

June 2010

USDA CROP
DISASTER
PROGRAMS

Lessons Learned Can
Improve
Implementation of
New Crop Assistance
Program



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Highlights of [GAO-10-548](#), a report to Congressional Requesters

Why GAO Did This Study

The U.S. Department of Agriculture's (USDA) Farm Service Agency (FSA) provides programs to help farmers recover financially from natural disasters. Congress has historically supplemented these programs with ad hoc programs that pay farmers who experienced crop losses. The 2008 farm bill established a program through 2011 to pay farmers who lose crops. To receive these payments, farmers must purchase coverage under federal crop insurance or the Noninsured Crop Disaster Assistance Program, and receive claims payments for losses.

GAO was asked to evaluate (1) how FSA administered the crop disaster programs for losses from 2001 through 2007 and the results of payments under these programs and (2) what lessons FSA can learn from the previous crop disaster programs to manage its new crop disaster program. GAO reviewed statutes, regulations, and guidance; analyzed USDA data; and interviewed USDA officials.

What GAO Recommends

GAO recommends that, among other things, USDA implement procedures to notify FSA county officials at the time of crop insurance claims for disaster-related losses so they can verify loss eligibility. In commenting on a draft of this report, USDA disagreed with some findings as well as the wording of this recommendation and provided technical comments. GAO revised the recommendation and made other changes as appropriate.

View [GAO-10-548](#) or [key components](#). For more information, contact Lisa Shames at (202) 512-3841 or shamesl@gao.gov.

USDA CROP DISASTER PROGRAMS

Lessons Learned Can Improve Implementation of New Crop Assistance Program

What GAO Found

FSA largely used crop insurance data from USDA's Risk Management Agency (RMA) to calculate nearly \$7 billion in crop disaster payments under the 2001 through 2007 ad hoc crop disaster programs. FSA made about \$395 million in payments under these programs to 8,463 farmers who RMA identified as having received suspicious crop insurance claims payments in those same years. Almost half of crop disaster payments for farmers RMA identified as having suspicious crop insurance claims payments were in five states. RMA provides its annual list of suspicious claims payments to FSA state and county offices and to the insurance company selling the policy to the farmer for appropriate follow-up action. However, GAO previously reported that few suspicious claims payments resulted in a conviction for fraud. As reported, the factors considered when accepting a case for investigation and prosecution include sufficiency of the evidence, complexity of the case, whether the fraudulent activity is part of a pattern or scheme, and workload and resources that would be needed to investigate and prosecute the case.

For 2001 through 2007, GAO could not use FSA's electronic data files to determine whether crop disaster payments complied with a statutory cap because the reliability of these files is undetermined for the purpose of assessing whether a crop disaster payment was in compliance with the cap. However, in using hard copy files to determine compliance with the cap, GAO found that payments to selected farmers were in compliance. Furthermore, FSA officials did not provide systems documentation, such as specifications and business rules on how FSA used data in its systems to calculate crop disaster payments.

FSA's experience with ad hoc crop disaster programs shows that a lag—as much as 4 years—between the occurrence of a disaster-related crop loss and the application for a disaster payment for that loss prevented FSA county officials from verifying the cause of the loss. Under the new program, there will still be a lag before farmers can apply for a payment; in contrast, farmers have to file a crop insurance claim immediately after a loss and be subject to insurance verification. Without more timely eligibility determinations for the new crop disaster program, FSA county officials will be unable to verify that applicants experienced losses due to an eligible cause. In addition, insufficient documentation of the data systems FSA used for calculating and issuing payments under the ad hoc programs makes it difficult to validate the accuracy of those payments. A similar lack of documentation under the new program could hamper FSA officials' efforts to track payments and ensure the payments adhere to statutes, regulations, and FSA guidelines.

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Abbreviations

FSA	Farm Service Agency
RMA	Risk Management Agency
USDA	U.S. Department of Agriculture

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United States Government Accountability Office
Washington, DC 20548

June 4, 2010

The Honorable Paul Ryan
Ranking Member
Committee on the Budget
House of Representatives

The Honorable Jeff Flake
House of Representatives

The U.S. Department of Agriculture (USDA) provides a safety net of permanently authorized and regularly funded programs, including federally subsidized crop insurance and emergency disaster loans, to help farmers recover financially from natural disasters. Congress has historically supplemented these ongoing programs in an ad hoc manner by providing one-time payments through crop disaster programs that compensate farmers for disaster-related crop losses they sustained. Most recently, under three separate congressionally authorized ad hoc crop disaster programs, USDA provided \$7 billion in disaster payments to farmers whose crops were damaged or destroyed by natural disasters from 2001 through 2007.^{1,2} The Food, Conservation, and Energy Act of 2008 (the 2008 farm bill) established and funded a \$3.8 billion permanent trust fund, and directed the Secretary of Agriculture to make crop disaster assistance payments to eligible producers who suffer crop losses on or before September 30, 2011, under a new program—the Supplemental Revenue Assistance Payments Program. Under this new program, USDA—through its Farm Service Agency (FSA)—began making payments in early 2010 for crop losses incurred in 2008. Crop disaster payments are largely based on data from USDA’s Risk Management Agency (RMA), which is responsible for administering the federally subsidized crop insurance program. In addition to crop disaster payments, farmers may also receive federal

¹The Agricultural Assistance Act of 2003, Pub. L. No. 108-7, tit. II, 117 Stat. 538; the Military Construction Appropriations and Emergency Hurricane Supplemental Appropriations Act, 2005, Pub. L. No. 108-324, div. II, § 101, 118 Stat. 1220, 1232 (2004); and the U.S. Troop Readiness, Veterans’ Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007, Pub. L. No. 110-28, tit. IX, 121 Stat. 112, 211.

²We have also reported on the lack of transparency in funding conducted under emergency-designated supplemental appropriations. See GAO, *Supplemental Appropriations: Opportunities Exist to Increase Transparency and Provide Additional Controls*, [GAO-08-314](#) (Washington, D.C.: Jan. 31, 2008).

assistance through crop subsidy programs and the crop insurance program.

You asked us to review USDA's ad hoc crop disaster assistance programs, as well as the new crop disaster program. Accordingly, we determined (1) how FSA administered its three crop disaster programs for crop losses from 2001 through 2007 and the results of payments made under these programs and (2) what lessons FSA can learn from its experience with the previous three crop disaster programs for managing its new crop disaster program.

To determine how FSA administered its crop disaster programs for crop losses from 2001 through 2007 (the period covered by the three programs), we reviewed statutes, regulations, and guidance related to the programs. We also obtained and analyzed electronic data files from FSA to determine how FSA applied statutes, regulations, and guidance in administering the programs. To assess the reliability of the data in these files, we performed electronic testing of the required data elements, reviewed existing information, and interviewed knowledgeable FSA officials about the data and the systems that produced them. We determined that the payment data in the files were sufficiently reliable for the purpose of determining the distribution of crop disaster payments by state, program, and type of recipient. However, the reliability of FSA's electronic data files is undetermined for the purpose of assessing whether a crop disaster payment complied with a statutory cap. In addition, to develop nongeneralizable examples of farmers receiving disaster payments for crop losses, we first identified the four states with the highest amount of total crop disaster program payments for all three programs: Kansas, North Dakota, South Dakota, and Texas. We also selected North Carolina, another state with high payment levels, to expand the geographic dispersion of our review. We identified the 27 counties comprising the top 20 percent of the crop disaster payments FSA administered in each of those five states. For these 27 counties, we interviewed FSA officials about their experiences administering crop disaster programs. In addition, we reviewed hard copy payment files for 75 selected farmers who received disaster payments from among the 10 percent of farmers receiving the largest payments under all three programs (i.e., 15 farmers from each county that received the largest disaster payments under all three programs in each of these five states).

Because FSA bases its disaster assistance payments largely on RMA data, we also obtained information on crop insurance claims payments from RMA. We interviewed RMA officials and reviewed relevant documentation

to assess the reliability of the RMA data and determined the data to be sufficiently reliable for the purposes of our report. To determine what lessons FSA can learn from its experience with past crop disaster programs for managing the new crop disaster program, we reviewed statutes, regulations, and guidance related to the new program. We also interviewed FSA officials responsible for administering crop disaster programs and FSA data experts responsible for developing the crop disaster payment systems. A more detailed description of our scope and methodology is presented in appendix I.

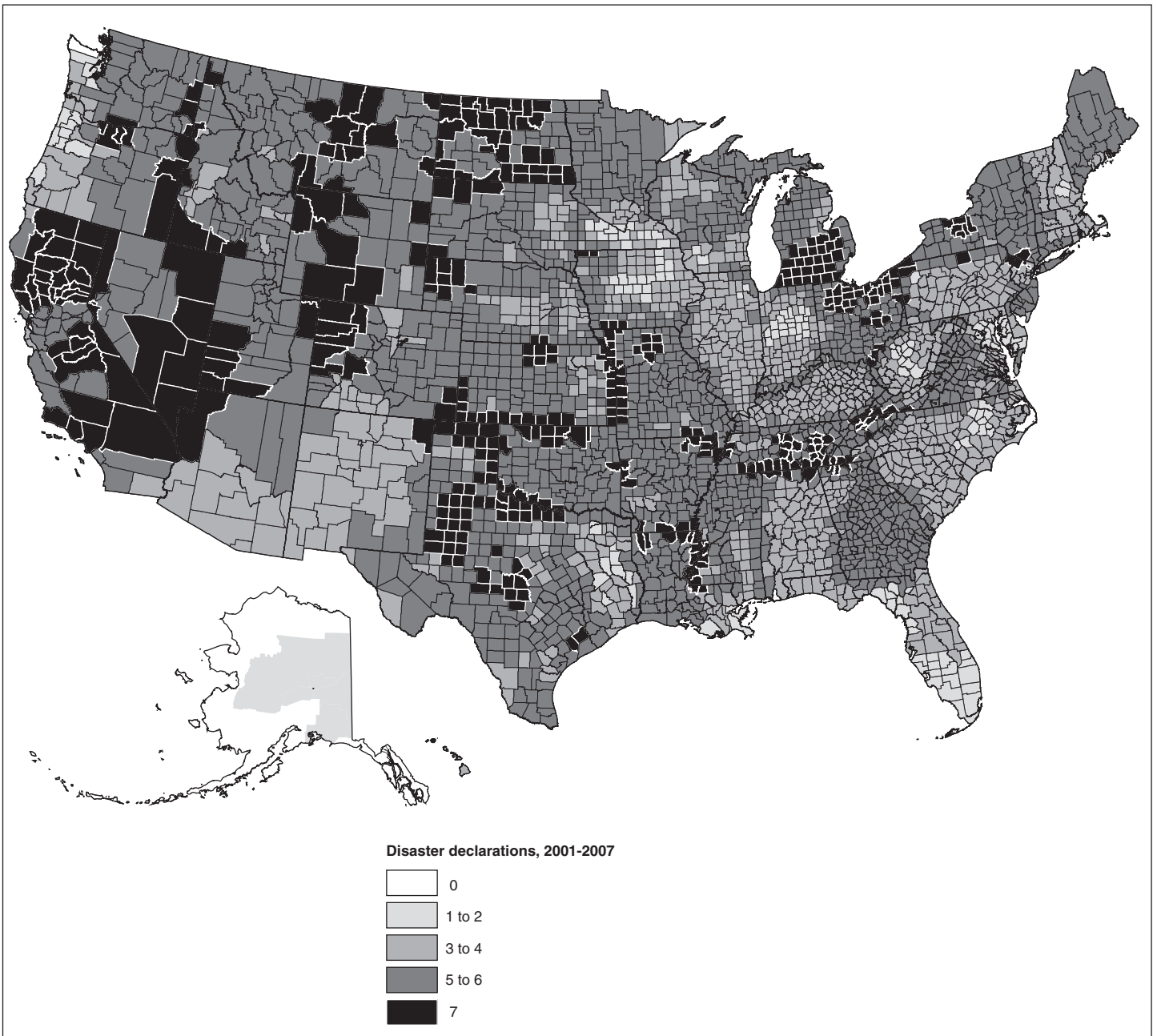
We conducted this performance audit from November 2008 through June 2010, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

FSA has overall responsibility for administering crop disaster programs, including ensuring that recipients meet eligibility requirements and do not receive payments that exceed program limitations. FSA guidance directs the agency to annually notify every farming operation—whether an individual farmer or an entity, such as a corporation or a partnership—that it must file documents, including a farm operating plan and an acreage report, with its local FSA county office if the operation is seeking farm program payments. These documents record farming information, such as which crops are planted on each field, the farming practices used, and the name of each individual with an interest in the farming operation. FSA uses this information to determine farm program payments, including payments for various agriculture disaster assistance programs.

