

REVIEW OF EFFORTS TO ELIMINATE WASTE, FRAUD, AND ABUSE IN THE CROP INSURANCE PROGRAM

HEARING BEFORE THE SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT OF THE COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES

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ANCE PROGRAM**

THURSDAY, JUNE 15, 2006

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL FARM
COMMODITIES AND RISK MANAGEMENT,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The subcommittee met, pursuant to call, at 10:05 a.m., in room 1300, Longworth House Office Building, Hon. Jerry Moran (chairman of the subcommittee) presiding.

Present: Representatives Johnson, Graves, Neugebauer, Boustany, Conaway, Goodlatte, [ex officio], Etheridge, Salazar, Herseth, Butterfield, Barrow, Pomeroy, Chandler, and Peterson, [ex officio].

Staff present: Tyler Wegmeyer, Bryan Dierlam, Craig Jagger, Elizabeth Parker, Callista Gingrich, clerk; Lindsey Correa, Clark Ogilvie, and John Riley.

OPENING STATEMENT OF HON. JERRY MORAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. MORAN. The silence in the room would suggest that it is time to come to order. And we will do that. This hearing of the Subcommittee on General Farm Commodities and Risk Management will come to order.

We are here to review efforts to eliminate fraud, waste and abuse in the crop insurance program, and I have a brief opening statement that I would like to make and then I will turn to the gentleman from North Carolina.

As I indicated, we are here today to address the issue of program integrity within the Federal crop insurance system. Crop insurance is a vital component for many farming operations throughout our country, and this committee is charged with ensuring that the program is not only meeting the needs of producers, but that money is not being drained from the program because of waste, fraud or abuse.

I look forward to the testimony of our witnesses today to bring us up to date on the current status of this issue and how we are succeeding in regard to preventing these problems. We are particularly interested in the detection methods for waste, fraud and abuse. I know that our witnesses have spent time preparing for to-

day's hearing, and I am grateful for that, including the time they spent yesterday in briefing us.

In order to ensure that the insurance options are available to farmers, the Congress passed the Federal Crop Insurance Act in 1980 and created a unique partnership between the private insurance companies and the Federal Government within the crop insurance program. And although it is clearly not perfect, crop insurance has become a critical component of the farm safety net.

Then, in 2000, we passed ARPA, the Agricultural Risk Protection Act. We made substantial investments in Federal Crop Insurance Program to make certain that the insurance is more accessible, more affordable to our farmers across the country, and in an attempt to decrease the need to create costly ad hoc disaster assistance.

Congress also in that legislation took significant strides to protect this substantial investment by providing the Department of Agriculture with the tools needed to better monitor the program for waste, fraud and abuse.

ARPA contained several provisions that were designed to enhance the capacity of the USDA to recognize and respond to the challenges of program compliance and integrity. These provisions resulted from widespread concern from farmers about abuses in the crop insurance program.

Although the challenge continues, it does appear to me that improvements have been made. Significant strides to curb waste, fraud and abuse are recognized, but also recognized is the need that this committee remain vigilant, that everything possible be done within the industry to prevent these problems from occurring.

One of the biggest successes in minimizing waste, fraud and abuse is Tarleton State University's data mining program, and I look forward to hearing the testimony of Dr. Little about the university's commendable efforts. I realize mandatory funding for this program expired at the end of fiscal year 2005 and the program has been operating on annual appropriations. This program has strengthened the integrity of our Federal Crop Insurance Program and needs to again remain funded by mandatory dollars.

Spending on agriculture accounts for less than 1 percent of the total U.S. budget, and we want to ensure that all of those dollars are being put to the use for which they were intended. I believe the Federal Crop Insurance Program and its governing agencies are making significant efforts to preserve the integrity of the program which is so vital to U.S. agriculture production, but is enough being done? And does the Risk Management Agency have the authority and tools necessary to detect and regulate cases of fraud and abuse?

I know that our witnesses will be able to provide the subcommittee with answers to these questions, and I look forward to that discussion.

I now turn to the gentleman from North Carolina, ranking member of this committee, my friend, Mr. Etheridge.

OPENING STATEMENT OF HON. BOB ETHERIDGE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. ETHERIDGE. Thank you, Mr. Chairman. And thank you for convening the subcommittee for this important review of the crop insurance industry.

As a Member of Congress, it is our responsibility to ensure that the executive branch is wisely spending appropriations that we vote for them to use every year on behalf of the farmers of this country. That is why congressional oversight is so important.

Hearings like these are equally important. Unfortunately, I don't think we have enough of them. Oversight is not something we do so that we can put out a report or a press release. Responsible oversight must occur week after week after week, and that is important.

Mr. Chairman, I want to commend you for your dedication to proper oversight and your work to ensure that crop insurance continues to be delivered for our farmers. As you have rightly said, it is an important part of their package today, given the risks that farmers take.

Crop insurance is a key component of the farm safety net, and it is crucial that this subcommittee continues to stay abreast as to the health of the industry. When waste, fraud and abuse are allowed to flourish, farmers lose confidence in the crop insurance system, and we just cannot allow that to happen, especially now when the risks are so great.

I look forward to hearing from our witnesses, and I thank you again, Mr. Chairman, for holding this hearing.

Mr. MORAN. I would recognize Mr. Peterson to give the any opening remarks that he would like to make.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PETERSON. Thank you, Mr. Chairman. And thank you for calling this hearing.

Unfortunately, when the public hears that we are going to go after waste, fraud and abuse, half the time they think we are not going to do anything. So I want to associate my remarks with Mr. Etheridge that we need to maybe ramp up our efforts at oversight.

And as you are well aware, Mr. Chairman, maybe as significant a problem as the potential of abusing the program is the fact that we have got some things that need to be fixed; and I hope that we can spend some time this year getting ready for the farm bill debate to be able to get at some of the underlying problems that we have with crop insurance that just aren't taking care of a lot of producers, as we have heard in a some hearings across the country.

We have Mr. Don Brown from Minnesota, who is there working on some stuff with an outfit in my district that has got some very useful technology using multispectral digital photography that I think will help us not only get at some of the abuse issues, but actually make it easier for us to administer crop insurance.

So I appreciate their being here today and your allowing them to testify, because I think they are onto something here, and these

are some of the things that we need to do as we modernize and update this system and try to make it work for our producers.

So thank you for your leadership, and I hope we have more of these hearings before we—

Mr. MORAN. Mr. Peterson, Mr. Etheridge, I would clearly indicate to both of you and to the other members of the subcommittee that we would welcome the opportunity to have continued oversight hearings. This is a subcommittee that meets regularly on the topic of crop insurance and is certainly interested anytime we see topics of interest, it is appropriate for our subcommittee to have oversight, and I am very interested in pursuing them.

We are delighted to accommodate you, Mr. Peterson, with the presence of Mr. Brown. We look forward to what he has to say as well.

The Chair would request that the other members of the subcommittee submit their opening statements for the record so that we can begin the hearing.

[The prepared statements of Messrs. Salazar and Butterfield follow:]

PREPARED STATEMENT OF HON. JOHN SALAZAR, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF COLORADO

Thank you Chairman Moran and Ranking Member Etheridge for holding this important hearing today.

I want to start by stressing the importance of the Federal Crop Insurance Program is vital to the agriculture producers within my district.

While I realize there are some concerns with the crop insurance program, we must work to protect the programs that support production agriculture so that we as a country can have strong and secure food supply.

Crop insurance programs are very important to me personally as a farmer to help insure my risk is minimized.

Many banks require farmers to have crop insurance to secure financing so that they have the money to operate their farms.

Without the crop insurance program many farmers within my district would not be farming today due to the recent drought.

With that being said I do have some problems with the complexities of the program.

Some of the insurance agents have expressed their concerns.

These agents often write car and home policies and have said that the crop insurance that they write is much more complex and the paper work is twice if not three times that of a car or homeowner policy.

The crop insurance agents have also stated their concern under the conflicts of interest.

I have a concern that an agent cannot be present when a crop adjuster is examining a crop due to many farmers not understanding all of the complexities of their policies.

An insurance agent can be present when an adjuster is reviewing a claim under their car or homeowner policy but cannot be there when there is a claim for crop damage.

I am hopeful that as the crop insurance programs matures over time that we will be able to control the abuse and fraud while still making the program work for the farmers.

I look forward to hearing the testimony of the witnesses and identifying solutions that will make this program function more effectively.

I hope we can resolve any issues that exist and help assist in keeping production agriculture alive within the United States.

I thank the panel participants, Chairman Moran and Ranking Member Etheridge for bringing this issue to the committee.

PREPARED STATEMENT OF HON. G.K. BUTTERFIELD, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF NORTH CAROLINA

Mr. Chairman. I realize that the Federal Crop Insurance Program plays a necessary and vital role in our Nation's agricultural policy. The piece of mind and reassurance that this program gives to the producers all across this nation is invaluable.

However, as with all other programs that exist, the Federal Crop Insurance Program does not go with out error. Fraud and abuse have been all too common and have tainted the pool of claims made every year on defected crops. I am pleased Mr. Chairman, that you and Ranking Member Peterson have called this hearing today to examine ways to eliminate such waste. The burden that this fraud has placed on every producer and tax payer alike is just plain unfair.

