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Testimony

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United States Senate

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DISASTER ASSISTANCE

Problems in Administering  
Agriculture Payments

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Mr. Chairman and Members of the Committee:

We are pleased to participate in this hearing on initiatives to reform the disaster assistance and federal crop insurance programs. Our testimony focuses on the difficulties the U.S. Department of Agriculture (USDA) has faced in administering disaster assistance and in ensuring that disaster assistance payments, combined with crop insurance payments, do not exceed legislative limits. We will also provide information on actions USDA and the Congress could take to improve the administration of disaster assistance payments and better integrate disaster assistance and crop insurance payments.

Our statement today is based on our 1991 report on USDA's effectiveness in administering the 1988 and 1989 disaster assistance programs and our ongoing work for this Committee on USDA's crop insurance program. (See Related GAO Products.)

In summary, our work to date indicates the following:

- USDA has faced difficulties in administering disaster assistance for nonprogram crops, such as fruits and vegetables. USDA does not have the data it needs to ensure the correct level of disaster assistance payments for these crops. Without good data, overpayments do occur; and when they are discovered, USDA is limited by law (except for fraud or egregious error) to initiating collections on them within 90 days of the original payment determination.
- USDA has not ensured that (1) recipients of disaster payments for all crops in one year purchase crop insurance the following year, as required by law, and (2) disaster payments made to holders of crop insurance policies are within legislative limits.

As we have previously recommended, the Congress and USDA could take several actions that would improve the administration of disaster assistance payments, ensure that disaster assistance and crop insurance program payments do not exceed legislative limits, and better manage the government's expenses associated with the risks of crop production.

DISASTER PAYMENTS AND CROP INSURANCE PROGRAMS  
WERE DESIGNED TO HELP PRODUCERS  
HANDLE PRODUCTION RISKS

Because farming is a risky business, the Congress has two principal programs to compensate for weather-related crop losses--ad hoc disaster payments and crop insurance. Between 1988 and 1993, in ad hoc pieces of legislation, the Congress created seven nonpermanent disaster assistance programs. Over this period, USDA paid producers about \$8.8 billion. About 75 percent of this assistance, \$6.5 billion, went to producers of program crops, and another 25 percent, \$2.3 billion, was paid to producers of nonprogram crops--crops that are not eligible for federal price and

income support assistance. For producers of nonprogram crops, 1988 was the first year in which the federal government made a major effort to provide substantial financial disaster assistance. (See app. I.)

For each successive disaster assistance program, eligibility requirements and payment levels varied, contributing to the complexity of the programs. For example, to qualify for disaster assistance, producers needed to lose 35 percent of a crop in 1988 but more than 50 percent in 1989. In 1990 through 1993, the amount of crop loss necessary to be eligible for disaster assistance payments depended on whether or not the producer had crop insurance. Producers without crop insurance needed losses greater than 40 percent, and producers with crop insurance needed losses greater than 35 percent. Moreover, disaster assistance payments covered more than 1,200 crops and aquaculture, with the basis for the yields and prices used to calculate the payments varying by crops and species. (The prices are set in the disaster assistance legislation. See app. II.)

Disaster payments have occurred despite congressional efforts in 1980 to make crop insurance the preeminent means for providing agriculture disaster assistance. Disaster payments have been utilized because crop insurance has never attained the level of participation the Congress believed necessary to safeguard producers from weather-related risk. The Federal Crop Insurance Corporation (FCIC), within USDA, estimates that it offers insurance on about 75 percent of the approximately \$92 billion in annual commodity production. However, participation has not exceeded 40 percent of eligible acres. Between 1981 and 1993, the federal government paid \$8.2 billion (61 percent) of the \$13.5 billion cost of the crop insurance program, with producers paying the balance through their crop insurance premiums.

#### USDA LACKS THE DATA IT NEEDS TO ADMINISTER DISASTER ASSISTANCE FOR NONPROGRAM CROPS

In 1991, we reported that USDA had no assurance that the \$1.3 billion paid in disaster benefits for nonprogram crops in 1988 and 1989 were protected from fraud, waste, and abuse. This lack of assurance occurred because of problems in verifying producers' losses and USDA's lack of historical yield and price data. In addition, we found that many disaster payments greatly exceeded producers' actual production costs.<sup>1</sup>

The 1988 and 1989 payments for nonprogram crops resulted from ad hoc disaster assistance programs, and USDA did not routinely

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<sup>1</sup>As the administrator of the agency--the Agricultural Stabilization and Conservation Service (ASCS)--that paid program benefits pointed out in 1992, it is difficult to ensure the integrity of payments.

collect data on many of these crops. Therefore, the Department was unable to ensure the validity of much of the data producers provided. USDA could not collect crop loss data from producers of nonprogram crops until after the disaster assistance legislation was enacted in August of each year and the producers had filed their loss claims. The delayed authority resulted in USDA's being unable to verify the validity and accuracy of much of the producers' crop loss data, since evidence had generally been harvested and sold, or plowed under and destroyed.