According to USDA documents, agriculture-related disasters are common: one-half to two-thirds of the counties in the United States have been designated as disaster areas in each of the past several years. As shown in figure 1, many counties received disaster designations for multiple years from 2001 through 2007.

Figure 1: Number of Disaster Designations from 2001 through 2007, by County



Sources: GAO analysis of USDA data; Map Information (map).

In order for a county to qualify for a USDA secretarial disaster designation, a disaster must have caused a minimum loss of 30 percent of production of at least one crop in the county. The secretarial disaster designation process begins when an eligible disaster event, such as hail or drought, occurs in a county. After monitoring and recording the disaster conditions, local officials, including FSA county officials, contact their governor to request a disaster designation for the county. Next, the governor submits a written disaster designation request to the Secretary of Agriculture. As a result of this request, FSA directs its county officials to complete a damage assessment report to show whether the minimum loss requirement was met. A state emergency board reviews the report, and if the report is approved, it is forwarded to FSA's national headquarters for the Secretary of Agriculture's approval or disapproval of the request. The approved counties are designated as disaster counties.

RMA's Role in Federal Crop Insurance

RMA has overall responsibility for administering the federal crop insurance program, through the Federal Crop Insurance Corporation, and in partnership with private insurance companies that share a percentage of the risk of loss or opportunity for gain associated with each insurance policy written. RMA is also to address program compliance issues, including protecting the program against fraud, waste, and abuse. Under the Agricultural Risk Protection Act of 2000, RMA uses information technologies, such as data mining, to identify anomalous patterns of crop insurance claims payments that are consistent with actions farmers could take to obtain personal benefit through fraud or abuse of the crop insurance program. RMA has identified 45 patterns of crop insurance payments that it defines as anomalous, such as receiving payments while experiencing high frequency of losses or high severity of losses in comparison with surrounding farming operations; using poor farming practices; or exhibiting irregular behavior with insurance agents or adjusters that suggests collusion. RMA's data mining does not identify specific instances of fraud or abuse of the crop insurance program; rather, it identifies anomalous patterns of crop insurance claims payments that are consistent with the potential for fraud and abuse and considers these payments as "suspicious." RMA places farmers who exhibit such patterns on an annual list, after the year in which the crop insurance claims payments are made, to monitor their current or future farming practices. Farmers may be on the list for multiple anomalous patterns in 1 year.

RMA provides its annual list to the appropriate FSA state offices for distribution to FSA county offices, as well as to the insurance company selling the policy to the farmer. Staff in FSA county offices advise the

selected farmers that they have been identified for an inspection as a result of data mining and conduct field inspections during the growing season. In conducting these inspections, FSA inspectors are to determine, among other things, the tillage method used; weed control practices; type and amount of fertilizer applied; weather conditions; and how the inspected crop compares with others in the area. As a result of these inspections and other information, RMA reported total cost savings from 2001 through 2007 of \$564 million, primarily in the form of estimated claims payments avoided: \$140 million in 2005, \$27 million in 2006, and \$85 million in 2007.

RMA has the authority to impose sanctions against farmers, agents, loss adjusters, and insurance companies that willfully and intentionally provide false or inaccurate information to RMA or to insurance companies. RMA also has the authority to disqualify farmers who have committed a violation not only from the insurance program but also from most other farm programs for up to 5 years. RMA also can refer suspicious crop insurance claims payments to USDA's Office of Inspector General, which can open investigations and, when warranted, refer cases to the Department of Justice for prosecution.

Ad Hoc Crop Disaster Programs, 2001 through 2007

Through supplemental appropriations, Congress authorized three multiyear crop disaster programs for 2001 through 2007. The first program provided financial assistance for crop losses that occurred in crop year 2001 or 2002.³ The second program provided assistance for losses in 2003 or 2004 or for losses in 2005 that resulted from a hurricane or tropical storm during the 2004 hurricane season. The third program provided assistance for crop losses in 2005, 2006, or 2007. Generally, under each program, crop losses were eligible for crop disaster payments if the losses resulted from any of the following: (1) damaging weather, such as drought, excessive moisture, hail, freeze, tornado, or hurricane; (2) an adverse natural occurrence, such as an earthquake; or (3) a condition related to damaging weather or an adverse natural occurrence such as saltwater intrusion, rationing of irrigation water, disease, or insect infestation.

³A crop year is measured from the time the crop is planted through the time it is harvested and may not correspond with the calendar year.

The authorizing statutes and program regulations established payment limitations and eligibility requirements for the three crop disaster programs. For example, the statutes prohibited producers—who we refer to as farmers in this report—from receiving a payment for more than 1 year for each of the multiyear disaster programs. In addition, USDA regulations prohibited an individual farmer or member of a farming operation from receiving a crop disaster payment greater than \$80,000. Regarding eligibility requirements, the statutes provided that farmers were only eligible to receive crop disaster payments if they had previously obtained federal crop insurance or coverage through FSA’s Noninsured Crop Disaster Assistance Program for the crop that suffered weather-related damage.⁴ Specifically, for crops covered by the federal crop insurance program (insured crops), farmers must have obtained crop insurance coverage through that program. For crops for which insurance was not available in the county where the crops were farmed (noninsurable crops),⁵ farmers must have obtained coverage through the Noninsured Crop Disaster Assistance Program. “Uninsured crops,” for the purposes of this report, refers to crops for which coverage was available in the county under either the federal crop insurance program or the Noninsured Crop Disaster Assistance Program, but the farmer did not purchase it. Not all uninsured crops were eligible for payment under the crop disaster programs. Furthermore, a statutory payment cap prohibited USDA from paying an individual or a farming operation for more than 95 percent of what the value of the crop would have been in the absence of the loss (expected value). Specifically, the sum of the disaster payment, the value of the salvageable crops, and any crop insurance payments could not exceed 95 percent of the crop’s expected value in the absence of a disaster.

⁴The Consolidated Appropriations Resolution, 2003 and the Military Construction Appropriations and Emergency Hurricane Supplemental Appropriations Act, 2005, allowed farmers who had failed to purchase insurance to receive payments for crop losses incurred in 2001 or 2002 and 2003, 2004, or 2005, respectively, if the farmers signed a statement agreeing to purchase insurance in each of the next 2 years.

⁵RMA uses noninsurable crops to mean crops that are agricultural commodities for which the catastrophic risk protection level of crop insurance is not available, including crops grown for food; crops planted and grown for livestock consumption; and crops grown for fiber, such as cotton and flax.

Provisions under the Supplemental Revenue Assistance Payments Program

The 2008 farm bill authorized and funded a new disaster program for losses in crop years 2008 through 2011.⁶ This new program provides funds that will be available to assist farmers when disasters occur, without the need for further congressional action. While the past crop disaster programs separately considered each individual field,⁷ the new disaster program considers aggregate losses on an entire farming operation, which includes all land in all counties where a farmer planted or intended to plant crops for harvest. To be eligible under the new program, a farming operation must

- be located in or contiguous to counties that received a USDA secretarial disaster designation and have lost at least 10 percent of production on at least one crop of economic significance;⁸ or
- incur eligible total crop losses of greater than 50 percent of the normal production, including a loss of at least 10 percent of production on at least one crop of economic significance.

Furthermore, farmers must have purchased either federal crop insurance coverage or be covered under the Noninsured Crop Disaster Assistance Program for all crops of economic significance on their farming operation in order to qualify for a disaster payment. In addition, the 2008 farm bill prohibits any individual or member of a farming operation from receiving more than \$100,000 per year in combined payments from the new crop disaster program and other disaster programs for livestock and specialty crops. See appendix II for additional information on the Supplemental Revenue Assistance Payments Program.

⁶In addition, the American Recovery and Reinvestment Act of 2009 expanded eligibility and increased the benefits farmers could receive for the 2008 crop year.

⁷A field, in this report, refers to the lowest, detailed level at which a crop loss is defined and includes RMA- and FSA-defined crop characteristics such as the crop price, farming practices, insurance coverage, and planting period for units and subunits that describe contractual relationships or different crop yields associated with the acreage or producer share.

⁸FSA defines an economically significant crop as one that has contributed or would have contributed or is expected to contribute 5 percent or more of the total expected revenue from all crops to the farming operation.

Concerns about Potential Waste and Abuse in Federal Farm Programs Have Been Raised in the Past

USDA's Office of Inspector General identified problems under the past crop disaster programs. For example, in 2006, the Office of Inspector General reported reviewing three FSA county offices, one of which issued \$103,065 in crop disaster payments to farmers who did not meet program eligibility requirements under the 2001 through 2002 crop disaster program.⁹ The Office of Inspector General found that in that county office, FSA relied on verbal statements from some farmers to determine their eligibility for crop disaster program payments. The Office of Inspector General also found weaknesses in FSA's management controls for the crop disaster programs in all three FSA county offices in its review. For example, the Office of Inspector General found that the three FSA county offices were not following the program guidance for verifying the accuracy of crop disaster payments—which states that FSA county offices are to perform three types of reviews to ensure the accuracy of payments—nor consistently interpreting or using data from RMA's crop insurance program when calculating crop disaster payments. The Office of Inspector General recommended that FSA improve its training of county office employees.

In addition, we and others have long raised concerns about the potential for waste and abuse in the federal crop insurance program. For example, in 2005, we reported that while RMA strengthened procedures for preventing questionable crop insurance claims, the federal crop insurance program remains vulnerable to abuse.¹⁰ We recommended that RMA inform FSA's inspectors on the details of claims that they are to investigate, including the type of suspected fraudulent behavior. RMA concurred with this recommendation and in 2006 took actions to implement it. Specifically, RMA now provides detailed information to FSA's inspectors on the nature of each suspicious claim.

⁹U.S. Department of Agriculture, Office of Inspector General, *Disaster Assistance Payments for Crop Years 2001 and 2002* (Feb. 8, 2006).