Mr. Chairman, in my opinion, one way to examine the fraud and abuse of this program is to first look at the Premium Discount Plan (PDP). This plan is thought by many in my district to be an unsound plan. Many agents have gone as far as to say that we don't need it

The Premium Discount Plan allows insurance companies to cherry pick and only give discounts to large farmers.

There was once a plan that gave the farmers a discount for not filing a claim within 5 years. What ever happened to a simple plan such as that?

Mr. Chairman, I strongly believe that if we were to implement a strong, transparent policy that emphasized simplicity: we could begin to eliminate this abuse.

Mr. MORAN. With that, let us turn to our first panel. We are once again delighted to have Mr. Eldon Gould, the Administrator of the Risk Management Agency, U.S. Department of Agriculture, and joining him at the table is Mr. Daniel Bertoni, the Acting Director of the Natural Resources and Environmental Division of the Government Accountability Office.

Administrator Gould, welcome back. Third appearance? Is that true?

Mr. GOULD. Third, correct.

Mr. MORAN. Third. We are delighted to have you here for your third appearance and look forward to your testimony.

**STATEMENT OF ELDON GOULD, ADMINISTRATOR, RISK
MANAGEMENT AGENCY, U.S. DEPARTMENT OF AGRICULTURE**

Mr. GOULD. Thank you.

Mr. Chairman and members of the subcommittee, I am Eldon Gould, Administrator of the USDA's Risk Management Agency. I am also a life-long farmer from northern Illinois. I appreciate the opportunity to provide an update on the efforts of the RMA to continue to improve the integrity of the Federal Crop Insurance Program. Any discussion of program integrity must include an update on our successes and challenges in implementing ARPA.

The Federal Crop Insurance Program itself is working as it was intended and is working well. Program integrity is maintained through prevention, detection and enforcement. Because they share in risk, the approved insurance providers have a vested interest in working with us to prevent fraud, waste and abuse. We have worked closely with AIPs to strengthen program integrity, protect taxpayer dollars and better ensure that those who deliberately break the rules are caught and punished.

Our main compliance workload has increased substantially due to the expansion of the Federal Crop Insurance Program and the implementation of ARPA. The President's fiscal year 2007 budget proposal requested 15 additional staff to strengthen and expand the compliance function.

In the area of enforcement, compliance continues to build relationships not only with the Federal agencies that assist directly with prosecuting criminal activity, primary OIG investigations and the Department of Justice, but also with State insurance departments and the National Association of Insurance Commissioners.

As part of the ARPA legislation, data warehousing and data mining techniques were explicitly identified as tools to be used by RMA to strengthen the crop insurance program's oversight efforts. RMA is not only making significant progress in preventing fraud, waste and abuse through the use of data mining; our data mining findings have also shown that a considerable majority of producers use our risk management tools exactly as they were intended.

ARPA authorized program integrity funds for data mining purposes for a period of 5 years. That authorization expired in 2005. Congress allocated \$3.6 million in fiscal year 2006 so that data mining could continue.

The House recently passed the 2007 Agriculture appropriations bill, which includes language providing RMA with flexibility to use other authorized funds for data mining.

A critical area of program integrity improvement is enhancing the capability of RMA's IT system. ARPA instituted new data reconciliation, data mining and other antifraud, waste and abuse activities that required the data to be used in a variety of new ways. But the current IT system was not designed to handle these types of data mining operations. In light of this, the 2007 budget includes a proposal to require the AIPs to share in the cost to develop and maintain a new IT system.

RMA is also working closely with FSA to simplify our joint reporting requirements. RMA is actively working on a Comprehensive Information Management System, known as CIMS, which will simplify and improve the programs administered by RMA and FSA. This project will provide an information system that allows RMA, FSA and other USDA entities and AIPs to process, share and report on approved, common information.

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

Again, I thank you for the opportunity to participate in this important hearing, and I look forward to responding to questions from the members.

[The prepared statement of Mr. Gould appears at the conclusion of the hearing.]

Mr. MORAN. Thank you, Mr. Gould.

Mr. Bertoni.

STATEMENT OF DANIEL BERTONI, ACTING DIRECTOR, NATURAL RESOURCES AND ENVIRONMENT, GOVERNMENT ACCOUNTABILITY OFFICE

Mr. BERTONI. Good morning, Mr. Chairman, members of the subcommittee. I am pleased to be here to discuss USDA's efforts to

address fraud, waste and abuse in the Federal Crop Insurance Program, which represents a vital safety net for American farmers.

USDA's Risk Management Agency has overall responsibility for administering the program in partnership with private insurance companies. In 2005, the program provided \$44 billion in coverage at a cost of nearly \$3 billion to the Federal Government, including \$117 million in improper payments. With the Agricultural Protection Act of 2000, or ARPA, Congress provided RMA and USDA's Farm Service Agency with new tools to deter program fraud. However, concerns remain that some producers are abusing the program for financial gain; and RMA and insurance companies do not always diligently investigate such claims.

My testimony today is based on our prior work and focuses on two key areas: the effectiveness of USDA's procedures to prevent fraud, waste and abuse and the extent to which program design issues may increase RMA's exposure to abusive practices.

In summary, while RMA has taken actions to strengthen the program through enhanced data mining, field contacts with farmers and other means, weaknesses remain in four key areas: field inspections, data mining, quality assurance and the imposition of sanctions.

First, although RMA uses various techniques to identify suspect producers for annual onsite inspections, FSA staff are not conducting all required reviews. In fact, FSA completed only 64 percent of 3,000 requested inspections in 2004; and between 2001 and 2004, field offices in nine States did not conduct any inspections.

Second, RMA's data mining processes exclude comparisons of the largest farming operation, such as joint ventures and limited partnerships, making it difficult to identify ownership interests. Thus, members of multiple farming entities could move production from one operation to another to file bogus claims without detection.

RMA has not systematically used key data maintained by FSA to make such comparisons. However, we analyzed this data and found that of 69,000 entities that had crop insurance policies in both agency databases, 21,000, or 31 percent, failed to report all ownership interests in the farming operation, resulting in nearly \$150 million in improper payments.

Third, we found that insurance companies were not always completing quality assurance reviews as required for anomalous claims and those of \$100,000 or more. In fact, reviews were conducted for only 59 of 80 cases that we examined that met this criteria, and these efforts were mainly paper exercises rather than a comprehensive analysis of the claim.

Fourth, although ARPA expanded RMA's sanction authority for producers, agents and adjusters who willfully and intentionally provide false or inaccurate information or fail to comply with other FCIC program requirements, this information is rarely used. Between 2001 and 2004, the agency identified about 3,000 farmers annually with suspicious claims, but imposed only 114 sanctions.

Stakeholders we surveyed believe more could be done to penalize those who abuse the program. At the time of our review, however, RMA had not yet issued regulations for its expanded authority.

In addition to the problems we have identified in RMA's processes, we also found that the program's design can impede agency

efforts to prevent fraud and abuse. Program regulations will allow farmers to insure fields individually with optional unit coverage, making it easier to switch production among fields and make false claims.

Program data, as well as case file reviews, show that production switching is an ongoing source of program abuse. Complicating the agency's efforts is the fact that private insurers often bear minimal risk on some policies, giving them less incentive to challenge questionable claims.

And finally, because of statutory requirements that farmers be provided prevented planting coverage, internal premium subsidy levels may create opportunities and incentives for continued program abuse. To illustrate, our case file reviews identified a number of suspicious prevented planting claims, one of which we forwarded to RMA for investigation. The agency ultimately directed the insurance company to seek reimbursement of this claim.

In conclusion, Federal crop insurance plays a crucial role in protecting the Nation's farmers and crops. However, abuse by some can cause all farmers to pay more for insurance and damage the reputation of the program.

With ARPA, RMA has made progress in strengthening the program. However, our report makes several recommendations to correct continuing weaknesses and further strengthen the agency's ability to combat fraud and abuse. We also note that the Congress should consider allowing RMA to reduce premium subsidies for farms who chronically file suspicious claims.

Mr. Chairman, this concludes my statement. I am pleased to respond to any questions you or members of the subcommittee may have. Thank you.

[The prepared statement of Mr. Bertoni appears at the conclusion of the hearing.]

Mr. MORAN. Mr. Bertoni, thank you very much.

Let me ask you initially, is there a series of GAO reports regarding waste, fraud and abuse at the Risk Management Agency that predates the report that your testimony focuses on?

Mr. BERTONI. I wouldn't say we have a body of work on waste, fraud and abuse, but we have done some work on pieces of it.

Mr. MORAN. Is there a way to determine whether progress is being made, based upon those reports? Are things getting better, the same? Do we see implementation of your recommendations over a period of time?

Mr. BERTONI. I don't think we used the prior work to compare where they are in terms of progress. I think really this is the first time where we take a, let us say, top-to-bottom review of the processes.

Based on what they say they are going to do, there are indications of progress that I believe they are making. If they move forward and implement our recommendations, I think that would be a substantial step toward improving program integrity in terms of increased data mining, using more technology to extend their enforcement arm, using these on-the-ground field investigations to really corroborate whether fraudulent activity is occurring.

And, of course, using sanction authority, it is a three-legged stool. I think they go together, and they need to be used in that manner.

Mr. MORAN. So, Mr. Bertoni, the benchmark that we would have to look at in the future is really the September 2005 GAO report?

Mr. BERTONI. At least from our perspective, yes.

Mr. MORAN. And when would be an appropriate time for a second GAO report of similar or the same issues?

