this guidance has been cleared internally and will soon be released to the industry for comment.

**Simplification of the Federal Crop Insurance Program**

In addition, simplification of the program is a priority of both RMA and the FCIC Board. As new programs have been added, more complexities have arisen.

As an initial priority, RMA is developing a Combination policy, which combines the existing Actual Production History, Crop Revenue Coverage, Income Protection, Indexed Income Protection and Revenue Assurance plans of insurance into one consolidated plan. We have been working on this for some time now, and the proposed rule is in the final stage of the clearance process. We believe this change will provide producers a broader array of insurance options in a more straightforward process and improve product delivery and operations.

RMA is also working closely with FSA to simplify our joint reporting requirements. The two agencies have so many issues and requirements in common and we interact so much that it makes great sense for us to work together to ease the reporting burden on the farmer and on the agencies. Our objective is to vastly improve the reporting accuracy between the companies and FSA.

RMA is actively working on the second phase of a project to implement section 10706 of the 2002 Farm Bill to assist the Secretary of Agriculture in developing a Comprehensive Information Management System (CIMS), which will simplify and improve the programs administered by RMA and FSA. This project will provide an information system that allows RMA, FSA other USDA entities and AIPs to process, share and report on approved common information. The second phase of the project focuses on the sharing and analysis of existing RMA and FSA producer and acreage data. Recommendations have been provided to both RMA and FSA for subject matter experts to review elements for producers, land locations, crops and acreage reporting.
RMA continues to move forward with the CIMS project. The following CIMS services have been tested and are ready for implementation:

- Returning of FSA producer and acreage data to participating AIPs for 19 pilot counties for 2006;
- Enabling FSA pilot county offices to access RMA data through a web-based process;
- Providing management reports; and
- Adding of discrepancies in producer reported information in RMA and FSA accepted data added to the CIMS web services.

In March 2006, a ‘Notification Area’ was added to the CIMS web interface to allow FSA County Offices and AIPs to communicate on data issues identified by CIMS.

**Conclusion**

Administration of the crop insurance program requires all interested parties working together to identify viable insurance products and solutions that meet the needs of the agricultural community. Moreover, if the program is to continue to be successful, the resources to provide the checks and balances necessary to guard against the risks of fraud, waste and abuse need more focus and priority.

RMA continues to improve and update the terms and conditions of existing crop insurance policies to enhance coverage and efficacy of the policies, as well as to clarify and define insurance protection and the duties and responsibilities of the policyholder and AIPs to improve the understanding, use and integrity of the program.

When I accepted this position, Secretary Johanns charged me with administering the crop insurance program in a timely and farmer-friendly manner. I take this charge very seriously. I will work with the insurance companies, agents’ groups, crop-specific groups and, of course, the Congress, to meet our common goals of providing effective insurance products, processing timely and accurate claims when losses occur and identifying and eliminating fraud, waste and abuse in the program to the greatest extent possible. Thank you all for the support provided by the Subcommittee to help improve program integrity within the crop insurance program. We have much to be proud of and much to look forward to in continuing to work together.

Again, thank you for the opportunity to participate in this important hearing. I look forward to responding to questions on these issues.