¹⁰GAO, *Crop Insurance: Actions Needed to Reduce Program's Vulnerability to Fraud, Waste, and Abuse*, [GAO-05-528](#) (Washington, D.C.: Sept. 30, 2005). In addition, we reported on the federal crop insurance program in *Crop Insurance: Opportunities Exist to Reduce the Costs of Administering the Program*, [GAO-09-445](#) (Washington, D.C.: Apr. 29, 2009) and *Crop Insurance: USDA Needs to Improve Oversight of Insurance Companies and Develop a Policy to Address Any Future Insolvencies*, [GAO-04-517](#) (Washington, D.C.: June 1, 2004). See also, GAO, *Suggested Areas for Oversight for the 110th Congress*, [GAO-07-235R](#) (Washington, D.C.: Nov. 17, 2006).

In 2008, we also identified strengthening the integrity and efficiency of federal farm programs, including the crop insurance program, as a major cost-saving opportunity for Congress and the administration.¹¹ More recently, USDA's Office of Inspector General reported that RMA needs to strengthen its quality assurance and compliance activities under the federal crop insurance program to ensure compliance with program requirements.¹²

FSA Largely Based Crop Disaster Payments on RMA Data, Resulting in About \$395 Million to Farmers RMA Identified as Having Received Suspicious Crop Insurance Payments

FSA largely used RMA crop insurance payment data to calculate nearly \$7 billion in crop disaster payments under the three crop disaster programs from 2001 through 2007. Of these crop disaster payments, about \$395 million (almost 6 percent) were issued by FSA to individuals or entities that RMA had identified as having received suspicious crop insurance claims payments from 2001 through 2007.

FSA Relied Largely on RMA Data to Calculate Crop Disaster Payments

Under the three crop disaster programs from 2001 through 2007, FSA calculated and issued crop disaster payments largely based on crop insurance data from RMA for these years, but also information on farm operating plans and production records from the farmers requesting payment. According to the program guidelines, each FSA county office received information from RMA that listed all individuals and entities who had purchased insurance on a crop in that county. For the insured crops, the disaster payment system used RMA data to prefill information on the damaged crops, including the crop name, amount of damaged acres, and

¹¹Major cost-saving opportunities are those that can limit costs and reduce waste across agencies and programs. This information is accessible through GAO's *High Risk and Other Major Government Management Challenges* page at www.gao.gov/highrisk.

¹²U.S. Department of Agriculture, Office of Inspector General, *Major USDA Management Challenges* (Aug. 11, 2009).

value of any salvageable crops. For noninsurable crops and uninsured crops, FSA employees used the farm operating plans and production records to manually enter data into the system. Using the prefilled RMA data or the manually entered data, the system in each county office calculated an estimated crop disaster payment for each applicant. Specifically, the system

- determined the amount of the lost or damaged crops on each of the payment applicant's fields;
- multiplied the amount of the lost or damaged crops on each field by a payment rate—determined by whether the damaged crops were insured, noninsurable, or uninsured—to calculate the maximum payment for each field;
- compared this maximum payment for each field with the statutory percentage cap to ensure that the payment complied with this cap; and
- combined all payments for each field and compared this maximum allowable crop disaster payment with the \$80,000 payment limit to ensure payments complied with this limitation.

Once the FSA county office system determined the estimated maximum allowable payment, the system transmitted the payment information to FSA's Application Development Center. According to staff at this center, systems at the center then verified the payment amount by performing a series of checks that ensured the payment did not exceed the statutory payment cap and complied with applicable eligibility requirements and payment limitations. If errors were found in the payment calculation or if the payment did not comply with applicable eligibility requirements or payment limitations, FSA Application Development Center staff said that the payment amount was adjusted accordingly before FSA issued the final payment.

Table 1 shows the number of recipients and the amount of payments for each of the three programs.

Table 1: Recipients and Payments for 2001 through 2007 Crop Disaster Programs, by Program

Crop disaster program	Number of recipients	Payments
2001-2002 program	381,029	\$2,563,838,885
2003-2005 program	329,997	2,446,167,967
2005-2007 program	300,341	1,938,383,603
Total	^a	\$6,948,390,455

Source: GAO analysis of FSA data.

^aThe number of recipients is not additive because some individuals and entities may have received payments in multiple programs.

We found that FSA data about the farming structure of the 2001 through 2007 crop disaster program payment recipients shows that the majority of recipients were individuals. According to our analysis, individuals received a total of about \$4.9 billion in payments while entities received about \$2.1 billion under the three crop disaster programs. See appendix III for additional information on the distribution of payments under the 2001 through 2007 crop disaster programs.

Crop Disaster Programs Resulted in Payments to Farmers RMA Identified as Having Received Suspicious Crop Insurance Payments

Of the nearly \$7 billion in payments made under the 2001 through 2007 crop disaster assistance programs, we found that FSA made about \$395 million in crop disaster payments to farmers or entities that were identified by RMA's data mining as having received suspicious crop insurance claims payments during that same period of time. In addition, our review of hard copy files found that payments to 75 farmers in the five selected states we reviewed complied with the statutory cap of 95 percent of the expected crop value.

FSA Paid About \$395 Million to Farmers under the 2001 through 2007 Crop Disaster Programs Largely on the Basis of Crop Insurance Payments RMA Had Identified as Suspicious

For crop losses from 2001 through 2007, FSA made about \$395 million in crop disaster payments to 8,463 individuals and entities that RMA identified, through data mining, as having received payments for suspicious crop insurance claims during the same time period. However, in a 2005 report, we found that few suspicious claims payments resulted in a conviction for fraud.¹³ We reported that while the number of USDA Office of Inspector General referrals to the Department of Justice on suspicious crop insurance claims payments had increased, the Department of Justice declined more cases than it had accepted since 2000. According to Department of Justice officials, the factors considered when accepting a case include sufficiency of the evidence, complexity of the case, whether the fraudulent activity is part of a pattern or scheme, and workload and resources that would be needed to investigate and prosecute the case.¹⁴ We also reported that insurance agents and company officials we contacted believed that RMA needs to more aggressively penalize those who abuse the program. Table 2 shows the five states with the largest dollar amounts of crop disaster payments for recipients listed as having suspicious crop insurance claims payments from 2001 through 2007. These five states represent about 47 percent of the crop disaster payments to farmers that RMA identified as receiving suspicious crop insurance payments from 2001 through 2007.

¹³ [GAO-05-528](#).

¹⁴ These officials told us that crop insurance fraud cases are highly complex and involve a significant number of documents that must be reviewed and presented in court and that the dollar value of crop insurance cases frequently is not as large as in other cases, such as drug trafficking or some white-collar crime.

Table 2: Crop Disaster Payments to Recipients Identified by RMA as Receiving Payments for Suspicious Crop Insurance Claims in Top Five States, 2001 through 2007

State	Number of recipients	Payments	Percent of payments
Texas	1,222	\$66,758,006	16.9
North Dakota	963	46,578,801	11.8
South Dakota	487	30,216,141	7.6
Kansas	424	21,075,987	5.3
North Carolina	378	20,990,788	5.3
Subtotal	3,474	185,619,724	46.9
Remaining 45 states	4,989	209,861,716	53.1
Total	8,463	\$395,481,440	100.0

Source: GAO analysis of FSA and RMA data.

Note: The payments in this table represent the crop disaster program payments for 2001 through 2007 that FSA made to recipients RMA identified as receiving suspicious crop insurance claims payments for the crop years covered by the crop disaster program under which they received payments.

By comparing RMA’s crop insurance data on suspicious payments with FSA’s crop disaster payments, we identified payments made under the crop disaster programs to farmers RMA identified as having received suspicious crop insurance payments. The following are examples of farmers who received crop disaster payments from 2001 through 2007 and were identified by RMA as receiving suspicious crop insurance claims payments:

- In South Dakota, a farmer received almost \$900,000 in crop disaster payments that were based on suspicious crop insurance claims payments. RMA put this farmer’s operation on its annual list because the farmer received crop insurance payments while exhibiting such anomalous patterns as (1) having at least 2 consecutive years of crop insurance claims larger than those of similar farmers in the area and (2) frequently filing prevented planting claims when compared with similar farmers in the area.¹⁵

¹⁵Insurance companies pay farmers who were unable to plant the insured crop because of an insured cause of loss that is general in their surrounding area, such as weather conditions causing wet fields, and that prevents other farmers from planting acreages with similar characteristics.

-
- A North Carolina farmer received about \$720,000 in crop disaster payments that were based on suspicious crop insurance claims payments. RMA put this farmer's operation on its annual list because the farmer received crop insurance payments while exhibiting such anomalous patterns as (1) having unusually large yields on some land while experiencing severe losses on other land for the same crop during the same year and (2) filing insurance claims for 2 consecutive years that were significantly larger claims than those filed by similar farmers in the area.
 - One farmer who operated farms in Kansas received over \$635,000 in crop disaster payments that were based on suspicious crop insurance claims payments. RMA put this farmer's operation on its annual list because the farmer received crop insurance payments while exhibiting such anomalous patterns as (1) having a loss ratio 150 percent greater than other farmers within the area and (2) experiencing abnormally large crop insurance claims in comparison with similar farming operations in the county and repeating this behavior for multiple years.

Similarly, the FSA county officials we interviewed identified some farmers in their counties who received crop disaster payments that the FSA county officials believed were based on suspicious crop insurance claims payments. These FSA county officials told us that they were familiar with the farmers in their county and could identify those who may have received suspicious crop insurance payments, but because the county officials received the crop insurance claim information several years after the crop losses occurred, they could not verify the farmers' crop losses and relied on RMA data to issue the crop disaster payments. The FSA county officials provided the following as examples:

- One farmer in North Dakota received over \$85,000 in disaster payments under the 2001 through 2007 crop disaster programs, claiming that disaster conditions caused losses to his crops. According to an FSA county official, the farmer's crop losses were likely due to poor farming practices because this farmer did not fertilize his crops.
- A farmer in North Carolina received almost \$160,000 in disaster payments from 2001 through 2007, including about \$60,000 for tobacco that he claimed was damaged or could not be harvested. According to an FSA county official, although this farmer received crop insurance payments, he did not have the required barn space to dry and cure the total amount of tobacco planted and had not obtained contracts necessary to sell the tobacco crop. The county official added that area farmers informed the

FSA county office that this farmer experienced crop losses as a result of poor farming practices.

In commenting on crop disaster payments that they believed were based on suspicious crop insurance claims payments, some FSA county officials stated that they did not challenge or deny the applications for these crop disaster payments because they expected the applicants would appeal any challenge to USDA's National Appeals Division.¹⁶ These officials added that in their past experience with appeals, USDA rarely upheld FSA county office decisions to deny payments. One official said that USDA generally approved appeals related to crop disaster applications unless the FSA county office produced evidence that the payment applicant did not meet program eligibility requirements. The official added that he did not collect such evidence because, at the time of the crop loss, he did not anticipate that a disaster program would provide assistance for those crop losses. However, according to our analysis of data from USDA's National Appeals Division, FSA was more likely to be favored in an appeal related to the 2001 through 2007 crop disaster programs than were the farmers. We found the National Appeals Division upheld FSA's denial of crop disaster payment applications for about 72 percent of the appeals, and the division overturned FSA's denial, deciding that the farmer should have received a crop disaster payment, for the remaining 28 percent.¹⁷

Although Weaknesses Exist in FSA's Data Systems, Hard Copy Files Show That Payments Complied with the Statutory Cap

Under the crop disaster programs from 2001 through 2007, a statutory payment cap allowed FSA to provide a farmer up to 95 percent of the expected value of the crop in the absence of a disaster. We found certain weaknesses in FSA's data systems, which precluded us from determining whether FSA's electronic data files are reliable for the purpose of assessing whether a crop disaster payment complied with this statutory cap. For example, FSA's data systems (1) could not be reliably merged using program year, tax identification number, tax identification number type, FSA state code, and FSA county code to determine whether

¹⁶In a prior report, FSA officials identified having their decisions overturned by the National Appeals Division as a hindrance to their enforcement of certain agricultural conservation provisions. GAO, *Agricultural Conservation: USDA Needs to Better Ensure Protection of Highly Erodible Cropland and Wetlands*, [GAO-03-418](#) (Washington, D.C.: Apr. 21, 2003).