Mr. BERTONI. We issued this less than a year ago, and every year we do an update to our recommendations. So we maintain constant contact with the agency in question to document and to follow the progress for the recommendation. So we will be doing that in the interim.

I would not suggest doing a follow-on review prior to a year, year and a half out. But we will continually follow these recommendations, and we could certainly come back and give you an update in testimony form as to where they are.

Mr. MORAN. I appreciate that.

Mr. Gould then, the recommendations Mr. Bertoni just testified to and the ones that are contained in that September 2005 report, I assume, Mr. Gould, you are familiar with those.

Can you describe to us what compliance activities have occurred, what additional activity has occurred at RMA to meet the suggestions contained in that report?

Mr. GOULD. Yes, I certainly am aware of them, and we are taking dramatic steps to implement those recommendations to the extent that is possible.

There is some difference in our interpretation of those recommendations, but we are working to implement those, again, improve the program and prevent fraud, waste and abuse. Some of those instances and those reports were categorized as waste, fraud and abuse but in actuality they were just program errors, everyday errors and omissions. So a little bit of that gets lumped into the bad category where, in fact, it is, as I say, errors that come about in the normal course of doing business.

On that subject, if I can have an extra couple of seconds there, we are working closely with FSA to improve our reporting requirements and simplify our data reporting so that it is synonymous with FSA; and I think that will cut down certainly the reporting errors with numbers and that type of thing.

Mr. MORAN. Two follow-up questions, Mr. Gould: Are there recommendations that are contained in the GAO report that RMA disagrees with?

Mr. GOULD. There are a few, and we have ongoing discussions with GAO on those issues, and some of them have been improved; and that takes time to see the results, as you alluded to it in your previous questions.

But, yes, we have ongoing discussion; at the same time we have ongoing improvement.

Mr. MORAN. And you mentioned FSA. Do you now have access, adequate access to FSA records for appropriate data mining and other opportunities to review crop insurance for waste, fraud and abuse?

Mr. GOULD. Well, we are probably one notch short of saying “adequate,” but we have improved access to FSA data, and we are working to improve the access that we do have. And we are working closely with FSA on the CIMS project so that we can have common information available to RMA and FSA and, of course, the insurance companies.

Mr. MORAN. Is there still information at FSA that you are not capable of acquiring, accessing?

Mr. GOULD. Well, I wouldn't say it is not available. We are making sure we don't have any security problems as the data gets shared between different agencies and the companies. And so we are concerned about, as I said, the security of that data, and what can and should go to different companies.

So as part of the CIMS project, we are in the process of working through those issues.

Mr. MORAN. Mr. Bertoni, my last question, because my time has expired some time ago, but I also serve as a member of the House Veterans' Affairs Committee. We have had a series of hearings with the potential disclosure of information concerning 26.5 million veterans.

Are there issues you are aware of at RMA in regard to information technology and its security that we ought to be aware of?

Mr. BERTONI. No. But in my prior life, just before coming here, I worked for another team and that is pretty much what I did. I looked at security of Social Security numbers and identity information across Federal programs.

So while that is an important issue, it is crucial, any agency that is going to be data mining, analyzing personal information has to have appropriate safeguards in place; and I would hope that is being looked at in tandem with obtaining these records and ultimately marrying the FSA and RMA data together.

So there must be appropriate safeguards in place, and that should be part of the plan as they move forward.

We have not looked at that, but certainly it is an important issue.

Mr. MORAN. Thank you. I think we will explore that a little more today and perhaps in the future.

Let me now turn to the gentleman from Minnesota, Mr. Peterson.

Mr. PETERSON. Thank you, Mr. Chairman. I want to thank Mr. Etheridge for accommodating me here; I have got another meeting.

Mr. Gould, welcome to the committee, and by chance, it seems like I am with you every other day here. So I want to read you some language from a bill that we passed in 2006, the Agriculture appropriations conference report that says “the conferees are aware of aerial platform multispectral digital imaging and its potential application in facilitating the accurate measurement of crop insurance claims. The conferees encourage the Secretary to consider the development of a pilot program with the University of Minnesota to advance the application this technology would provide to the claims process.”

Can you tell us what is being done at the Department and, specifically, your agency to address this provision on the Agriculture appropriations conference report?

Mr. GOULD. We are using geospatial information to some degree as we pursue claims and check up on claims, particularly those that become more advanced.

We are not doing anything particular with the University of Minnesota because to date we have not received funding to pursue that aspect.

Mr. PETERSON. Have you talked to them?

Mr. GOULD. Not since I have been on board.

Mr. PETERSON. Maybe you should.

Mr. GOULD. OK. Thank you. And I look forward to their upcoming testimony this morning.

Mr. PETERSON. Very good.

Also, Mr. Gould, the GAO report cites several comments from FSA employees. FSA county directors believe that the information obtained by FSA inspectors is not used by RMA or the companies to deny claims to producers. The FSA inspectors believe that they could do a more effective job if they received more information from RMA on the questionable claim patterns data mining identified, and there were also complaints apparently from FSA employees on a lack of feedback from RMA.

What has been done to improve the level of communication between FSA and RMA since their support came out?

I guess if you agree with what was in this report, if you could just kind of—

Mr. GOULD. We want to thank FSA for doing the work they do, and the people down at the county level that make the onsite inspections. And we do use that information.

We maybe could do a little better about reporting back to them what becomes of their inspections. And that information is available publicly, but maybe they don't pursue it, and perhaps we don't do all we could to get that information back to them specifically.

But they are a key player in the whole spot inspection process, and we do take results of those inspections and the results seriously and do pursue them.

And again, I guess maybe if they are not getting information, either they are not interested or we are not getting it back to them, but we will pursue that.

Mr. PETERSON. Well, why would the county FSA directors believe that their inspectors' reports and information are not used by RMA? Why do they think that if it is not being used to deny claims?

Mr. GOULD. I think maybe the problem is that perhaps we just distribute the information to the State FSA directors. And then obviously we depend upon the State FSA directors to get that information back down to the county level. So maybe we have an information gap or a process, a weakness there that we need to follow up on.

Mr. PETERSON. So I guess my concern, more than who knows what or who has got their nose out of joint is, you are using this information to deny claims.

Is that what you are saying and that maybe the county doesn't know about it?

Mr. GOULD. That would be my suspicion. And if I could put my producer hat on for a minute, I recognize the fact that the county

FSA offices and staff are under a lot of pressure to get their chores done, as well as RMA's. And so I could see where there could easily be an information gap between what they have to do and what they would like to do.

Mr. PETERSON. Thank you, Mr. Gould. And I look forward to hearing how your meeting with the University of Minnesota goes.

Mr. GOULD. Thank you.

Mr. PETERSON. Thank you, Mr. Chairman.

Mr. MORAN. Gentleman from Texas, Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman. I appreciate the hearing and looking forward to being able to contrast the great work being done at Tarleton State University versus what might be done at Minnesota.

Mr. Gould, on the claims process itself, is there a cutoff? Or how do you judge which claims to aggressively pursue and which ones not? Is it a dollar recovery basis that you use to decide that?

Mr. GOULD. Well, typically the \$100,000 limit is where we separate the big ones from the small ones. The \$100,000 ones and above get undivided attention. Those under that get attention, but it comes down to a matter of resources and time as to how aggressively we pursue those. And it is not only the dollar amount; but it is how substantial the information of that is, and can it be substantiated as we move the process forward.

Mr. CONAWAY. Any analysis on your side as to what recovery levels would be if you had more resources, more investigators, to go after the \$50,000 to \$100,000 claims with vigor? Do you look at that to say, all right, Congress, if you would give us these resources, we could recover this?

Mr. GOULD. Well, I don't know if I have got a good answer on that. I do know that with data mining, we estimate that we save \$23 for every \$1 we spend. And if I had a little money to invest in data mining and claims adjustment, I think we would get a good return on investment.

I don't know where the cutoff point is, but I do know and that after last week, just visiting our St. Paul regional office on compliance, I saw firsthand that there were opportunities that were going untapped because of a lack of resources, both financial and human.

Mr. CONAWAY. Sure.

The chart at the end of your testimony shows a referral to final action, range of 1 to 8 years. It would seem 8 years is a long time to get this stuff finalized.

Is there anything we can do to shorten that up to something less, or is 8 years the appropriate level?

Mr. GOULD. Well, it would seem to me that 8 years is a long time, and we are trying to improve the process so that we can tighten up those time frames. But at the same time, it is important that we have the background and information and data to move a case forward. And so sometimes it just takes time to do that.

I think, in visiting with our staff, that now it is 2 to 3 years is a more likely time frame. Obviously, there are some that take longer, and some of those obviously are at risk of the statute of limitations running out.

Mr. CONAWAY. Right.

The information with FSA needs to flow both ways. Are there legal or regulatory burdens, barriers, with you sharing whatever information you need to share with FSA and, vice versa, with FSA sharing it back with you in this arena?

Mr. GOULD. As I alluded to before, I think that the two-way street is improving. Both of us are concerned about the personal liability of sharing Social Security numbers and those type of things.

But we are doing all we can to work with FSA, and I think they have got an attitude of cooperation to work with us. It is improving, and we hope to make it better; that is one of my goals and objectives.

Mr. CONAWAY. Do you have specific recommendations you would make to the committee from a legislative standpoint that you see would help with that effort? Or you may not have to say "yes" or "no" now, but at some point in time if there are frustrations you are experiencing and they are because the law is a certain way, it seems to make sense we ought to look at it to see if it still makes sense.

