

Statement by Eldon Gould
Administrator
Risk Management Agency
United States Department of Agriculture
Before the House Committee on Oversight and Government Reform
May 3, 2007

Mr. Chairman and members of the Committee, I am Eldon Gould, Administrator of USDA's Risk Management Agency (RMA). I am also a life-long farmer in northern Illinois who values access to a crop insurance program that is administered to ensure program integrity and the best use of the taxpayer dollars.

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 maintain and improve our 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.

The Federal crop insurance program has experienced extraordinary growth in the last quarter century. In crop year 2006, through the private sector delivery system, RMA provided \$49.9 billion of protection to farmers on approximately 370 commodities, covering nearly 80 percent of major crops for which we can determine total eligible acres within the United States. This coverage was offered through 21 plans of insurance and approximately 1.1 million policies insuring about 242 million acres. In 2005, crop insurance provided approximately \$2.4 billion in indemnity payments to farmers and ranchers. For 2006, indemnity payments to farmers totaled approximately \$3.4 billion. We estimate that in 2007, we will reach \$65 billion in insurance protection for American agriculture.

The Federal crop insurance program is working as it was intended and it is performing well, meeting the targeted loss ratios. 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 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 more effective ways to work with the other regulatory bodies and government agencies as well as AIPs, agents and producers to ensure the integrity of the Federal crop insurance program. RMA compliance reviews continue to reveal that there are 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 stake in working with us to prevent fraud, waste and abuse. We have worked closely with them 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

Program Integrity

RMA's Compliance function workload increased substantially due to the expansion of the Federal crop insurance program and the implementation of ARPA. In order to address the increases, RMA is emphasizing preemption through better quality control and assurance, while still aggressively pursuing program abuse by assisting USDA's Office of Inspector General (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.

The renegotiation of the 2005 Standard Reinsurance Agreement (SRA) resulted in changes in the way RMA ensures program compliance. The SRA directs insurance providers to expend more resources on quality assurance and internal controls than ever before. The new SRA also recognizes that insurance providers have improved internal control processes in response to requirements of the Sarbanes-Oxley Act. The SRA permits the insurance providers to document and receive credit for their efforts rather than complying with a separate set of assurance mandates.

In conjunction with the new quality control requirements, RMA Compliance has revised its work plans to reflect a more balanced approach between quality assurance and investigating program abuses. In a time of declining resources and increased responsibilities, effective internal controls provide a significant cost-benefit compared to identifying and prosecuting program abuse alone. RMA is currently reviewing company operations and internal controls to determine if their efforts actually address crop insurance program vulnerability concerns.

RMA Compliance personnel completed the second year of structured random policy reviews in 2006, and will soon begin the third round in the three-year cycle of reviewing participating insurance providers. Compliance completes the random reviews, in conjunction with an assessment of each insurance provider's operational compliance, and uses the information to establish a program error rate under the Improper Payments Information Act of 2002 (IPIA). It is noteworthy that RMA's observed error rate from reviews on 600 randomly selected policies was 2.64%. RMA initially projected 5.0% on the first IPIA reports, so this number is less than

expected. We would also note that the Administration requested funding for additional Compliance resources in each of the past three budget cycles, mainly for the purpose of fully staffing the work to determine the program error rate in accordance with the IPIA.

The Government Accountability Office (GAO) audited RMA compliance activities in 2005, and recommended areas for improving our compliance efforts. The GAO made several recommendations that RMA accepted and is working to implement.

Compliance managers 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 and other statutory requirements.

While RMA, FSA and the insurance providers have preempted 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.

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.

RMA has preempted millions of dollars' worth of expected payments and RMA continues to identify ways to reduce program abuse. RMA continues to use data mining to identify anomalous producer, adjuster, and agent program results and, with the assistance of Farm Service Agency (FSA) offices, conducts growing season spot checks to ensure that new claims for losses are legitimate. These spot checks based on data mining have resulted in a significant reduction in anomalous claims for certain situations. Specifically, reduced indemnities on spot-checked policies were approximately \$112 million in 2002, \$82 million for 2003, \$71 million in 2004, \$138 million in 2005, and \$35 million in 2006. We are optimistic about the long-term benefits of data mining in our compliance efforts and elsewhere.