¹⁷According to an FSA official, the 72 percent of appeals that favored FSA includes appeals that may have been decided on technical and procedural issues, as well as appeals that were decided based on the merit of the farmer's crop disaster payment application.

payments complied with the statutory cap and (2) were not sufficiently documented. However, we assessed hard copy payment files for 75 selected farmers in the five states and found that the payments made to these farmers complied with the statutory payment cap.

We found that FSA could not provide documentation on how its systems captured and processed data in order to calculate disaster payments for crop losses from 2001 through 2007. Specifically, FSA officials could not provide us with business rules, system specifications, or processing algorithms associated with the payment calculations executed at FSA's Application Development Center in Kansas City, Missouri. Such documentation is important because it typically translates policies and procedures into specific, unambiguous rules that govern how data are entered, validated, stored, processed, and reported. As such, the documentation facilitates accurate and consistent implementation of policies and procedures. Although FSA officials provided copies of program guidance and described actions FSA has taken to ensure the quality of the data it generates, they could not provide sufficient documentation for us to verify the agency's stated actions. For example, FSA could not provide design specifications about the functional requirements of the data systems it used to capture information about disaster payments for crop losses from 2001 through 2007. Detailed design specifications are important because they are used for developing thorough test plans, maintaining the system, and ensuring that risks associated with building and operating the system are adequately controlled. Furthermore, FSA's documentation of the crop disaster program data systems does not meet Office of Management and Budget documentation guidelines.¹⁸ These guidelines require federal agencies, among other things, to identify and document business rules; information relationships; and the functional requirements, capabilities, and interconnections of the computer systems. FSA officials could not provide documentation describing how its systems operated.

Also, for the purpose of assessing whether crop disaster payments complied with the statutory cap, we performed a detailed review of hard copy crop disaster payment files for 75 selected farmers who received payments under all three crop disaster programs from the five counties receiving the largest amount of crop disaster payments in each of five

¹⁸Office of Management and Budget, Circular No. A-130, Revised, transmittal Memorandum No. 4 (Nov. 28, 2000).

selected states. According to our analysis, these 75 selected farmers received payments that complied with the 95 percent statutory percentage cap on all of their 2,263 fields that sustained crop losses from 2001 through 2007. Overall, as shown in table 3, 328 of these fields qualified for a disaster payment that allowed the farmers to receive 95 percent of the expected value of their crops for these fields.

Table 3: Percentage of Expected Value Received by 75 Selected Farmers on Fields with Crop Losses, 2001 through 2007 Crop Disaster Programs

Percent of expected value	Number of fields
95	328
90-94	228
80-89	489
70-79	520
60-69	373
50-59	171
40-49	89
30-39	47
20-29	14
10-19	4
>0-9	0
Total	2,263

Source: GAO analysis of FSA data.

We also found that the total payment received by the 75 selected farmers for the three programs varied from \$61,592 to \$2,256,386. According to our analysis of the hard copy files, 24 percent of the fields we reviewed qualified for payments because disaster conditions prevented farmers from harvesting any crops from the fields; 69 percent because disaster conditions reduced the amount of crops produced on the fields; and 7 percent because disasters prevented farmers from planting crops on the fields.

Forty-nine of the 75 selected farmers received payments for at least one field they were unable to harvest. Furthermore, although not exceeding the 95 percent cap, the crop disaster programs provided 37 of these 49 farmers—who grew crops such as corn, cotton, soybeans, and wheat—90 percent or more of the expected value of the crops. However, these

farmers did not incur harvesting costs for these fields. Based on our review of two academic studies,¹⁹ about 15 percent of the cost of producing such crops can be associated with harvesting the crops. Thus, although these 37 farmers may have incurred about 85 percent of the cost of producing these crops, crop disaster program payments allowed these farmers to receive 90 percent or more of the expected value of the crops, even though FSA offices reduced farmers' crop disaster payments by a certain percentage—known as the “unharvested” payment factor—to reflect the fact that the farmers had not harvested these crops.

FSA Can Learn Lessons for the New Crop Disaster Program from Three Prior Programs

FSA's experience with ad hoc crop disaster programs provides lessons that could benefit the agency's implementation of the new program. First, under the past programs, FSA county officials could not verify the cause of a crop loss because of the lag—as much as 4 years—between the occurrence of a disaster-related crop loss and the application for a disaster payment for that loss. Under the new program, FSA officials will still face a lag time, and without more timely eligibility determinations, FSA county officials will be unable to verify that applicants experienced losses due to an eligible cause. Second, the lack of documentation in FSA's data systems for calculating and issuing payments under the ad hoc programs makes it difficult to validate the accuracy of those payments. A similar lack of documentation under the new program could hamper FSA officials' efforts to track payments and ensure the payments adhere to statutes, regulations, and FSA guidelines.

Lack of Timely Eligibility Determinations Provides Lessons for New Crop Disaster Program

Under the ad hoc crop disaster programs from 2001 through 2007, USDA regulations and program guidance specified disaster conditions—such as hail, drought, or excessive rainfall—that qualified as eligible causes of crop loss. As such, FSA county officials reviewed each payment application to determine whether the crop loss was eligible for payment. However, because the programs were enacted on an ad hoc basis after the disaster-related crop losses, these application reviews took place as many as 4 years after the losses occurred. With such a lag, we found that FSA county officials could not take actions, such as conducting field inspections, to validate whether the crops suffered damage as a result of a

¹⁹See, Iowa State University Extension, *Estimated Costs of Crop Production in Iowa—2010*, FM 1712 (Ames, Iowa, December 2009) and University of Illinois Extension, *Cost to Produce Corn and Soybeans in Illinois—2007*, FEFO 08-05 (Urbana, Ill., March 2008).

qualifying disaster condition. Instead, the FSA county officials relied on information farmers supplied on their disaster payment applications and information from RMA, such as crop insurance payment records, to determine if an eligible disaster condition caused a farmer's crop losses. Fourteen of the 27 FSA county officials we spoke with identified the absence of making timely cause of loss eligibility determinations as a concern under the 2001 through 2007 crop disaster programs, and many of these county officials said that having the opportunity to determine the eligibility of losses soon after the disaster would increase assurance that crop disaster program payments are proper. This opportunity could exist under the new Supplemental Revenue Assistance Payments Program.

Determining the cause of crop losses for each farmer will remain critically important under the Supplemental Revenue Assistance Payments Program because a farming operation must have lost at least 10 percent of production on at least one crop of economic significance as a result of an eligible disaster condition to qualify for a payment. Under the program, FSA county officials are to determine crop loss eligibility at least 1 year after crop losses occur because, under the new program guidelines, FSA officials are to make this determination using annual market prices for each crop to calculate payments, which are generally established at the end of the crop year. As a result, crop disaster payment applicants can submit their applications several months after their crop loss occurs, and FSA officials will continue to depend on information from farmers and RMA crop insurance data to determine whether applicants experienced crop losses due to an eligible disaster condition. For example, a farmer who planted corn in the spring of 2010 would not harvest that crop until fall. Therefore, if a disaster destroyed the corn during the summer, the farmer may wait until the fall of 2011—after the crop year for corn ended and when FSA could determine the market prices needed to calculate a payment and process a claim—before filing a loss claim. Without more timely eligibility determinations, FSA county officials will not have the opportunity to verify that payment applicants experienced crop losses due to an eligible disaster condition. Because farmers know that, under the new program, FSA cannot make determinations until the annual market prices for each crop are available to calculate payments, there is no incentive to file crop disaster claims when a crop loss occurs.

In contrast, under the federal crop insurance program, if farmers incur crop losses and file a claim with their insurance agent or company, the company assigns an adjuster who visits the farm at the time of the disaster-related loss and, using RMA guidance, determines the percentage of loss for the acres planted. The adjuster forwards the claim to the

insurance company, which verifies and recalculates the claim. If all company and RMA requirements are met, the company pays the claim to the farmer.²⁰ According to RMA guidance, a farmer may destroy any of the damaged crops or replant a new crop after the insurance adjuster has inspected the farmer's crop loss and provided written consent that the farmer may take such actions. However, we have previously raised concerns of fraud and abuse of the crop insurance program's claims adjustment process. For example, in 2005,²¹ we reported that crop insurance fraud cases, investigated by USDA's Office of Inspector General and resulting in criminal prosecutions between June 2003 and April 2005, show how farmers, sometimes in collusion with insurance agents and others, falsely claim prevented planting, weather damage, and low production. In addition, we found that several of these cases demonstrated the importance of having FSA and RMA work together to identify and share information on questionable farming practices and activities. Under the Supplemental Revenue Assistance Payments Program, as under the 2001 through 2007 crop disaster programs, FSA county officials receive information about crop losses at the time the farmer submits an application for payment. As a result, FSA officials may become aware of crop losses after the claims adjustment process and after farmers have planted a new crop on their fields that suffered disaster-related damage. Without notification of the crop losses closer to the time of the disaster, FSA county officials will not have the opportunity to verify the eligibility of crop losses.

Weaknesses in Data Systems Provide Lessons for New Crop Disaster Program

Under past crop disaster programs, FSA's automated payment system used information in multiple data systems to calculate and issue payments. However, we identified limitations in this payment system that prevented us from making a determination about the reliability of FSA's data files for the purpose of assessing the extent to which payments for the 2001 through 2007 crop disaster programs complied with the statutory payment cap that limited payments to no more than 95 percent of the expected value of the crop in the absence of a disaster. These limitations included a lack of sufficient documentation and our determination that FSA's data systems could not be reliably merged using program year, tax identification number, tax identification number type, FSA state code, and

²⁰All paid claims are subject to review by the insurance companies and various government agencies, including RMA and USDA's Office of Inspector General.

²¹[GAO-05-528](#).

FSA county code for this purpose. For additional information, see appendix I.

We and others have previously reported on concerns with FSA's information technology systems. As we reported in 2008, FSA's information technology systems, which date to the 1980s, do not fully meet the agency's business needs or readily share data.²² In August 2009, USDA's Office of Inspector General reported that integration of USDA's information management systems, including FSA and RMA systems, could improve the integrity of farm programs, such as the new crop disaster program.²³

In the context of these information technology issues, in early 2010, FSA began issuing payments for the new crop disaster program using an interim payment system that has weaknesses. According to FSA documents, because of the significant amount of data required to calculate payments under the new crop disaster program, FSA does not expect to complete the development of a fully automated payment system that will allow the agency to issue timely payments to farmers who sustained crop losses in 2008. As a result, FSA developed an interim payment system that requires FSA county office staff to use a manual process to complete applications and calculate payments for 2008 crop losses, storing each application in a single spreadsheet maintained in FSA county offices. FSA staff at each county office manually enter applicant data into this spreadsheet to calculate applicants' payments, and an independent official verifies the accuracy of the data entry. According to program guidelines, once the payment calculations are complete, the FSA county office staff are to record the payment amounts in a Web-based system that automatically issues the payments. FSA officials said that once the agency fully develops the automated payment system, it plans to validate and make any necessary adjustments to the payments calculated and issued using the interim payment system. However, according to the FSA officials responsible for implementing the new crop disaster program, the agency did not develop a mechanism to link the final payment amounts in the Web-based system to the application data in the spreadsheets maintained

²²GAO, *Information Technology: Agriculture Needs to Strengthen Management Practices for Stabilizing and Modernizing Its Farm Program Delivery Systems*, GAO-08-657 (Washington, D.C.: May 16, 2008).