Mr. GOULD. Well, there have been some concerns between the two agencies, as we have tried to move the CIMS project forward, but I think we have worked through most of those, and the project is moving forward.

And again, I guess I sort of hate to keep harping on this, but it is a fact of life that it is a resource issue not only with RMA, but FSA as well, as we try to move a huge project forward, and then with the limited resources we have and still have to do our everyday requirements as well.

Mr. CONAWAY. Let me finish off. It might be helpful in that regard in terms of asking for additional resources if you could present to us some—at least some analysis. It is easy for anyone to say, we need more money, we need more people, but I am a CPA by background. It is a lot more helpful to have some hard information to look at based on your previous experiences to support that request.

Mr. GOULD. Well, I would agree, and we have made that a priority. It is a priority of mine to substantiate those requests, not only in terms of—I mentioned compliance people in my testimony, but obviously our IT system is a weak link in our system as well.

And we will get that information.

Mr. CONAWAY. Thank you, Mr. Chairman. Yield back.

Mr. MORAN. Mr. Conway, thank you.

I recognize the gentleman from North Carolina, Mr. Etheridge.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

Mr. Gould, let me go back just briefly to the issue of getting information. The GAO report mentioned that RMA's inability to get the complete view of things from some of the large farming operations is because it does not have access to FSA's data or producers' ownership interest in entities also involved in farming.

My question is, has FSA shared its preferred entity list with RMA? And if not, what reason do they give for not sharing that information?

Mr. GOULD. We do share information with FSA. They give us their entity list, and we give them our policy list, and obviously there are always a number of entities that don't match up just

right with our policies; and that is an ongoing problem, I guess is the best way to say it.

But it comes down to, almost, everyday logistics. We have producers that provide or change insurance companies from year to year. So we have a little mismatch there. And then the bigger problem, as I see it—and again, I learned this from being in St. Paul last week—is that particularly larger producers who are intent on maybe, I would say, “getting all the advantages” from the program they can, actually arrange and rearrange their farm structure so that the entities and the FSA ID numbers are difficult to track.

So, there is a lag time, and it takes a lot of manpower to sort through those farm organizations back in the previous farm program. At least in the country, they used to be called a “Mississippi Christmas tree.” but those are a challenge to sort through and sort out the identities from a number of different farming entities.

Mr. ETHERIDGE. Well, the reason I ask that question is because I am of the understanding that just last week, FSA released to two newspapers of a nonprofit organization, in response to the Freedom of Information Act, this information.

Mr. GOULD. I am sorry. I didn’t understand the question, Congressman.

Mr. ETHERIDGE. Well, the question was, was FSA releasing to RMA the preferred entity list, and that is why you were trying to answer?

Mr. GOULD. Yes, they do release the list.

Mr. ETHERIDGE. I went on to say that just last week, FSA released to two newspapers, under the Freedom of Information Act, this information. So if you aren’t getting it, I would suggest you check with the newspapers.

Mr. GOULD. Thank you. Yes, we are getting it.

Mr. ETHERIDGE. OK.

Mr. GOULD. It is not a question of getting information. It is the laborious effort to match those ID numbers from those farmers up with insurance policies so that the information all matches from one agency to the other.

Mr. ETHERIDGE. OK. Well, I think that is important because that is an area where a lot of slippage can come.

Mr. GOULD. That is right. And I think, again, if we could get to the point where FSA and RMA could use the same reporting system, it would alleviate a lot of those problems, and slippage that falls in the crack between the two agencies.

Mr. ETHERIDGE. Well, let me go back as a statement on something Mr. Peterson said about the issue with the local FSA directors.

It seems to me that feedback back down to those folks would make it a lot easier for the information coming up if they were getting feedback; and an e-mail would probably work in that regard.

Let me move on to another question before my time runs out. The GAO report suggests also that USDA should conduct a cost-benefit analysis regarding FSA inspections on questions of crop insurance claims. Do you know if the Department has conducted such an analysis? And if it has not done so, why not? And if so, what were the results?

Mr. GOULD. We have not done that. We do follow up on those FSA complaints, but we have not done a cost-benefit analysis.

Mr. ETHERIDGE. Why not?

Mr. GOULD. Again, it comes down to a matter of resources. You do priorities and do what you think you do to get the most bang for your buck, and that is one that we have not pursued.

Mr. ETHERIDGE. One great statesman in this country once said, "An ounce of prevention is worth a pound of cure," and we tend to deal with a lot of cure. It seems to me this is the kind of thing we ought to be doing up front.

Mr. GOULD. Well, we do to the extent—on the prevention side, producers that have reason—we have reason to be suspicious of do get a letter from FSA saying that they are anomalous producers, their cropping practices and results look a little different from their neighbors. So from that standpoint, our data indicates that we do see a good follow-through with the message that you are being watched, you are being looked at. It affects those people's behavior. So we do do that.

But we agree, an ounce of prevention is worth a pound of cure.

Mr. ETHERIDGE. Thank you, Mr. Chairman. It seems to me we still have a disconnect.

Mr. MORAN. The gentleman from Louisiana.

Mr. BOUSTANY. I have no questions.

Mr. MORAN. Thank you, Mr. Boustany.

The gentlewoman from South Dakota.

Ms. HERSETH. Thank you, Mr. Chairman. I want to thank you and the ranking member for having the hearing, and our panelists here today for their testimony and their insight into the questions presented by members of the subcommittee.

If I could just follow up with both of you, Mr. Gould, you just made the comment about what would be really helpful is the need to have the same reporting system with FSA and RMA. And Chairman Moran mentioned he serves on the Veterans' Affairs Committee, as do I; and we are very concerned about the lack of a centralized IT function and the lack of a strong CIO organization. And I know that is something that I visited with Chairman Goodlatte about, as well, in terms of, overall, what is happening at USDA.

But could either you or Mr. Bertoni talk about plans that either are in place, strategies with the need for resources that will be—to actually achieve sooner rather than later, something that results in both RMA and FSA utilizing the same reporting system?

Mr. GOULD. Well, we are working again very diligently in that effort, in that direction. As you mentioned, the CIO function, the current CIO is helping coordinate and move this project along because we are concerned about security within the system.

And as I mentioned, I think most of your concerns would be addressed as we get the common information system up and running, would make life much simpler ultimately for the producer; but certainly would increase the data integrity that not only FSA has, but certainly RMA's. And certainly this would refer back to the 578 which is the current form that is used for reporting that data.

Another thing: We talk a little bit about the future. I think it is worthwhile pointing out that sometimes you wonder what we can be doing today to make a difference, and one of those things we are

doing today, there is currently some discrepancy between the final reporting dates for FSA and RMA. And we are working with FSA to try to kind of move to a single reporting date, and I think that will strengthen the integrity of the data that the farmer must report.

So if we have the same reporting date, the farmer is going to report the same information to FSA as he is to RMA, and it looks like both agencies should be able to give some on their reporting dates.

So we are moving in that direction, and maybe it doesn't seem like a big thing, but that is where an awful lot of the missed reporting comes from, and we are doing what we can to have that in place for the 2007 crop year.

Ms. HERSETH. I appreciate that because I do think incremental progress, as we try to advance a more comprehensive approach and a centralized approach for an IT function, out of any of our agencies is very important.

I appreciate your talking about the change and making the same—or at least a consistency in the reporting date helping a little bit.

Mr. GOULD. Thank you.

Ms. HERSETH. Can you tell me—and I am glad to know you are working on that for the 2007 year, crop year. But how far away are we from the same reporting system? Are we 2 years away, 5 years away? Is it still in the planning stages? Does it depend on assessments by the CIO, data integrity?

Mr. GOULD. It is an ongoing process. It depends on the amount of assessments by the CIO. There will be funding issues that will be involved.

We are still designing the architecture for that program, but I can just mention that the sponsorship of the program has been elevated to the Under Secretary level, so certainly, within our mission here, it has gained a lot of visibility and new priority. I would like to think it is going to be on board in 2 years, but in the mere 6 months I have been in Washington, I have come to appreciate the fact that 2 years is not a very long time.

Ms. HERSETH. I appreciate that, and I know I haven't given you a chance to address the first question. Maybe you could for the record, because I do want to fit in one more question before my time is up, and that deals with what I have heard from some of the FSA officials in South Dakota.

Some of our producers confirmed here in the GAO report about the relative ease of abusing the Crop Insurance Program when a producer and an agent work in concert with one another to increase the payout.

Mr. Gould, do you agree that this is a problem? And do you have any specific recommendations for what RMA can do to help alleviate that problem?

Mr. GOULD. It is an ongoing, potential problem. It was addressed in a GAO account audit a few years ago. We have taken significant steps to alleviate that problem.

It is not only the producer and the agent, but the claims adjustor as well, and we have taken some steps to address those concerns. And some people think we have gone too far, but in fact, we think

we have struck a happy medium between what is practical and the people who would be inclined to take advantage of the program.

In our data mining effort, we do look for those anomalies where producers and agents and, to some extent, lost adjustment people are involved in the same claim. So we are pursuing that.

Ms. HERSETH. I appreciate your efforts. And if it is possible to share with the committee some more details about sort of the happy medium that you think you have achieved in that regard in response to the audit of a year or so ago, I would appreciate it.

I yield back, Mr. Chairman.