We also reported that USDA had no assurance that the information it used to compute disaster assistance payments for nonprogram crops was reliable. Disaster legislation requires that such information be based on the 5-year average historical price received for crops (payment rate) and average production (yield) over 5 years. This information was not available for many nonprogram crops for which USDA did not routinely collect data. Therefore, in the four states we reviewed, USDA had to establish about two-thirds of its rates and yields using something less than desired historical data. For example, on the basis of 1 year of a producer's data, a Wisconsin field office paid \$500 per ton for watermelons for 1988 crop losses. However, for the 1989 program, the same office used 5 years of data from field offices in three neighboring states and paid only \$300 per ton--a 40-percent reduction from the prior year.

Finally, we reported that USDA paid producers of many nonprogram crops excessively high disaster assistance benefits. This occurred because USDA was required by law to set payment rates based on market prices, without adjusting the payments downward to reflect production costs not incurred. For 14 major nonprogram crops we reviewed in Georgia and Texas, producers received financial assistance ranging from 80 percent to over 190 percent of state extension service estimates of costs incurred prior to harvest. In Georgia, for example, producers of okra and summer squash (nonprogram crops) who did not harvest their crop received disaster payments that were twice their expenses.

After our 1991 report was issued, USDA initiated action to collect overpayments we had reported. However, USDA subsequently determined that a provision in the 1990 farm bill prohibited the agency from initiating action to collect overpayments more than 90 days, unless otherwise appealed, after a payment decision was made--except for fraud or egregious error. Because many of the overpayments we found resulted from administrative difficulties--USDA did not have adequate and timely information on which to base its payments--USDA cannot take action to collect on these overpayments after 90 days. In the four states we reviewed, this restriction means that USDA may not be able to collect overpayments of about \$575,000. This restriction also affects USDA's ability to collect similar overpayments identified by the Office of the Inspector General in its work.

USDA HAS NOT ENSURED THAT DISASTER ASSISTANCE  
RECIPIENTS MEET REQUIREMENTS FOR PURCHASE  
OF CROP INSURANCE AND PAYMENT LIMITS

The combined outlays for disaster assistance and crop insurance payments can be significant. For example, for crop years 1990 to 1992, about 50 percent (\$656 million), of the \$1.3 billion in disaster assistance payments in counties where crop insurance was available, went to recipients who purchased crop insurance. (See app. III.) Therefore, agency oversight to ensure that government payments do not exceed requirements is critical for both programs. However, in our ongoing work for this Committee, we have noted two areas in which USDA needs to improve its oversight over disaster payments to crop insurance recipients.

First, USDA's procedures to ensure that producers' combined crop insurance and disaster assistance payments do not exceed legislatively set limits are inadequate. The disaster assistance legislation provides that producers' disaster assistance payments, when combined with crop insurance payments, cannot exceed an amount equal to the legislated price multiplied by producers' production yield for each crop. To achieve this objective, USDA is required to obtain from producers the amount of their crop insurance payments, but not any supporting documentation. Representatives of two USDA county offices told us that while one office obtained pertinent documentation from producers, the other did not. Without routinely requiring documentation supporting the amount of the crop insurance payment, USDA cannot ensure that disaster assistance payments do not exceed the limit.

Second, USDA does not effectively monitor the legislative requirement that producers who received disaster assistance payments for losses in one year purchase crop insurance the following year. For 1992 and 1993, the disaster assistance legislation required that producers who were paid for losses of greater than 65 percent for a crop, purchase crop insurance the following year (for that crop on that farm). For 1992, 83 percent of the disaster payments met this loss criteria, indicating that most producers should have purchased crop insurance the following year. To get a preliminary indication of whether this was the case, we spoke with representatives of two county offices. They told us that USDA requires county offices to inform disaster payment recipients of this requirement; however, USDA does not require the verification of this purchase. In response to our questions on this issue, USDA recently initiated an effort with FCIC to verify that producers who were required to purchase insurance did so.

CHANGES IN THE ADMINISTRATION AND STRUCTURE  
OF DISASTER ASSISTANCE AND CROP INSURANCE  
COULD BETTER MANAGE GOVERNMENT COSTS

Since the early 1980s, we have reported on problems in the administration of both the disaster assistance and crop insurance programs and recommended structural changes to both programs to better manage government costs. Two recommendations we made are relevant to your hearings today. First, we believe that USDA needs data on nonprogram crops to ensure that disaster assistance payments for those crops are appropriate. Without legislation, USDA cannot put into place the necessary data collection effort that would ensure payment integrity. Such data could be collected by USDA or required of producers. Second, we have asked the Congress to consider integrating crop insurance and disaster assistance programs to improve risk management, reduce administrative costs, improve equity to all farmers, and encourage complementary public-private risk enterprises.

CONCLUSIONS

The difficulties in administering ad hoc disaster payments and crop insurance indicate the need to develop a more effective approach to providing risk management alternatives to producers. We believe that integrating disaster assistance and crop insurance programs could assure producers of continuous disaster coverage. At the same time, this integrated program, if properly designed and implemented, could better protect government funds.

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This concludes my prepared testimony, Mr. Chairman. We would be pleased to answer any questions you or Members of the Committee may have.