²³U.S. Department of Agriculture, Office of Inspector General, *Major USDA Management Challenges*.

in each FSA county office. Therefore, if USDA or an independent entity sought to audit the payments under the new crop disaster program to ensure they are proper, the auditor would have to manually review the files in each of about 2,300 FSA county offices. Also, the program and the auditors would not have the benefit of electronic edit checks to ensure the accuracy of payments.

Furthermore, according to FSA officials, the agency is still in early development stages of the final automated payment system and has not developed documentation of the data systems or written business rules that describe how the final automated system will calculate and issue payments. However, according to FSA officials responsible for developing the final payment system for the Supplemental Revenue Assistance Payments Program, FSA plans to issue the necessary documentation, including design specifications and functional requirements, and perform system testing. As of March 2010, FSA officials were uncertain when this documentation would be issued.

Conclusions

FSA helps the nation's farmers recover financially from natural disasters. For the three former ad hoc crop disaster programs, owing to the time between when a disaster occurred and applications for disaster payments were filed, FSA officials did not have the opportunity to verify whether an eligible disaster condition caused farmers' crop losses. Instead, FSA officials relied largely on information from farmers and RMA to determine the cause of crop losses. The Supplemental Revenue Assistance Payments Program provides an opportunity to eliminate this problem. Under this program, however, FSA county officials will not receive information about crop losses until the time the farmer submits an application for payment, which may occur after farmers have planted a new crop on their fields that suffered disaster-related damage. Without notification of the crop losses closer to the time of the disaster, FSA county officials will not have an opportunity to make timely loss eligibility determinations. Such determinations would reduce reliance on crop insurance information and the potential for disaster payments for suspicious crop losses.

Because of limitations in FSA's data systems, including insufficient systems documentation and the inability to reliably merge files from these systems using program year, tax identification number, tax identification number type, FSA state code, and FSA county code, the reliability of FSA's electronic data files for the purpose of assessing whether payments under the past crop disaster programs complied with relevant statutes and regulations is undetermined. Many of the limitations in FSA's data systems

will most likely continue under the new crop disaster program because FSA county office staff are using a manual process to enter application data into spreadsheets and payment data into a Web-based system, and FSA does not plan to develop a mechanism to electronically link the final payments to the supporting spreadsheets. Without such a mechanism to link the Web-based system and the spreadsheets FSA uses to calculate and issue payments under the new crop disaster program in an integrated way, it will be difficult for USDA or audit organizations to evaluate the new program and to ensure that payments are properly made.

Recommendations for Executive Action

We are making the following three recommendations to the Secretary of Agriculture:

To better ensure that payments under the Supplemental Revenue Assistance Payments Program compensate farmers who experienced eligible crop losses, we recommend that the Secretary of Agriculture implement procedures so that FSA county officials are notified at the time of crop insurance claims for disaster-related losses so those officials have an opportunity to verify that crop disaster payment applicants experienced losses because of an eligible cause.

To ensure that crop disaster payments under the Supplemental Revenue Assistance Payments Program can be assessed as to whether they comply with relevant statutes and regulations, we recommend that the Secretary of Agriculture direct the Administrator of the Farm Service Agency to

- develop and maintain data system documentation, including written business rules, of the interim payment system and the final automated payment system that are used to calculate and issue crop disaster payments; and
- develop and implement a mechanism to link Web-based payments to the application data in the spreadsheets maintained in the FSA county offices that would result in an integrated interim payment system.

Agency Comments and Our Evaluation

We provided the Secretary of Agriculture with a draft of this report for review and comment. We received written comments from the USDA Under Secretary for Farm and Foreign Agricultural Services. In his comments, the Under Secretary addresses only the first recommendation and those findings with which USDA does not agree. With respect to the recommendation that FSA county officials be notified at the time of crop

insurance claims for disaster-related losses, the comment letter states that the Administrator of FSA does not have the authority to establish such a notification process. Instead, the Under Secretary points out that the Administrator of RMA would be the party responsible for alerting FSA when crop insurance claims are filed. As a result of this comment, we redirected the recommendation to the Secretary of Agriculture, who has the authority to direct RMA to provide this information to FSA.

USDA disagreed with two statements in the draft report. First, USDA disagreed with our statement that FSA officials did not provide systems documentation, such as specifications and business rules on how FSA used data in its systems to calculate crop disaster payments. While we appreciated FSA officials' cooperation in discussing the agency's data systems with us, these officials could not provide 7 of the 10 items we requested in order to understand how FSA's data systems operate. Instead, FSA referred us to handbooks for each of the crop disaster programs, but these handbooks are standard operating procedures for county office staff to implement each program and do not take the place of systems documentation. Second, USDA also did not agree with our statement that, under the 2001 through 2007 crop disaster programs, FSA made payments that are questionable because they were made to individuals and entities identified by RMA's data mining as having received suspicious crop insurance claims payments during that same period of time. We modified this text to be consistent with our characterization of FSA payments in the rest of the report.

USDA also provided technical comments, which we incorporated into the report as appropriate. USDA's written comments and our responses are presented in appendix IV.

We are sending copies of this report to appropriate congressional committees; the Secretary of Agriculture; the Director, Office of Management and Budget; and other interested parties. The report also will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staffs have any questions about this report, please contact me at (202) 512-3841 or shamesl@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix V.



Lisa Shames
Director, Natural Resources
and Environment

Appendix I: Objectives, Scope, and Methodology

Our objectives were to determine (1) how the U.S. Department of Agriculture's (USDA) Farm Service Agency (FSA) administered its crop disaster programs for losses from 2001 through 2007 and the results of payments under these programs and (2) what lessons FSA can learn from its experience with the previous crop disaster programs for managing its new crop disaster program.

Objective 1

To determine how FSA administered its crop disaster programs for crop losses from 2001 through 2007, we reviewed statutes, regulations, and guidance, such as the *FSA Handbook on the Crop Disaster Program, 5-DAP (Revision 2)*, as well as relevant studies prepared by the USDA's Office of Inspector General and the Congressional Research Service and our own past reports. In addition, we spoke with relevant USDA officials in headquarters and in FSA's Application Development Center in Kansas City, Missouri.

Because FSA bases its disaster assistance payments largely on USDA's Risk Management Agency (RMA) data, we also obtained information on suspicious crop insurance claims payments identified by RMA, which is responsible for administering the crop insurance program, and the Center for Agribusiness Excellence, which is an independent organization that conducts data mining on crop insurance and farm program data. Specifically, RMA uses data mining to identify patterns in crop insurance claims payments that are consistent with the potential for fraud and abuse. For example, these patterns include

- farmers, agents, and adjusters linked in irregular behavior that suggests collusion;
- farmers who for several consecutive years received most of their crop insurance payments from prevented planting claims;
- farmers who appear to have claimed the production amounts for multiple fields as only one field's yield, thereby creating an artificial loss on their other fields; and
- farmers who, in comparison with their peers, have excessive harvested losses over many years.

We compared RMA information with FSA records of crop disaster payments to identify payments to farmers that RMA identified as receiving suspicious crop insurance claims payments from 2001 through 2007.

Specifically, we identified crop disaster payments made to farmers who RMA identified as receiving suspicious crop insurance payments for at least 1 year of the crop disaster program under which the farmer received a disaster payment. We interviewed agency officials and reviewed relevant documentation to assess the reliability of the RMA data and determined the data to be sufficiently reliable for the purposes of our report.

We also obtained and analyzed data files from FSA to determine how FSA applied legal requirements and policy directives articulated in the statutes, regulations, and guidance in administering the programs. Specifically, we obtained the following data files:

- Producer Payment Reporting System file, which contains summary information on farm program payments made to individuals and entities;
- crop disaster program payment history file, which contains information on the dollar amount of crop disaster program payments;
- crop disaster program crop loss application file, which contains information from the applications that farmers submit when applying for crop disaster program payments;
- crop disaster program crop prices file, which contains the crop prices used to calculate payments under the crop disaster programs;
- USDA National Agricultural Statistics Service crop prices file, which contains crop prices used to calculate payments under multiple federal farm programs; and
- permitted entity file, which contains information on individuals and entities receiving farm program payments.

We used these data to determine the distribution of crop disaster program payments to recipients. To assess the reliability of these data, we

- obtained and reviewed the available documentation about the data elements in the data files;
- performed electronic testing on the data elements that we used;
- reconciled the two sources of crop disaster program payment data—Producer Payment Reporting System and crop disaster program payment

history records—by matching common data elements including FSA state code, FSA county code, and tax identification number;

- worked with FSA Application Development Center staff to determine how to merge all of the data files because FSA did not have written business rules or overall system documentation;
- discussed our results from merging these data files with officials in FSA’s Production, Emergency, and Compliance Division and in FSA’s Application Development Center, which administers and oversees the crop disaster program payments; and
- compared the results of merging all data files to FSA county office hard copy payment records that contain the calculations for the statutory payment cap.

We also attempted to use FSA’s data files to determine if any payments exceeded the statutory payment cap of no more than 95 percent of the crop’s expected value in the absence of a disaster. More specifically, the sum of the disaster payment, the value of the salvageable crops, and any crop insurance payments cannot exceed 95 percent of the crop’s expected value. In attempting to determine whether payments exceeded the statutory cap of 95 percent of the crop’s expected value in the absence of a disaster, we merged the crop disaster program crop loss records and crop disaster program payment history records. We found that the crop disaster payment crop loss application records could not be reliably merged with the crop disaster program payment history records using the following data elements—program year, tax identification number, tax identification number type, FSA state code, and FSA county code. We also found discrepancies between the data that resulted from merging the data files and the hard copy payment records that we obtained for selected farmers. Specifically, we found discrepancies in some of the data elements—insurance payments and expected values of production from the crop disaster program crop loss application records, as well as crop prices that FSA uses to calculate the statutory payment cap. A potential complex alternative method for using FSA’s data systems to compare crop disaster payments to statutory payment caps might have permitted a comparison of estimated disaster payments with statutory payment caps. Even if this alternative method were viable, additional research would have been necessary to reach a different conclusion about the reliability of FSA’s data systems for the purpose of determining the extent to which actual disaster payments met statutory payment caps. This additional research would have required data reliability assessments of additional specific

data elements, an examination of the differences between estimated and actual disaster payments at the detail and summary levels, and validating calculated fields not saved or recorded by FSA. We did not fully pursue this alternative method owing to insufficient documentation of FSA's data systems and a consideration of the large amount of time and effort it would have required. Therefore, the reliability of FSA's electronic data files for the purpose of assessing whether a crop disaster payment complied with a statutory cap is undetermined.

In summary, (1) the payment data from the reconciled crop disaster program payment data—Producer Payment Reporting System and crop disaster program payment history records—were sufficiently reliable for determining the distribution of crop disaster payments by state, program, and type of recipient and (2) the reliability of FSA's electronic data files for the purpose of assessing whether payments under the past crop disaster programs complied with relevant statutes and regulations is undetermined.