Mr. MORAN. Thank you. I thank the gentlewoman. You have taken on the attribute of the gentleman from North Dakota, Mr. Pomeroy, who always yields back after he has gone over his allotted time. Maybe it is a Dakota thing.

Ms. HERSETH. It must be.

Mr. MORAN. We are delighted to be joined by the chairman of the full committee, the gentleman from Virginia, Mr. Goodlatte.

Mr. Chairman, do you have any questions?

The CHAIRMAN. I do. Thank you, Mr. Chairman. I appreciate your holding this hearing. This is a subject that I have considerable interest in, and I would like to ask Mr. Gould, do you make use of the FSA production data to verify information submitted for insurance claims? And is this data part of your data mining efforts?

Mr. GOULD. Well, the farmer doesn't report production data to FSA. They only report acreage to FSA. So FSA has limited production data. The only production information they would have would be as the producer would file for an LDP payment or something like that.

The CHAIRMAN. Absolutely. That is my point, though. That information is all in the hands of FSA. And as a data mining process, to go through and check to see what claims are being made for payments under various programs, match up with claims that are being made with regard to insurance losses.

Mr. GOULD. Well, the problem with the FSA data and the LDP payments is that they don't track which entity that came from, just producers' total bushels. And they do require it comes from their production, but not necessarily a particular entity; and a producer, in particular if he is a livestock farmer, may not file an LDP claim on all this production.

The CHAIRMAN. I understand that. But I would also think that as you go about your efforts to detect waste, fraud and abuse that this ability to do computer searches of other statistics that are available to FSA and other agencies within the Department would be a means for you to determine whether or not claims are well founded or not. I was wondering if you do that; and if not, why not?

Mr. GOULD. Well, without knowing for sure what the particulars are that FSA has available for data, my understanding is that they do not track and store that data with a lot of, shall I say, availability. So I am a little hesitant to speak on their behalf.

The CHAIRMAN. I am not asking you to speak on their behalf. I am interested in whether you or your agency has been in communication with this other agency of the U.S. Department of Agriculture on the ability to collaborate and share; that might determine whether or not claims are valid or not.

Mr. GOULD. When we pursue claims, we do talk to the FSA people and see if these are valid, and obviously, if they have any production information, we would take a look at that. Again, with FSA's limited production records, I am not sure how much they would substantiate our claims process.

The CHAIRMAN. Let me take you a little further down the chain.

When you have found an instance where there is crop insurance fraud, can you explain to the committee what your process is to bring to conclusion a criminal prosecution? What do you do?

Mr. GOULD. Well, I am probably not the best person to answer those, but we start by looking at suspected—actually start with, in most cases, the anomalous producer. Or we may get a tip from our hotline that the producer has suspicious activity, and then we follow up on that. And then that obviously becomes a collaborative effort with the insurance companies, and if it gets more involved, that moves through the process.

And ultimately, if there is suspicious, fraudulent activity, it comes to the Office of the Inspector General; they get involved. If it is administrative, then it is the insurance companies and, ultimately, RMA that would pursue those cases.

If you need or want more detail of the exact process, I will have to get back to you on that.

The CHAIRMAN. Well, thank you.

Mr. Bertoni, do you have any comments on either of those questions?

Mr. BERTONI. I just think basically the claim is developed initially referred to the OIG; and beyond that, they make a determination of whether that would go forward to the Department of Justice, basic sequence.

I forgot your original question.

The CHAIRMAN. Well, my original question was with regard to the data mining between various agencies within the Department of Agriculture. Do you think there is sufficient coordination and cooperation between them to yield useful information? And if so, is the RMA aggressively pursuing that?

Mr. BERTONI. At the time of our review, I would have to say "no." based on what I am hearing now, there is a question. I think both RMA and FSA have data that will complement their missions that they both need, and as the agencies move forward in trying to integrate this and to design a system that captures data uniformly in similar design fields, key information that they need to fulfill their mission, you really have to think about system requirements and how that is going to get you, at the end of the day, to a more effective program.

So that up-front coordination, discussion as to what do we need to fulfill our missions and how do we get there, you really need to think about that and fit that into our system requirements.

The CHAIRMAN. Mr. Chairman, if I might be an honorary Dakotan for a minute, I would like to ask one more question of Mr. Gould and Mr. Bertoni.

Mr. MORAN. I am afraid we have set a new standard. But it is you, Mr. Chairman, and you may.

The CHAIRMAN. I thank you very much. I would like to ask, Mr. Gould, if you would explain the Army's procedures when the agen-

cy receives a list of anomalous activities that is identified through the data mining that is done by Tarleton State College.

Mr. GOULD. Actually, when we receive that list, you have to remember that those lists are only anomalous producers. There may be a reason for that anomaly. We are not actually accusing anybody of anything at that point in time. But, actually, that goes to the FSA office for verification of, why are these producers anomalous? And then after they verify that, that they are, they take a look at a minimum of 10 percent of those. And then, depending on what they find, and obviously, if they find those anomalies are suspicious of illegal activity, then we move the process forward. But, initially, it all starts at the FSA office.

The CHAIRMAN. Do you find that information from Tarleton State to be useful?

Mr. GOULD. Very much so. It is absolutely fascinating to go through that information and see the way they pick that information apart to look for anomalies. And as they get more and more refined in what they can do and do, I actually attended a presentation. We looked at our data mining group here about 2 weeks ago. It is amazing, with the technology that is available, the things that we have done, but even more amazing are the things that they have on the drawing board and want to do in the future.

The CHAIRMAN. Very good. I think it is useful as well.

Thank you, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Chairman. I believe we have made the rounds of committee members on this question.

I had hoped to have a second round, and I know Mr. Etheridge has a question. Could we have a very short round?

Mr. Etheridge, the gentleman from North Carolina. And I would say we have been notified we have votes scheduled at 11:30, approximately, and we believe there is something in this committee room beginning at 12:30. So probably 11:30 or 11:45 is kind of our cutoff time.

Mr. ETHERIDGE. Thank you, Mr. Chairman. I will take less than my time, so others will have time.

Mr. Gould, you cite figures of more than 400, even though we are talking about waste, fraud and abuse. There are some numbers in the report that you have cited figures of more than \$456 million in cost avoidance saved since 2001 due to data mining. My question is, how is this figure calculated? And how do other compliance methods compare to cost avoidance?

Mr. GOULD. Well, to answer your first question, that is simply calculated by using data mining and finding out those producers that were found to be filing fraudulent claims. And by having that information up front and finding those opportunities, we did not have to pay those claims.

Mr. ETHERIDGE. Let me try again. I understand part of it, but I don't believe I understood it all. How does that comply? You tried to share with me how it complies with compliance. My question was, how do you calculate that number?

Mr. GOULD. Well, simply by totaling up the claims that were filed but found to be fraudulent and not paid. So it is not that we paid the producer and got the money back; it is the fact that we

did not pay those claims the next year because of the information that we had.

Mr. ETHERIDGE. I guess my follow-up question would be then, have we always paid them then just because a claim came up?

Mr. GOULD. Have we always paid it before?

Mr. ETHERIDGE. Yes.

Mr. GOULD. I don't think so.

Mr. ETHERIDGE. And I think that is what my question is: How do you balance that against the other one to come up with the \$456 million number?

Mr. GOULD. Well, as I understand it, this is in addition to whatever we might have been doing previous to that; that claims that were or fraudulent activities that were identified by hotline or FSA or someplace else.

Mr. ETHERIDGE. I think I would like, if you would, have someone in the agency just send me a note back, how that shows up. That might be an easier way to do it.

Mr. GOULD. OK. Thank you.

Mr. MORAN. The gentleman from Louisiana, Mr. Boustany.

Mr. BOUSTANY. Thank you, Mr. Chairman.

I apologize for coming in late. And this may have been addressed earlier. But in the GAO study, one of the recommendations was to improve field inspections. And I would like some elaboration on that. I noted here that only 64 percent of the inspections RMA had requested had been done between 2001 and 2004. Could you elaborate on that, and maybe give me some background on what steps are being taken to improve the efficiency of field inspections?

Mr. BERTONI. Yes. In our review, we found that they certainly could do it, more of the required claims. They were not doing the minimum amount that had been established. With the list that goes out each year, each field office receives no more than 10 claims for investigation. In our experience, some of the offices were one, two, three claims. And they are required to work those field inspections. As we note, they weren't being done. We also have problems with the issue of timeliness, when they were doing—in terms of, sometimes, after the crop had been harvested, you could go out, and there would be nothing there.

Also, concern among the field staff that they weren't getting very good information on what they were supposed to look for. If they knew what they were supposed to look for, they could perhaps target their investigation and be in and out more efficiently and be done with it.

So we have three recommendations: Not only that they do more inspections but that they bring out additional efficiencies from the inspections that they do. So we understand there is a resource issue here, but we also see opportunity in terms of increased efficiencies that we can work smarter and perhaps do more even within the existing budgetary restrictions.

Mr. BOUSTANY. Mr. Gould, do you want to comment on that?

Mr. GOULD. I don't think I have a lot more to add. I think probably there are things that can be done more. From RMA's standpoint, obviously, we are asking another agency to do this, so I am sure they are going to take what their current workload is more serious than what we ask them to do even though it is required

under ARPA that they do do that. So I am sure there is a disconnect there.