DISASTER ASSISTANCE PAYMENTS TO PRODUCERS BY TYPE CROP  
AND AVAILABILITY OF CROP INSURANCE, CROP YEARS 1988-93

Type crop and crop year	Payments to producers in counties where crop insurance		Total payments
	Not available	Available	
Income and price support crops	Not applicable		
1988		\$1,814,039,437	\$1,814,039,437
1989		963,490,935	963,490,935
1990		138,625,023	138,625,023
1991		304,851,997	304,851,997
1992		411,535,922	411,535,922
1993		1,328,987,312	1,328,987,312
Subtotal	0	4,961,531,626	4,961,531,626
Price support crops only			
1988	5,061,985	562,179,217	567,241,202
1989	6,841,511	173,131,413	179,972,924
1990	1,720,074	79,639,332	81,359,406
1991	2,321,582	93,818,485	96,140,067
1992	2,248,143	45,868,556	48,116,702
1993	3,594,357	558,868,640	562,462,997
Subtotal	21,788,652	1,513,505,645	1,535,294,298
Nonprogram crops-- insurance offered			
1988	368,838,213	401,570,549	770,408,762
1989	108,159,641	81,586,680	189,746,321
1990	43,664,935	88,049,691	131,714,626
1991	54,972,296	52,041,284	107,013,582
1992	57,062,993	58,472,963	115,535,956
1993	108,413,624	113,064,579	221,478,203
Subtotal	741,111,704	794,786,746	1,535,897,449
Nonprogram crops-- insurance not offered		Not applicable	
1988	235,902,681		235,902,681
1989	147,404,661		147,404,661
1990	79,692,193		79,692,193
1991	98,091,237		98,091,237
1992	104,551,595		104,551,595
1993	159,160,457		159,160,457
Subtotal	814,803,824	0	814,803,824
Total	\$1,577,704,180	\$7,269,823,017	\$8,847,527,197

Note: Program crops includes both the crops for which income and price supports are available and crops for which only price supports are available. Income and price support crops are barley, corn, grain sorghum, oats, rice, upland cotton, and wheat. Crops just receiving price support are ELS cotton, oilseeds (canola, crambe, flax, mustard, rapeseed, safflower, sesame, soybeans, and sunflower seed), honey, peanuts, rye, sugar beets, sugar cane, and tobacco.

Source: GAO analyses of ASCS and FCIC data. To do this analysis we needed to link ASCS's computer files that showed payments on 1,265 crops and fish with FCIC's computer files that showed 51 major crops. To do this, FCIC matched its 51 major crops with about 400 crops in ASCS's records.



DISASTER ASSISTANCE PROGRAM PROVISIONS  
FOR YIELDS AND PRICES, CROP YEARS 1990-93

Crop Category	Yield	Price
Participating program crops and ELS cotton	ASCS yield	65 percent of target price.
Nonparticipating program crops and ELS cotton	ASCS yield	65 percent of loan rate.
Sugar beets and sugarcane	County average yield	65% of price support level
Peanuts	Farm yield	
Quota tobacco	County average yield	
Soybeans, sunflowers, and nonquota tobacco	County average yield	65 percent of 5-year average price, dropping highest and lowest years.
Nonprogram crops	County average or proven yield	

Note: For 1990-92, a budget factor of 50.04 percent was applied to the payments calculated, reducing the payments by about one-half.

DISASTER ASSISTANCE PAYMENTS TO PRODUCERS WHO HAD  
CROP INSURANCE AVAILABLE, CROP YEARS 1990-92

Type crop and crop year	Payments to producers who		Total payments
	Purchased crop insurance	Did not purchase crop insurance	
Income and price support crops			
1990	\$93,709,687	\$44,915,336	\$138,625,023
1991	159,634,182	145,218,815	304,852,997
1992	228,579,501	182,956,421	411,535,922
Subtotal	481,923,370	373,090,572	855,013,942
Price support crops only			
1990	48,594,165	\$31,045,168	79,639,332
1991	38,838,517	54,979,968	93,818,485
1992	22,165,240	23,703,318	45,868,558
Subtotal	109,597,922	109,728,453	219,326,375
Nonprogram crops			
1990	27,181,629	\$60,868,062	88,049,691
1991	17,443,433	34,597,851	52,041,284
1992	19,457,795	39,015,167	58,472,963
Subtotal	64,082,857	134,481,081	198,563,938
<b>Total</b>	<b>\$655,604,149</b>	<b>\$617,300,106</b>	<b>\$1,272,904,255</b>

Note: Program crops includes both the crops for which income and price supports are available and crops for which only price supports are available. Income and price support crops are barley, corn, grain sorghum, oats, rice, upland cotton, and wheat. Crops receiving only price support are ELS cotton, oilseeds (canola, crambe, flax, mustard, rapeseed, safflower, sesame, soybeans, and sunflower seed), honey, peanuts, rye, sugar beets, sugar cane, and tobacco.

Source: GAO analysis of ASCS centralized computer accounting records (1) showing payments on about 400 ASCS crops for which FCIC offered insurance and (2) showing whether the producers had crop insurance. Information for payments in 1988-89 was not readily available in the format needed for this analysis and for 1993 was not yet available on the centralized records.

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