In addition, we identified the four states with the highest dollar amount of total crop disaster program payments: Kansas, North Dakota, South Dakota, and Texas. We also selected North Carolina, another state with high payment levels, to expand geographic dispersion. We identified the 27 counties representing the top 20 percent of the crop disaster payments FSA administered in each of those five states. We interviewed FSA officials in each of these 27 counties about their experiences administering crop disaster programs. Within each of these 27 counties, we identified the farmers representing the top 10 percent of total crop disaster payments and randomly selected 15 of these farmers in each county that received disaster payments under all three programs, and we collected their payment records from the FSA county office that administered their payments. Although these farmers were selected randomly from the top 27 counties in these five states, because this selection does not constitute a probability sample of farmers receiving crop disaster payments, it is not generalizable to a larger population.

Because we could not reliably merge the data files to determine whether payments complied with the statutory payment cap, we reviewed the hard copy payment records for 75 farmers. To select these 75 farmers, we identified the county administering the largest dollar amount of disaster payments within each of our five selected states and analyzed the payment records we collected for 15 farmers in each of these five counties to determine the total payments each of the 75 farmers received through crop insurance payments, sales of salvageable crops, and crop disaster

payments. We then compared this total with the farmer's expected value of production in the absence of a disaster to arrive at the total value as a percent of expected production. We analyzed field-level disaster payment data for these selected farmers. A field, in this report, refers to the lowest, detailed level at which a crop loss is defined and includes RMA- and FSA-defined crop characteristics such as the crop price, farming practices, insurance coverage, and planting period for units and subunits that describe contractual relationships or different crop yields associated with the acreage or producer share. For example, a field might be a farmer's 20 acres (not necessarily contiguous) devoted to a corn crop—but it would only be classified as a "field" if that farmer filed a claim and received a disaster payment for that specific corn crop.

Objective 2

To determine what lessons FSA can learn from its experience with past crop disaster programs for managing the new crop disaster program, we reviewed relevant statutes, regulations, and guidance, including the *FSA Handbook on the Supplemental Revenue Assistance Payments Program, SURE-1*. We also interviewed FSA officials from the agency's Production, Emergency, and Compliance Division; FSA's Application Development Center in Kansas City, Missouri; and the counties in the five states we examined. We asked these officials to identify challenges, if any, they faced in administering past programs and spoke with them about their plans for administering the new program. We analyzed this information to determine how FSA could use lessons learned to manage the new program.

We conducted this performance audit from November 2008 through June 2010, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Supplemental Revenue Assistance Payments Program

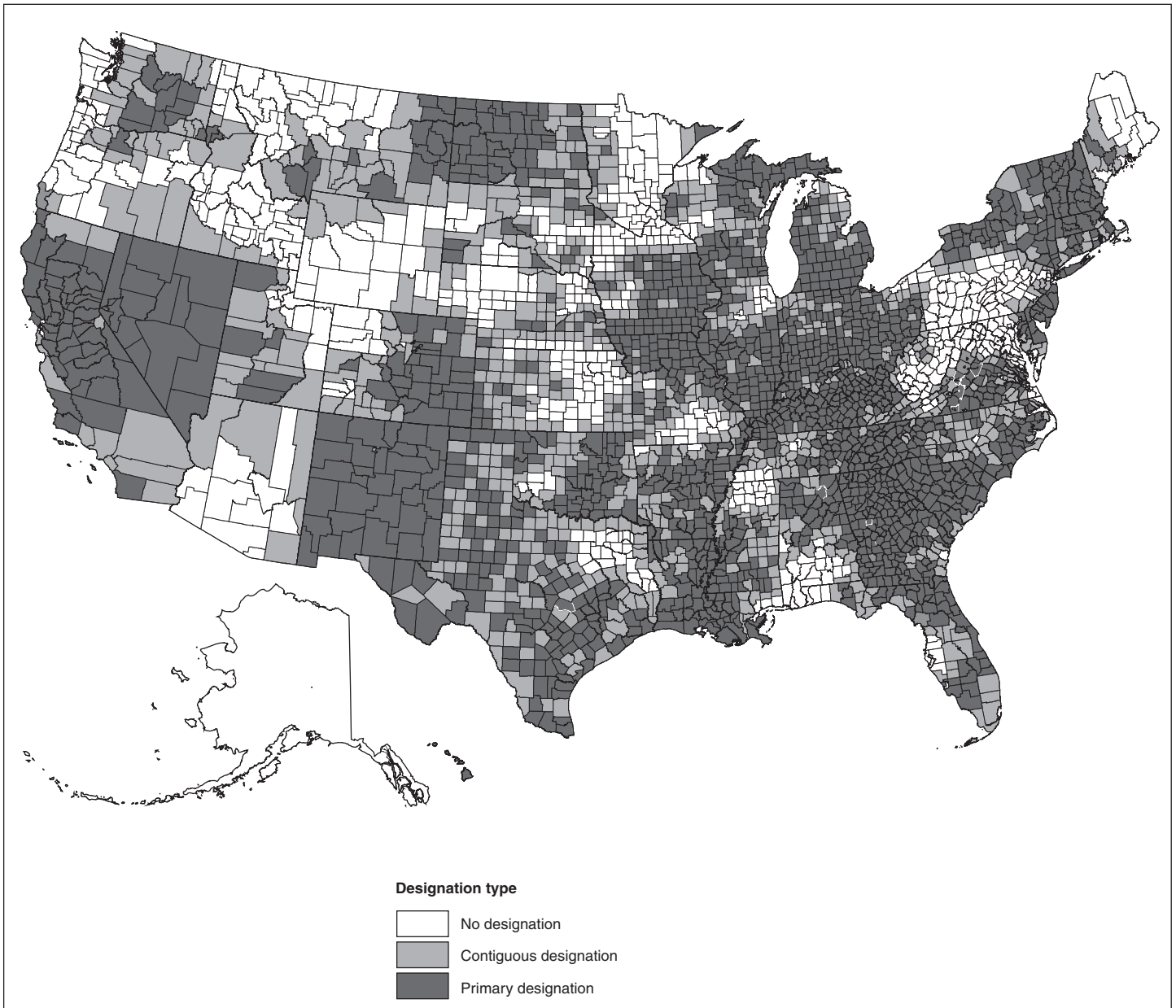
The Food, Conservation, and Energy Act of 2008 (the 2008 farm bill) created the Supplemental Revenue Assistance Payments Program to assist farmers for crop losses incurred on or before September 30, 2011. Under the program, USDA provides crop disaster payments based on a farmer's revenue from all crops in all counties. That is, the program considers the impact of a disaster on a farmer's entire operation, including revenue losses from crops that sustained damage, as well as revenue gains from crops that were successfully grown and harvested. In general, if the farmer's revenue is less than a guaranteed level of revenue, which is based on the farmer's production history, the farmer receives a payment. In contrast, if the farmer's revenue is equal to or greater than the guaranteed level of revenue (i.e., revenue losses are offset by revenue gains) the farmer does not receive a payment.

Eligibility Requirements and Payment Limitations

To be eligible under the new program, a farming operation must be located in or contiguous to counties that received a USDA secretarial disaster designation (see fig. 2 for the counties that met this requirement in 2008), and have lost at least 10 percent of production on at least one crop of economic significance.¹ Eligible disaster conditions include damaging weather, weather-related disease, and weather-related insect infestation. Alternatively, a farming operation must incur eligible total crop losses of greater than 50 percent of the normal production, including a loss of at least 10 percent of production on at least one crop of economic significance.

¹FSA defines an economically significant crop as one that has contributed or would have contributed or is expected to contribute 5 percent or more of the total expected revenue from all crops to the farming operation.

Figure 2: USDA Secretarial Disaster Designations for 2008, by County



Sources: GAO analysis of USDA data; Map Information (map).

Furthermore, farmers must have purchased either federal crop insurance coverage or be covered under the Noninsured Crop Disaster Assistance Program for all crops of economic significance on their farming operation

in order to qualify for a disaster payment. The Supplemental Revenue Assistance Payments Program considers revenue losses or gains from crops that are eligible for coverage through crop insurance or the Noninsured Crop Disaster Assistance Program. However, an amendment to the 2008 farm bill extended the date by which the federal crop insurance program and the Noninsured Crop Disaster Assistance Program required farmers to purchase coverage for their 2009 crops to be eligible for payment. Also, the Supplemental Revenue Assistance Payments Program includes an income eligibility requirement that prohibits any individual or a farming operation with an average adjusted gross income that exceeds \$2.5 million, over the previous 3 tax years immediately preceding the applicable crop year, from receiving program payments, unless 75 percent or more of their income is from farming. For 2009 and subsequent crop years, individuals and entities with an average adjusted gross income of \$500,000 or more, excluding income from farming, are not eligible to receive payments.

In addition, there are two basic payment limitations under the Supplemental Revenue Assistance Payments Program. First, the 2008 farm bill prohibits any person from receiving more than \$100,000 in combined payments from the Supplemental Revenue Assistance Payments Program; the Livestock Forage Program; the Livestock Indemnity Program; and Emergency Assistance for Livestock, Honeybees, and Farm-raised Fish. Second, the 2008 farm bill limits payments by prohibiting a farmer's guaranteed revenue level from exceeding 90 percent of the farmer's expected revenue in the absence of a disaster.

Payment Calculation

USDA calculates payments under the Supplemental Revenue Assistance Payments Program by comparing a farmer's total revenue with the farmer's guaranteed level of revenue. If the farmer's total revenue is less than the guaranteed level of revenue, the payment is equal to 60 percent of the difference between the two. In order to calculate the payment amount, USDA must determine the total revenue and the guaranteed level of revenue. A farmer's total revenue includes the actual value of all crops, crop insurance payments, and other farm program payments, including other disaster payments and some farm subsidy payments. A farmer's guaranteed level of revenue equals the sum of the guaranteed revenue the farmer will receive from each crop. For insured crops, the guaranteed revenue is based on the level of crop insurance coverage the farmer purchased for each crop. Higher levels of crop insurance coverage result in higher guaranteed revenue for that crop. For crops covered by the Noninsured Crop Disaster Assistance Program, the guaranteed revenue is

based on the crop price, the number of acres the farmer planted or intended to plant, and the amount of harvested crops.

**Special Provisions for 2008
Payments**

The American Recovery and Reinvestment Act of 2009 expanded eligibility and increased the benefits farmers could receive for the 2008 crop year. The act created an extension of the date by which farmers must have purchased crop insurance coverage or coverage through the Noninsured Crop Disaster Assistance Program for their 2008 crops to be eligible for payment. Regarding increased benefits, the statute allowed farmers to receive potentially larger payments by altering the method for calculating a farmer's guaranteed revenue.

Appendix III: Selected Information on Distribution of 2001 through 2007 Crop Disaster Program Payments

FSA administered a total of \$6.9 billion in payments for the three crop disaster programs from 2001 through 2007. The state receiving the largest dollar amount in payments under the three programs was Texas, which received a total of \$867.5 million in crop disaster payments under the 2001 through 2007 programs. Table 4 shows the dollar amount of crop disaster payments that states received under each of the three programs and as a combined total for all three programs from 2001 through 2007.