I understand that in some counties they do 100 percent of what we ask, and others obviously drag their feet and drop the ball. And, on average, that is what the GAO audit has shown, is that there is more that can be done, and I won't dispute that. It is another agency that we are asking to fulfill those requirements. So we are in a little bit of a handicap and awkward situation.

Mr. BOUSTANY. I thank you for your answers.

And, Mr. Chairman, I yield back.

Mr. MORAN. I thank the gentleman.

Let me make one follow-up. Mr. Bertoni, anything you heard this morning from Mr. Gould or from members of the committee that would cause you to have comments you would like to make to us, direct us in a certain direction, things we ought to be aware of? Any lights go off?

Mr. BERTONI. I guess to get back to the issue of again the data sharing between FSA and RMA, to get at the ownership interests. And I understand, I think Mr. Gould alluded to it, that some of these folks can be very creative in how they report information. Transposition of one digit on a Social Security number; using surnames, married names, false names. The ability to use data mining to put these two databases together and to data mine that information can catch those types of manipulations. You can establish familial relationships. You can do algorithms that flip the Social Security number back and forth. You can look for variations on names, and you can identify business relationships.

So I think if you put the FSA data together with RMA similar to what we did was a basic tape match. It was not even a real-time electronic transfer. If you put that information together, I think you can do a better job of catching these types of—I won't say schemes—that are going on out there. So I think that is one point I would like to make.

Mr. MORAN. Thank you very much. We thank both of you for your testimony. We appreciate your being here this morning.

And I am going to call the second panel so we can hear their testimony before the votes. And that second panel consists of Mr. Robert W. Parkerson, who is the president of National Crop Insurance Services, Inc., of Overland Park, Kansas; Dr. Bert Little, associate vice president for academic research, executive director, Center For Agribusiness Excellence at Tarleton State University in Stephenville, Texas; and, finally, Mr. Donald P. Brown, chief financial officer, Vega Imaging Solutions, LLC, Roseville, Minnesota.

Mr. Parkerson, if you are ready, we would be delighted to hear from you.

**STATEMENT OF ROBERT W. PARKERSON, PRESIDENT,
NATIONAL CROP INSURANCE SERVICES, INC., OVERLAND, KS**

Mr. PARKERSON. Thank you, Mr. Chairman, for the opportunity to give our testimony to this subcommittee. NCIS is a not-for-profit trade association whose members include every crop insurance company that participates in the Federal Crop Insurance Program, and our offices are in Overland Park, Kansas.

NCIS has over 50 professionals on its staff. We compile, analyze and report crop-hail data to State insurance departments in our capacity as a State licensed statistical agent and advisory organization. We conduct more than 20 research projects each year on behalf of the companies who help maintain the process of loss adjustment. As a result, our staff is continually writing and updating policies, provisions, procedural manuals. Our staff also seeks to work with RMA to improve underwriting procedures and eliminate program vulnerabilities and adjusting losses.

It is time I think to talk about some frank challenges facing the MPCCI program. First, there is a need to work together. RMA and the industry can strengthen internal operations of the Federal Crop Insurance Program if, in coordination with the companies, they work together. Let me start by saying, what we can do as an industry and have been doing in the private sector, in one word, it is education. We believe that better knowledge of this complex program both improves program compliance and enhances vigilance. As part of our ongoing educational effort, NCIS annually sponsors more than 30 schools on a variety of crop insurance issues. More than 2,000 representatives attended these schools in 2005.

NCIS has held a program integrity conference in May of this year in Overland Park. The conference centered on the crop insurance industry's ability to reduce fraud, waste and abuse, and how best to handle the issues in a growing and complex program. Senator Pat Roberts, RMA administrator Eldon Gould, Bert Little were key speakers at this conference. Over 100 people from the crop insurance industry attended this day and a half long event. We look forward to offering updated versions of this conference in 2007 and following years.

The benefit of effective training is that errors can be avoided, that uniformly and adjusting losses can be increased, thus leading to higher confidence in the program. And there will be an appropriate discipline for those who intentionally do wrongdoing. Through effective training, industry and RMA can work together to improve this program.

When reviewing existing products or considering new products, we must consider two questions that can be satisfactorily answered: Does the product serve legitimate risk management objectives of American farmers? And, does the product operate in a fashion that is consistent with public interest?

The second question means that, as a product is being developed, it is essential to eliminate or at least to limit radical opportunities for fraud, waste and abuse as it may arise. We must close potential loopholes and guard against product intentions of fraud. Unquestionably, it is the duty of RMA, and we in the private sector are willing to help and do want to help.

RMA must also find ways of dealing with the external pressures of change. Change made to existing policies and procedures are often driven by external pressures made without adequately taking into account the timing of the change or the cost of the benefit or the risk impact change may have on the program. RMA has kept the industry as well informed as possible given its regulatory constraints, and we appreciate its willingness to do so. However, due to haste or extreme short comment periods, the private sector often

had little opportunity to provide input or analysis before the changes were made final.

The Agricultural Risk Protection Act of 2000, ARPA, introduced important integrity tools. One is data mining. Another is the use of the Farm Service Administration services in an effort to identify potential program abuse.

We are great believers in data mining, but our members all have a common concern with the implementation: They do not receive this critical information oftentimes early enough to prevent or mitigate the losses.

We want to offer also some positive examples of the industry's effort to work with RMA on program integrity issues and related concerns. NCIS is in regular contact with Mr. Gould and his staff, and we have worked diligently toward resolving issues as they arise in the program. Some of these have dealt directly with program vulnerabilities and, if not corrected, could have led to a program abuse. NCIS just recently worked with RMA in developing an SRA appendix-3 type 57 record which will enable electronic transmissions to RMA of SRA required company quality control activities. This process will help both RMA and the companies monitor and resolve quality control issues.

We also believe that data mining would be a useful tool to better target areas of weakness and complement the review process laid out in appendix 4 of the SRA.

And, finally, we must place in perspective examples of fraud, waste and abuse. Fortunately, Mr. Little explained to our program integrity conference just last month, fraud in the crop insurance is quite low and is less than 1 percent of the total indemnity. This is very good, because it is necessary and notable because this is better than other property casualty insurance lines and experience. It means that advocates for a strong public-private partnership can confront their critics with more confidence in knowing that they sell, service, manage agricultural risk in a superior fashion. This also should permit all of us to have the patience to allow improved educational efforts and better product development and review to work. We all work smarter when we all work together.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Parkerson appears at the conclusion of the hearing.]

Mr. MORAN. Thank you Mr. Parkerson.

Dr. Little.

**STATEMENT OF BERT LITTLE, ASSOCIATE VICE PRESIDENT,
ACADEMIC RESEARCH, EXECUTIVE DIRECTOR, CENTER FOR
AGRIBUSINESS EXCELLENCE, TARLETON STATE UNIVER-
SITY, STEPHENVILLE, TX**

Mr. LITTLE. Chairman Moran, Ranking Member Etheridge, and members of the subcommittee, thank you for the opportunity to appear this morning before the committee and discuss the efforts to eliminate fraud, waste and abuse in the Federal Crop Insurance Program and, in particular, the data warehousing and data mining efforts currently undertaken by the Center for Agribusiness Excellence for the Risk Management Agency.

I am Bert Little, associate vice president for academic research, and professor of computer science and mathematics at Tarleton State University which has been a member of the Texas A&M University system since 1917.

In this role, I also direct the Center for Agribusiness Excellence which was founded at Tarleton specifically to address the section of the Agricultural Risk Protection Act of 2000 that directs the Secretary of Agriculture to use data mining and data warehousing technologies to improve integrity and compliance in the Crop Insurance Program.

In open competition in July 24, 2002, CAE won a 5-year USDA contract to perform these tests laid out in sections and 515 subpart (f) and 515 subpart (j)(2) of ARPA 2000.

The results of CAE's work under ARPA 2000 were reported in RMA's annual reports on program compliance and integrity efforts as required under section 515 subpart (i). I say with some pride that the record of accomplishment by RMA and CAE under the data mining program has been formidable. In its first two compliance and integrity reports, RMA reported that CAE saved the Federal Crop Insurance Program respectively \$72 million and \$110 million during crop years 2001 and 2002 through indemnities not paid because of increased scrutiny of anomalous policies. RMA reported in its most recent data, January 2006, that CAE's data mining efforts saved an additional \$81 million for the year 2003, which is the most recent year for which RMA has published their reports. These savings were achieved through a number of coordinated initiatives, and I compliment RMA and its staff in its effective use of this new tool at its command compliance arsenal.

We have worked with RMA to identify multi-year patterns that signal suspicious or anomalous crop insurance claims. One specific effort called the Spotcheck list follows a simple process to translate this data into concrete program savings. Specifically, we place schemes and specific producers identified as having participated in those schemes on a Spotcheck list. This list is reviewed by USDA RMA compliance staff which may add persons of interest to that list. The Spotcheck list is then provided to the USDA's Farm Service Agency, FSA, whose local county offices are asked to conduct growing season inspections, GSIs, on the identified fields. At an early point in the growing season, FSA sends letters notifying each producer on the Spotcheck list that a growing season inspection will be performed on his or her crop and an additional pre-harvest visit may also be made. Not surprisingly, producers who are on the Spotcheck list react to the information by backing off any contemplated abusive activities, resulting in drastic visible measurable improvements in program performance.

All together, over the 5 years, 2001 through 2005, this one initiative, the Spotcheck list, produced indications of reductions in unneeded indemnities of approximately \$450 million. In the written testimony, you will find an illustration of this in appendix 2.