As noted above, the annual spot check list combines the strengths of data mining technologies and the farm-level knowledge of FSA, to identify and monitor those producers whose crop insurance losses are not consistent with those of their neighbors. This effort alone has achieved reductions from prior year indemnities for the producers selected of more than \$437 million dollars since the 2002 crop year. More importantly, these reductions are achieved without RMA or FSA having to issue administrative sanctions or engage in lengthy and costly criminal investigations to curb program abuse. These reductions represent more than a \$20 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 program savings that are even higher over a longer-term period

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.

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.

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 when such errors are found.

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.

The 2008 Budget includes a proposal that would expand the uses of mandatory ARPA research and development funding for data mining as well as for Comprehensive Information Management System (CIMS). Specifically the FY 2008 President's Budget would authorize the use of \$5.4 million for replacement of equipment and \$3.6 million to continue regular operations of data mining.

Enforcement

RMA continues to make progress in the Administrative Sanctions arena. In 2005, RMA imposed 24 sanctions, such as suspensions, debarments, and disqualifications on producers, agents and loss adjusters found to have violated approved policies and procedures. For 2006, RMA

imposed 41 sanctions and had 53 additional sanctions pending at the end of the year. RMA also routinely publishes the Department of Justice press releases regarding successful prosecutions of crop insurance program abuse on our 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. RMA continues to work with USDA's Office of General Counsel (OGC) to limit the number of cases declined due to insufficient evidence. This improvement is attributable to Compliance personnel becoming more proficient at identifying evidence and establishing cases that will pass legal sufficiency requirements.

Finally, modifications to the Administrative Sanctions regulations that were identified by GAO as requiring publication are in clearance. These regulations will formalize all the sanctions authority Congress provided RMA in ARPA.

In 2005, GAO audited RMA's overall compliance activities, 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.

The 2008 Budget includes two proposals that will facilitate funding of our IT needs.

The first is similar to last year's request, which required insurance providers to share in the cost to develop and maintain a new IT system. Insurance providers 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 new IT system has been developed, the assessment

would be shifted to maintenance and would be expected to reduce the annual appropriation of the salaries and expenses account of RMA.

The second, as noted earlier, would expand the uses of mandatory ARPA research and development funding for data mining and data warehousing activities required by ARPA, and the testing and development of the Comprehensive Information Management System.

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 OIG 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. Such disclosure is used to determine what conduct may be prohibited and what reviews must be done by the AIP. 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.

RMA is now finalizing a Manager's Bulletin that contains further guidance to assist insurance providers in implementing changes to the SRA regarding conflict of interest disclosure. The Bulletin will establish standards for reporting conflicts of interest by insurance provider employees, agents, and loss adjusters. It will thereby promote program integrity and ensure adequate internal controls based on the identification of certain conflict of interest problems in past audits and investigations of fraud, waste and abuse in the program.

Simplification of the Federal Crop Insurance Program

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 insurance plan (Combo). We have been working on this for some time now, and the draft final rule is being completed and targeted for OGC review and approval during May 2007. The final rule is intended to be effective for the 2009 crop year, with publication slated for late 2007. 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 frequently 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.

The common component of CIMS has been operational internally since July 2006. It is being loaded weekly with over 141 million producer and acreage records from RMA and FSA for 2005, 2006 and 2007. This data is processed and is electronically available to approved RMA and FSA users to provide participation summary reports, information on individual producers and discrepancies in reported acreage. Once RMA's and FSA's System of Records have been updated for CIMS, the reinsured companies will have electronic access to their insured producers information only. All data is secure and subject to controls to prevent unauthorized access.

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, responsible, and farmer-friendly manner. I will work with the insurance companies, agents' groups, producer 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 Committee to help improve program integrity within the Federal 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.