Table 4: Crop Disaster Program Payments for 2001 through 2007, by State

State	2001-2002 program	2003-2005 program	2005-2007 program	Total
Texas	\$310,405,053	\$283,002,363	\$274,141,304	\$867,548,720
North Dakota	228,194,676	290,486,210	177,649,567	696,330,453
Kansas	225,650,813	195,782,810	169,357,163	590,790,786
South Dakota	215,822,272	156,250,855	176,213,853	548,286,980
Nebraska	169,204,178	104,174,004	53,824,443	327,202,625
Minnesota	83,927,610	142,593,584	99,530,035	326,051,229
Colorado	103,080,100	95,343,964	56,627,499	255,051,563
North Carolina	77,893,857	76,962,245	85,418,178	240,274,280
Georgia	80,977,637	75,417,739	74,927,314	231,322,690
California	60,454,530	79,464,918	61,254,939	201,174,387
Montana	90,622,087	68,775,072	40,260,580	199,657,739
Oklahoma	63,016,075	35,203,089	82,805,472	181,024,636
Iowa	47,060,748	82,526,995	32,257,278	161,845,021
Wisconsin	33,195,463	84,220,977	42,851,238	160,267,678
Missouri	45,996,079	58,345,102	44,416,459	148,757,640
Ohio	73,597,267	37,957,270	21,092,656	132,647,193
Michigan	61,666,602	44,377,925	25,487,765	131,532,292
Illinois	44,872,563	41,950,176	37,028,516	123,851,255
Florida	47,127,857	42,946,938	30,304,659	120,379,454
Indiana	41,137,104	38,528,136	20,007,651	99,672,891
Idaho	34,037,278	50,533,014	11,937,763	96,508,055
Washington	34,011,192	42,403,015	15,041,983	91,456,190
Mississippi	39,571,669	17,509,226	25,503,700	82,584,595
South Carolina	36,985,971	21,594,238	23,762,775	82,342,984
Alabama	27,338,196	20,684,316	33,214,332	81,236,844
Arkansas	27,072,564	20,965,310	24,564,548	72,602,422
Louisiana	36,530,697	22,604,777	11,793,312	70,928,786
Tennessee	11,800,552	17,929,741	39,560,820	69,291,113

**Appendix III: Selected Information on
Distribution of 2001 through 2007 Crop
Disaster Program Payments**

State	2001-2002 program	2003-2005 program	2005-2007 program	Total
New York	25,709,582	30,028,720	13,035,764	68,774,066
Kentucky	11,462,659	15,806,469	33,100,340	60,369,468
Pennsylvania	31,865,771	13,641,250	12,488,804	57,995,825
Virginia	21,079,878	14,716,189	22,153,092	57,949,159
Oregon	23,285,671	14,646,815	8,904,272	46,836,758
Wyoming	12,532,123	16,346,080	7,123,421	36,001,624
Maryland	14,450,410	7,573,288	13,469,150	35,492,848
New Mexico	11,301,600	16,561,748	5,595,315	33,458,663
Utah	13,367,311	9,784,309	3,516,302	26,667,922
New Jersey	7,046,761	5,822,770	4,600,040	17,469,571
Maine	2,142,602	11,564,866	1,883,451	15,590,919
Massachusetts	5,177,016	5,358,485	4,825,335	15,360,836
Puerto Rico	5,651,715	8,282,014	1,258,089	15,191,818
Vermont	8,178,614	6,346,072	611,637	15,136,323
Arizona	5,746,541	5,706,784	1,976,987	13,430,312
Delaware	3,950,004	2,564,679	6,146,483	12,661,166
Nevada	4,244,861	3,826,882	1,578,496	9,650,239
Connecticut	1,839,161	4,238,166	2,888,210	8,965,537
West Virginia	827,993	1,678,058	1,071,123	3,577,174
New Hampshire	1,214,449	615,909	451,162	2,281,520
Guam	725,399	636,152	82,771	1,444,322
Hawaii	209,323	697,300	356,092	1,262,715
Rhode Island	348,815	316,556	380,939	1,046,310
Alaska	174,585	387,808	19,177	581,570
Northern Mariana Islands	55,351	196,626	21,156	273,133
American Samoa	0	248,756	0	248,756
Virgin Islands	0	41,207	10,193	51,400
Total	\$2,563,838,885	\$2,446,167,967	\$1,938,383,603	\$6,948,390,455

Source: GAO analysis of FSA data.

More recipients of 2001 through 2007 crop disaster program payments (80,129 recipients) received a total of \$1,001 to \$2,000 under the three programs combined than any other payment level. In addition, the recipients of total crop disaster payments from 2001 through 2007 that were larger than \$1 million received an average payment of \$1.3 million. Table 5 shows the number of recipients and their total payments under the 2001 through 2007 crop disaster programs, distributed by total payment size.

**Appendix III: Selected Information on
Distribution of 2001 through 2007 Crop
Disaster Program Payments**

Table 5: Number of Recipients and Total Payments for the 2001 through 2007 Crop Disaster Programs, by Payment Size

Payment size	Recipients		Total payments		
	Number	Percent	Total	Percent	Average
\$1-500	74,496	12.8	\$18,863,685	0.3	\$253
501-1,000	60,031	10.3	44,256,980	0.6	737
1,001-2,000	80,129	13.8	116,915,493	1.7	1,459
2,001-3,000	52,125	9.0	128,797,558	1.9	2,471
3,001-4,000	37,687	6.5	130,953,339	1.9	3,475
4,001-5,000	28,886	5.0	129,459,526	1.9	4,482
5,001-7,500	50,853	8.8	313,033,620	4.5	6,156
7,501-10,000	33,665	5.8	292,018,904	4.2	8,674
10,001-15,000	42,857	7.4	526,351,065	7.6	12,282
15,001-20,000	26,678	4.6	462,330,171	6.7	17,330
20,001-25,000	18,493	3.2	413,913,203	6.0	22,382
25,001-50,000	43,079	7.4	1,507,598,878	21.7	34,996
50,001-100,000	22,927	4.0	1,584,613,935	22.8	69,116
100,001-500,000	8,362	1.4	1,235,599,099	17.8	147,764
500,001-1,000,000	50	0.0	32,893,115	0.5	657,862
1,000,001-5,000,000	8	0.0	10,791,884	0.2	1,348,986
Total/average	580,326	100.0	\$6,948,390,455	100.0	\$11,973

Source: GAO analysis of FSA data.

Finally, when reviewing the farming structure of the 2001 through 2007 crop disaster program payment recipients, we found that the majority of recipients were individuals. Individuals received a total of about \$4.9 billion in payments, while entities received about \$2 billion under the crop disaster programs from 2001 through 2007. Table 6 shows the number of recipients and the payments they received under each crop disaster program and for all three programs combined, distributed by type of recipient.

**Appendix III: Selected Information on
Distribution of 2001 through 2007 Crop
Disaster Program Payments**

Table 6: Payments and Number of Recipients of 2001 through 2007 Crop Disaster Program Payments, by Type of Recipient

Crop disaster program	Individuals		Entities		Total	
	Number of recipients	Payments	Number of recipients	Payments	Number of recipients	Payments
2001-2002 program	324,169	\$1,835,356,576	56,860	\$728,482,309	381,029	\$2,563,838,885
2003-2005 program	276,189	1,712,160,806	53,808	\$734,007,161	329,997	2,446,167,967
2005-2007 program	247,995	1,327,490,815	52,346	\$610,892,788	300,341	1,938,383,603
Total	^a	\$4,875,008,197	^a	\$2,073,382,258	^a	\$6,948,390,455

Source: GAO analysis of FSA data.

^aThe number of recipients is not additive since some individuals and entities may have received payments under multiple programs.

Appendix IV: Comments from the U.S. Department of Agriculture

Note: GAO comments supplementing those in the report text appear at the end of this appendix. Page numbers in draft report may differ from those in this report.



United States
Department of
Agriculture

Farm and Foreign
Agricultural
Services

Farm Service
Agency

Operations Review
and Analysis Staff

1400 Independence
Ave. SW
Stop 0540
Washington, DC
20250-0501

TO: Lisa Shames
Director
Natural Resources and Environment
Government Accountability Office

FROM: James W. Miller
Under Secretary
Farm and Foreign Agricultural Services

MAY 18 2010

SUBJECT: Government Accountability Office (GAO) Draft Report Entitled, "USDA CROP DISASTER PROGRAMS: Lessons Learned Can Improve Implementation of New Crop Assistance Program", GAO-10-548

GAO conducted an audit to assess the effectiveness of Farm Service Agency's (FSA) program delivery of three multiyear crop disaster programs operated from 2001 through 2007, and to identify lessons learned that could improve the implementation of the new Supplemental Revenue Assistance Payments (SURE) Program, authorized under the 2008 Farm Bill. FSA is providing the following comments that specifically address where FSA does not agree with GAO's finding as identified below.

The "Highlights" page of the draft report incorrectly states that FSA officials did not provide systems documentation such as specifications and business rules on how FSA used data in its systems to calculate crop disaster payments. FSA made available and provided to GAO for review, all requirements specifications, handbook documentation, and other system documentation utilized in the delivery of the crop disaster programs contained in the draft report.

Page 7 of the draft report references that eligible causes of loss under the disaster programs were eligible for crop disaster payments if the losses resulted from any of the following: (1) damaging weather, such as drought, excessive moisture, hail, freeze, tornado, or hurricane; (2) and adverse natural occurrence, such as earthquake; or (3) a condition related to damaging weather or an adverse natural occurrence, such as excessive wind, excessive heat, saltwater intrusion, rationing of irrigation water, disease, or insect infestation. FSA considers excessive wind and excessive heat as an adverse weather condition and not as a related weather condition.

Page 8 of the draft report incorrectly references Risk Management Agency (RMA) as the agency who uses the term "uninsured crops". This reference should be removed. The wording of sentence should reflect that crops, crop types, intended uses, and practices for which Federal crop insurance or Noninsured Crop Disaster Assistance Program (NAP)

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See comment 1.

See comment 2.

See comment 2.

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was not purchased, were not eligible for payment under the crop disaster program implemented for crop losses in 2005, 2006, or 2007.

See comment 3.

FSA does not agree with GAO's conclusion on pages 12 and 13 of the draft report that FSA made questionable crop disaster payments to farmers identified by RMA as having received suspicious crop insurance payments. Specifically, GAO's conclusion questions \$395 million that FSA paid to farmers under the 2001 through 2007 crop disaster programs because RMA identified the crop insurance payments to those farmers as possibly suspicious. On pages 5 and 6 of the draft report, it is pointed out that RMA has identified 45 patterns of crop insurance payments that RMA defines as anomalous, such as receiving crop insurance payments while experiencing high frequency of losses in comparison with surrounding farming operations; using poor farming practices; or exhibiting irregular behavior with insurance agents or adjusters that suggest collusion. RMA's data mining does not identify specific instances of fraud or abuse of the crop insurance program; rather it identifies anomalous patterns of crop insurance claim payments that are consistent with the potential for fraud and abuse and considers these payments as "suspicious". RMA places farmers who exhibit such patterns on an annual list, after the year in which crop insurance claims payments are made, to monitor their current or future farming practices. RMA provides its annual list to FSA, and FSA notifies the selected farmers that crop inspections will be conducted. The draft report does not provide information on FSA's use of the suspicious payment report and that FSA conducts a minimum of 2 documented field inspections with representative digital photographs that have an embedded date and time with GPS points, and that the inspections are required within 30 calendar days after the final planting date and before harvest becomes general in the area. If producers listed on the report have not filed an acreage report with FSA, the producers are requested to identify the location of the planted crops being reviewed to ensure that inspections can begin to document such items as tillage methods, weed control, application of fertilizer, and how the crop compares with similar crops in the general area. In addition, the draft report does not address that FSA was not authorized to disapprove crop disaster program applications solely because a farmer was identified on RMA's suspicious payment report. The draft report does not provide information on the number of incorrect payments or the dollar amount of incorrect payments because the producer was determined to have acted fraudulently. The draft report does not include the process utilized by FSA for review and approval of crop disaster program applications, or the process for collection of payments that were determined to be in error. Further, during previous discussions with GAO on the three examples provided on pages 14 and 15 of the draft report, FSA recommended that GAO determine whether or not any of the three producers listed received crop insurance payments that were incorrect or based on fraudulent claims. The draft report does not provide additional information on any action by RMA to obtain refunds of indemnities.