We believe that data mining as mandated under ARPA 2000 has been a drastic success for Congress and for the USDA, RMA in particular. For an investment of \$22.5 million, by February 28, 2007, it has been conservatively estimated that the program savings of over \$450 million since December 2000 with the Spotcheck list

alone have been accomplished. The public interest argues strongly that it should and must be continued.

Thank you, sir. And I yield back my time.

[The prepared statement of Mr. Little appears at the conclusion of the hearing.]

Mr. MORAN. Thank you very much.

Mr. Brown.

STATEMENT OF DONALD P. BROWN, CHIEF FINANCIAL OFFICER, VEGA IMAGING SOLUTIONS, LLC, ROSEVILLE, MN

Mr. BROWN. Mr. Chairman, Mr. Ranking Member, members of the committee, thank you for having me here. With the previous speakers all representing large organizations, it is reassuring that someone with a small company on the cutting edge of technology is invited to appear before you.

The company that I am a part of is bringing together technology that 3 years ago would not have been possible for the purpose of providing a tool for the crop insurance adjuster and for the producer and for the agency.

The type of imagery we produce is similar to what is produced by satellite. It is called multi-spectral; it is individual cameras with separate bands. This is of great importance, because with spectral analysis of imagery you can evaluate the health of a crop. You can divide it into categories across a field. And it is very visible. It is not visible to the naked eye, but it is visible to the infra-red sensors. This has been known for a long time. This is not a new idea. The Risk Management Agency has pointed it out in previous reports.

Let me give you an illustration by talking about an event that took place a little over a year ago down in Iowa where we brought together about 30 crop insurance adjusters. We took them to a field. The farmer knew we were going to do it. The field had been damaged by hail, and it had already been evaluated using the traditional ways of measuring a loss. We also asked each of the adjusters who were with us to evaluate that field as well. By traditional methods, on the ground, walking around, evaluating scoring, they established the loss in that field was about 70 percent. The multi-spectral analysis we provided showed that the loss was closer to 35 percent. Now, this was a group, we took a group of adjusters so that we weren't dealing with one who was biased one way or the other, but the average was about there.

Now, this was not a fraudulent claim in any way, but this was a claim made by a farmer who ultimately agreed with the multi-spectral analysis that this was more appropriate than the traditional method. Now, I don't want to go into the technology of the cameras or the science. But we can do this today. This is not Star Wars. This is not the future. We can do it today. We can do with a single airplane; the airplane we have it in right now, about a half a million acres a day we can cover. We could have that information available on the Internet for the producer, for the adjuster, for RMA, carefully indexed to CLU land unit descriptions certainly within 72 hours. If it is really important, it can be done within 24 hours. Fully processed. And you don't have to be a scientist to evaluate it because the computer programs translate it in what is

called normalized digital vegetation index, which takes the mobile bands and processes them into a new image. It doesn't look like a picture anymore, but it is an image that shows the field and allows you to evaluate whether the crop is healthy or not.

We can do this. We do it right now. These are small companies that have been working together. But I come here, and I have listened to the prior testimony, and that is the testimony about what is being done. What I am proposing is what the future is all about.

The images, once you have them, have multiple uses in addition to crop insurance. They can be used to evaluate best practices. They can be used—if you have multiple years and the images are compared, you can determine that some fields are just not good fields. But this is the future, in my opinion. I hope that the committee will take advantage of this.

[The prepared statement of Mr. Brown appears at the conclusion of the hearing.]

Mr. MORAN. Thank you, sir.

Mr. Brown, thank you very much. Let me ask you, what is the impediment to what you described occurring.

Mr. BROWN. I have talked to the insurance companies, I talked to the RMA. The question is, who is going to pay for it? But I don't think anyone denies the value of the technology. As I said, this is not new science. The technology is not really very new. But there are a number of things have come together over the last few years that would allow it, and one of them of course are these massive files in terms of storage, but now storage systems are commonplace.

Mr. MORAN. The cost for adjusting an acre under the methods you described versus the traditional method, a significant difference?

Mr. BROWN. It would be significantly different, until we did it on a large scale. But we have extrapolated numbers on the efficiency of aircraft and processing, et cetera. We know how to do that. We do it. I would say that you could easily have under \$5 an acre for the cost of providing this image to the adjuster. Now, that is relatively high because you are only going to do a small area. We could drive that cost down under \$1 an acre if we were doing it day in and day out for multiple purposes.

If I may add one comment. I do not understand why the NAIP imagery that the Federal Government requires every year is not multi-spectral, because it would be very useful, and I believe Professor Little would agree, it would be very useful to have it. But it is not required to be multi-spectral, it never was, and technology has moved very fast. But it seems to me that is something that should happen.

Mr. MORAN. We can explore that with the folks at USDA.

Mr. Parkerson, let me ask you a broad question. As we look at the technologies that Mr. Brown and Dr. Little have described, there appears to me to be opportunities for reducing waste, fraud and abuse, and ultimate savings within the crop insurance system. Whose responsibility is it to see that waste, fraud and abuse is eliminated in the sense of who gains from that between RMA and between the crop insurance companies? If we are going to ask that this technology be employed, if we are going to go, for example,

pursue additional data mining, who gets the benefit? Is this accrued to the bottom line of the insurance companies? Does it accrue to less money being spent by the taxpayers of this country? And how you answer this question, in my mind, determines in part who should be paying for additional efforts at reducing waste, fraud and abuse.

Mr. PARKERSON. Well, thank you, Mr. Chairman.

My answer is, all of us.

Mr. MORAN. I am not surprised by that.

Mr. PARKERSON. Because, first of all, as I mentioned in our testimony, that as the product is developed by RMA, I think there needs to be time and sufficient time when new products come out to review it, not only within RMA but with the industry, to establish, are we doing the right things and are we closing the loopholes on all of this before a product ever comes out? But then once it is, it is the responsibility of the Federal Government and the industry to make sure that this product and the policy, the procedures are all followed in a manner that is best suited. And so it is everyone's. And then your response to—taxpayers benefit because it costs less for the program.

Mr. MORAN. Can you divide that out for me? I think I know the answer that your predilection will be to talk about that this is important for the taxpayers; it is important for RMA. But there clearly are bottom-line benefits to the crop insurance companies when waste, fraud and abuse is eliminated. And if we reduce the cost of the system of \$1, how do you break down that dollar for who gets the benefit? How much money of that dollar does the taxpayer save, and how much money does the crop insurance companies or industry save?

Mr. PARKERSON. Well, if we are all in partnership, as we are talking about, I would think that it is both. I mean, I have not been able—and it would be a good exercise to do—to break down how much would be saved actually from government and the companies. But, again, it has to be an equal, I believe, balance between the two.

Mr. MORAN. I appreciate your perspective. This is an interest to me because it does seem to me as we look, for example, at funding Dr. Little's program, who should do the funding? And I think that the traditional thought has been, "Let's go to Congress, appropriate some money, and pursue data mining." but I also, at least from my perspective—and these comments may generate conversation with the crop insurance industry. But it does seem to me that perhaps a significant amount of the savings accrues to the bottom line of the company. And, therefore, what role, what responsibility does the industry have to pay for fighting waste, fraud and abuse.

Mr. PARKERSON. Well, if we are going to do that, I think it is important that companies be brought in and have more control over what we are going to do, if they are going to pay for it, to be quite truthful. We feel that we are doing quite a bit on our parts in trying to educate and bring everybody forward to understand the policies and the procedures as they change every year. So if that is the case, then I think that we need to have the companies more involved in this data mining.

We have a process at NCIS with computers on the private sector side. It was reported that we have \$40-some billion, I think it was \$44 billion in liability on the MPCCI side. But when you threw in the private sector crop-hail products, you will have pretty close to \$59, almost \$60 billion in liability when you add on those private properties or private programs.

So the companies are interested in doing that. And if we are going to take on more liability, I think we are willing to take on more responsibility.

Mr. MORAN. Thank you, Mr. Parkerson.

The only other comment I would make, and no response required, but oftentimes as a Member of Congress, waste, fraud and abuse results in the complaints that farmers have with the crop insurance system. Things I hear about farming practices that are prohibited, often the explanation from RMA or from the crop insurance agent is, well, that came about as a result of ARPA trying to cut down on waste, fraud, abuse, things like multiple cropping, the requirement that we actually harvest our crop even though we know it is going to cost more money to harvest than it is worth. So it is some of the things that seem to me to lack common sense when it comes to farming practices and our requirements are often explained away by, well, we have to take care of that because somebody is abusing the system. And I look forward to working with RMA and the industry to try to find ways that we can eliminate waste, fraud and abuse without making farmers spend a lot of money to their detriment.

The gentleman from Minnesota, Mr. Peterson.

Mr. PETERSON. Thank you, Mr. Chairman. We tried to get an earmark to get this pilot program off and were unsuccessful, so we ended up getting this language in there. And, again, the bottom line is the money problem. But, Mr. Chairman, to follow up on what you were just talking about, this will probably get people stirred up, too. If you are in business to make money, and what Mr. Brown talked about is not fraud, it is wrong—the systems give you the wrong answer. So if you are in business to make money and you can get your claim cut from 70 percent to 35 percent and it costs you a couple bucks an acre, that sounds like a money-making deal to me. Right? I mean, so why are we doing that? Well, some people say to me that we are subsidizing you guys too much so you don't care. Is that what is going on here, that we have got the government backing this up so much and taking all the risk off that you don't have to do the best business practice because the government will take care of it and the farmers won't get affected and everybody is happy?