See comment 4.

See comment 5.

See comment 6.

See comment 5.

See comment 6.

Page 17 of the draft report discussed the lack of documentation on how FSA's automated systems captured and processed data to calculate disaster payments for crop losses. FSA

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See comment 1.

made available and provided to GAO for review, all requirements specifications, handbook documentation, and other system documentation utilized in the delivery of the crop disaster programs contained in the draft report. This collaboration was intended to assist GAO in its understanding of the business rules and the computations required for determination of program benefits. In addition, FSA staff participated in teleconferences and exchanged emails to assist GAO, and FSA is willing to again make these documents available to GAO.

See comment 7.

Also on page 17 of the draft report, GAO states that FSA's data systems could not be reliably merged. FSA worked with GAO to explain the automated processes and the tracking of data in the automated systems. During a meeting held in Kansas City, GAO was focused on how to recalculate the "Estimated Calculated Payment Report" according to the 5-DAP (Rev. 2) handbook and compare that amount to the Producer Payment Reporting System (PPRS). FSA provided supporting documentation and verified the production files needed to support this effort. Prior to the meeting held in Kansas City, GAO visited the Wharton County, Texas office and had the Estimated Calculated Payment reports that GAO wanted to recreate by using the live data provided by FSA. GAO raised a concern that the payment history data could be different than what was in the PPRS. The primary focus for GAO was to tie the PPRS payment back to the Crop Disaster files (field, unit, crop, acres indemnity payment, harvested amount and the expected yield). Payment history records are rolled up to the producer level when sent to the National Payment Service (NPS) and subsequently PPRS. Many units and crops may be tied to the actual payment amount. The actual payment amount is calculated based on the payment grouping which includes: unit, state/county location, crop, crop type, planting period, practice and insured type. There can be multiple groupings calculated and included in a payment to a producer.

See comment 7.

Further confusion was encountered by GAO when trying to interpret the internal indicators and values in the files to determine if the calculation was for single or multiple market crops; yield based crops; value loss crops; quality adjustments, or whether the 95% Cap reductions applied to the pay crop. FSA agrees the internal coding of the data files used to determine these conditions was difficult to understand.

See comment 7.

GAO created a SAS data set of the payment history to try and reconcile the Calculated Estimated Payment amount to PPRS. There was confusion around how eligibility conditions that can occur prior to sending the record to NPS can change the payment amounts recorded in PPRS. Eligibility conditions include reductions for permitted entity share, AGI share, ineligibility, payment limitations, and combined producers. Data files used to support this evaluation could have changed between the time of issuing a payment and when the files were sent to GAO for their review.

Page 19 of the draft report identifies concerns surrounding a farmer's inability to harvest crops and the fact that 37 farmers received 90 percent or more of the expected value of

**Appendix IV: Comments from the U.S.
Department of Agriculture**

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Page 4

See comment 8.

the crops however they only incurred 85 percent of the cost of producing these crops due to not incurring harvest expenses, and implies that FSA paid for costs not incurred by the farmer. As required by statute, FSA did apply an unharvested payment factor for the specific crop acreage that was either prevented from planting or that was not harvested, and this factor did reduce the disaster benefit to the farmer.

See comment 9.

Page 24 of the draft report references that FSA will validate 2008 Supplemental Revenue Assistance Payments (SURE) Program payments after FSA fully develops an automated payment system. For 2008, FSA does not have the resources to develop an automated payment system for SURE. FSA does plan to use an interim process developed using RMA data and a workbook application to validate 2008 SURE payments.

See comment 10.

In addressing the first GAO recommendations on pages 25 and 26, the FSA Administrator does not exercise administrative control over filing crop insurance claims so that notification could be provided to FSA county officials. The RMA Administrator would be the responsible party to alert FSA when crop insurance claims are filed. In addition, RMA is responsible for verifying the validity of crop insurance claims.

See comment 2.

On page 37 of Appendix II of the draft report, FSA would like to clarify that the guarantee for the Noninsured Crop Disaster Assistance Program is similar to the crop insurance calculation. Similar to the crop insurance calculation, the NAP calculation for guaranteed revenue is based on the acres planted or intended to be planted, the adjusted NAP approved yield, the catastrophic level of coverage offered under NAP with an increase in price coverage from 55 percent to 100 percent, and the crop price.

Thank you for the opportunity to provide comments on the subject draft report.

The following are GAO's comments on the U.S. Department of Agriculture's letter, dated May 18, 2010.

GAO's Comments

1. We appreciate FSA officials' cooperation in discussing the agency's data systems with us. In April 2009, we visited USDA's Application Development Center in Kansas City, Missouri; interviewed officials responsible for each program file; and requested documentation for all files used in determining payments under each of the crop disaster programs. Specifically, in order to understand how FSA's data systems operate, we requested 10 items: (1) descriptions of all data elements, (2) code values for each variable, (3) key required to join the files, (4) system documentation required to use the data field both within and between files, (5) business rules, (6) tables showing the relationships between the various files, (7) data descriptions, (8) state and county codes, (9) information on how each file is related to the other files, and (10) process flow charts that should provide system details. FSA provided the first three items requested but not the remaining seven. Instead, FSA referred us to handbooks for each of the crop disaster programs, but these handbooks are standard operating procedures for county office staff to implement each program and do not take the place of systems documentation. As late as March 5, 2010, we asked FSA officials about systems specifications and user requirements for the ad hoc crop disaster programs and the Supplemental Revenue Assistance Payments Program. These officials stated that they may not have provided these documents, but even if they had, the documents for the ad hoc disaster assistance programs would not be usable for our purposes since they were not official, and the documents for Supplemental Revenue Assistance Payments Program are in the initial phases of development. Under these circumstances, we stand by our statement that FSA officials could not provide systems documentation, such as specifications and business rules on how FSA used data in its systems to calculate crop disaster payments.

2. We made these technical changes as appropriate.

3. We recognize that FSA received claims for disaster-related crop losses, and the funds to pay for these losses, years after these crop losses occurred. We modified the text to be consistent with our characterization of FSA payments in the rest of the report.

4. We revised this report to note that FSA inspects fields for practices in addition to those we discussed in a draft of this report.

5. We do not question FSA's approval of crop disaster payments. Instead, we recommend that FSA county officials be notified at the time of crop insurance claims for these losses so these officials have an opportunity to verify that crop disaster payment applicants experienced losses because of an eligible cause. In general, we did not seek to validate individual applications for crop disaster payments.

6. In this report, we focused on FSA's crop disaster payments and not on RMA's crop insurance claims payments. FSA bases its crop disaster payments primarily on RMA's crop insurance data. As we noted in this report, we found that about 6 percent of FSA's crop disaster payments went to farmers who were identified by RMA's data mining as having received suspicious crop insurance claims payments during that same period. We did not follow up on whether farmers had acted fraudulently or whether RMA took any actions to obtain refunds of crop insurance claims payments because these issues were not the focus of this report.

7. We acknowledge that the data systems for the ad hoc crop disaster programs are complex and include numerous data files. Nonetheless, reconciling the information in farmers' disaster applications and their payments was important in addressing part of our first objective: how FSA administered its three ad hoc crop disaster programs for crop losses from 2001 through 2007. To this end, in February 2009, we met with FSA Wharton County, Texas, officials to understand how, within a county office, the estimated disaster payments were calculated. In April 2009, we visited USDA's Application Development Center to discuss the files we needed, and how the files should be linked to determine how the actual payments were calculated. At that time, center officials explained that the system—files and their linkages—was not well documented. On several occasions, we requested information on the formulas and variables used to recreate the actual payments, but center officials did not respond to our requests. Because center officials could not provide us with documentation for business rules and file specifications (see response to comment 1), we asked these officials if we could use specific variables—tax identification number, tax identification type, FSA state code, and FSA county code—maintained in the history file to determine whether payments complied with the statutory cap that payments not exceed 95 percent of the crop's expected value in the absence of the disaster. These officials noted that this approach should provide the information we needed. From July 2009 through December 2009, we found discrepancies in this approach and contacted center officials to gain additional clarification on this approach. In each case, center officials continued to confirm that this approach seemed reasonable. In October 2009, we

provided center officials with a list of farmers whose payments appeared to exceed the statutory cap, resulting in overpayments, but FSA did not provide comments. In December 2009, we provided FSA headquarters officials with a more refined list of farmers who appeared to have been paid in excess of the statutory cap. FSA headquarters officials responded that they would investigate the farmers on this list. In December 2009, these officials examined the apparent overpayments, found that the payments were made correctly, and informed us that the originally agreed upon approach would not provide us with accurate calculations. Because we had already invested significant time and resources on the approach FSA had told us represented a reasonable approach, and because we still lacked adequate documentation of the system, we used hard copy payment files for 75 selected farmers in five states to determine if these farmers' payments complied with the statutory payment cap. For these 75 farmers, we found that the payments complied with the cap.

As USDA observes, the system, and its internal coding, used to calculate payments (and determine compliance with the payment cap) is very difficult to understand. Although these systems are difficult to understand, delays in and lack of responses to our questions further complicated our analyses. We also agree with USDA that eligibility conditions that are not well documented are very difficult to discern. Finally, although we requested that all files cover the same time periods, FSA did not provide us with consistent files.

8. We revised this report to reflect the use of the unharvested payment factor. As we note, however, even with the use of this factor, farmers may still have received payments that exceeded their costs of producing these crops.

9. In response to USDA's comment that FSA has limited resources for developing the automated payment system for 2008, we revised this report to more clearly acknowledge that FSA verifies the data entries. Furthermore, as we state in this report, FSA officials said that once the agency fully develops the automated payment system, it plans to validate and make any necessary adjustments to the payments it calculates and issues using the interim payment system.

10. We revised this report to recommend that the Secretary of Agriculture implement procedures so that FSA county officials have timely notice of crop insurance claims for disaster-related losses.

Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

Lisa Shames (202-512-3841) or shamesl@gao.gov

Staff Acknowledgments

In addition to the individual named above, Thomas Cook, Assistant Director; Kevin Bray; Richard Brown; Arturo Cornejo; Kristin Hughes; Paula Moore; Carol Herrstadt Shulman; Kiki Theodoropoulos; and James W. Turkett made key contributions to this report.

Related GAO Products

Crop Insurance: Opportunities Exist to Reduce the Costs of Administering the Program. [GAO-09-445](#). Washington, D.C.: April 29, 2009.

Information Technology: Agriculture Needs to Strengthen Management Practices for Stabilizing and Modernizing Its Farm Program Delivery Systems. [GAO-08-657](#). Washington, D.C.: May 16, 2008.

Supplemental Appropriations: Opportunities Exist to Increase Transparency and Provide Additional Controls. [GAO-08-314](#). Washington, D.C.: January 31, 2008.

Agricultural Conservation: Farm Program Payments Are an Important Factor in Landowners' Decisions to Convert Grassland to Cropland. [GAO-07-1054](#). Washington, D.C.: September 10, 2007.

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