Mr. PARKERSON. Are you asking me? And I will tell you no. But I have not seen Mr. Brown's—anything that he has produced nor have I seen any of the pictures, and I have no idea what the costs are. This is the first time I have met the gentleman.

So if we are going to take a look at that, I think that Mr. Brown needs to bring it to the industry, and we need to evaluate it. I don't know of many of the companies that have been approached by Mr. Brown, or the cost. But at \$5 an acre on 100 acres, we have got a little bit of cost there. And if you go by thousands—and you may or you may not have a claim, either. So we are trying to figure that

out. And I have not, like I said, seen anything. But we would be interested in talking to them. There have been other approaches in imagery that have already been put into use, and some of the companies are looking at and doing their own efforts in trying to evaluate that. So it is nothing that we are walking away from. It is fairly new; he has said it is new, and we are looking at them.

Mr. PETERSON. Well, one of the main reasons I want Mr. Brown to have an opportunity to testify is so that people become aware that this technology is out there. I think they are on to something, and I think we could get a lot better information to Mr. Little and other people working on this to get a more accurate system. And it may mean that we have less people working at USDA, at your companies. But that would be a good thing if we get a better result.

Mr. PARKERSON. If you get a better result, I don't think anybody would disagree with you.

Mr. PETERSON. So part of what I wanted to do here today is spur along this dialogue. And we appreciate that Mr. Gould is going to look into it a little bit.

Mr. PARKERSON. Well, I think it would be key if Mr. Gould looks into it. I think that the industry, again, if the industry—and they have worked very hard at taking on responsibility. We talk about the program and the companies taking almost 80 percent of the liability. And our testimony reflects the point that we would like to be more involved in the design and in the issues that come about. We have some difficulty with the way things are set up when RMA develops a program, for an example. They can't talk to us until it comes out and is made public. But then, oftentimes, when we spend the appropriate time, we find those errors, or we find it when we can take into consideration the people are actually out there working on that particular crop or actually delivering it, and the adjuster.

So we are working constantly. And as I said, NCIS with the company's help, have given us the money, are creating new—adjusting and looking at new procedures all the time. We have got 20 schools now going on with major universities across this Nation, and we are looking at new hybrids and new changes in how the plants grow and what the responsibilities would be at different times. And those are all things that we are taking into consideration. So I don't want you to think that we are just sitting there happy. We know that we need to continue to move forward and experiment and try these things.

Mr. MORAN. The gentleman from Texas, Mr. Conaway.

Mr. CONAWAY. Thank you, sir.

Just real quick: Bert, welcome to DC. It is good to see you again. And Tarleton University is located contiguous to Mr. Neugebauer's left, to my district as well.

I just want to bring attention to a sentence out of Mr. Gould's testimony earlier in reference to the CAE. And that is that, since employing these technologies at CAE, RMA has achieved substantial program savings through proactive efforts to identify program vulnerabilities and abuse.

Bert, would you give us one quick snapshot example of something you guys have done that helped save that? In other words, just walk us through how you find an anomaly just real quick.

Mr. LITTLE. The advantage that we have over what individual insurance companies would be able to do is that we have the universe of data. We have the entire Nation's crop insurance data. And what we are able to do then is construct a national baseline, and then we look for those individuals who pop up and stand head and shoulders above the baseline. Those are anomalies. The level of confidence that we accept those at is one in 10,000 because we are working with such large amounts of data. So we have very high confidence in the things we label as anomalies, and that is the process by which we identify them.

Mr. MORAN. For a Texan, Dr. Little, you speak quickly, and that is a good thing today.

The gentleman from North Carolina, Mr. Etheridge.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

Mr. Parkerson, just one question for you, please. Regarding GAO's criticism that RMA cannot adequately review your members' quality control methods because the agency has not developed standards of which to judge, is this an accurate statement? Do your members know the standards by which the quality reviews they undertake will be judged as sufficient to make sure we don't have fraud and abuse?

Mr. PARKERSON. I think that companies, sir, are taking on, as I said, more and more responsibility and they are looking continually for this. Our efforts, the companies' efforts in giving our group and our association the money to work on fraud, waste and abuse, and education and training I think shows that they definitely know that this is a key thing that they need to do, and we are not about to have the erosion of this program jeopardized by fraud, waste and abuse. So they are putting up their efforts and are willing to work.

I think that part of the key effort is, I made the statement that we are getting Mr. Little's information a little too late out in the field a lot of times to mitigate or stop any of the wrongdoing. And I think, again, that has to be—the companies have to be brought more in to the picture than just RMA, FSA working together, because we are the ones that ultimately where the road and the rubber all meet. And we are willing to do that without a doubt.

Mr. ETHERIDGE. So you are saying this is not an accurate statement?

Mr. PARKERSON. No, I don't think it is.

Mr. MORAN. The gentleman from Louisiana.

Mr. BOUSTANY. Thank you, Mr. Chairman. Just a couple questions.

First, Dr. Little, you may have already answered my question when Mr. Conaway asked his. And I was just curious to know whether you have any geographic or regional gaps in your database.

Mr. LITTLE. Gaps? No. We have the entire Nation.

Mr. BOUSTANY. Thank you.

And for Mr. Brown. The multi-spectral imagery analysis sounds very intriguing to me, and you gave one example where it provided a lower estimate of crop damage. Is that a fairly consistent finding? And do you have some specific baselines or data for specific crops?

Mr. BROWN. Mr. Chairman, sir, Ranking Member, Representative, we haven't done this on a systematic basis because our tech-

nology is very new, but we have the ability to replicate images over time of a field and to place them very precisely. That was one demonstration; it was a blind demonstration. We had no idea how it was going to turn out, but it proved the case. And I think that most of the adjusters who were in the room agreed that the way they are settling claims right now, imagine standing in the middle of a square mile of crop and trying to figure out what is damaged, what is not, it is pretty rough to try to do.

We are able—and the adjuster doesn't have to really understand much about this. We are able with the computer to tell within a tenth of an acre what is in each category. Now, what we did, there was seven to, I believe, eight categories, from no damage to total loss. We could do 30 categories. I mean, just tell the computer to divide it separately. But it divides each of the categories down to within a tenth of an acre of accuracy.

So I don't know that I am the person to have the answer to how to use this and how best to integrate it into the work of RMA and the insurance companies. I do know that Dr. Little and I have discussed this, and he said he would like to have this data added to his database because, over time, you will find patterns that relate to particular fields. So I was invited here I think to put the topic on the table because technology has moved very fast in this area, and we are using it right now. We are using it today down in South Carolina for the oyster beds along the coast and are about to complete that project.

Mr. BOUSTANY. Gentlemen I thank you for your answers.
And I yield back.

Mr. MORAN. Mr. Boustany, thank you very much.

Let me say some magic words. First of all, thank you for your testimony. I apologize for the voting schedule, but I think we have a good understanding of what both Dr. Little and Mr. Brown wanted to tell us about their technology, and we have access to Mr. Parkerson, I am sure, in the future. So thank you all for your testimony. Thank you for your time today.

Without objection, the record of today's hearing will remain open for 10 days to receive additional material and supplementary written responses from the witnesses to any question asked by a member of the panel.

The hearing of the Subcommittee on General Farm Commodities and Risk Management is adjourned.

[Whereupon, at 11:49 a.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

STATEMENT OF ELDON GOULD

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

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

to small and limited resource farmers, to promote equity in risk sharing and to guard against fraud, waste and abuse within the program.

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

PROGRAM INTEGRITY

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

RMA's efforts to maintain program integrity within the Federal crop insurance program are comprised of numerous activities and initiatives: Quality Control and Assurance, Data Mining, Sanctions and Enforcement, IT System Improvements, Conflicts of Interest Guidelines and Program Simplification.

RMA is continually seeking new and creative ways to work with the other regulatory bodies, government agencies and the companies, agents and producers to ensure the integrity of the Federal crop insurance program. RMA compliance reviews continue to reveal that there is only a small number of producers who have been involved in fraud or illicit activity. While no level of criminal or abusive behavior is acceptable, RMA continues to believe the number of persons involved in criminal activity is relatively small.

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

EMPHASIZING PREVENTION THROUGH BETTER QUALITY CONTROL AND ASSURANCE

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

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

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

The renegotiation of the 2005 Standard Reinsurance Agreement (SRA) signaled significant changes in the way RMA will ensure program compliance in the future. RMA enhanced the reporting and monitoring of AIPs and their affiliates with respect to financial solvency and program integrity. The 2005 SRA was structured to place a larger responsibility on AIPs for internal controls in part to recognize the requirements of new laws, such as Sarbanes-Oxley, that are placed on the compa-

nies. These changes, along with Compliance's new oversight methodology, are intended to increase the percentage of policies processed without errors in the future. Data mining is now a primary tool used by Compliance to isolate and detect policies that are anomalous in comparison to other policies with similar characteristics so that they can be targeted for review.

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

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

DETECTION VIA DATA MINING

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

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

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

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

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

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

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

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

ENFORCEMENT

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

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

The number of pending sanctions cases has also decreased. We currently have 50 requests for administrative sanctions pending, compared with 57 at the end of 2005.

Finally, modifications to the Administrative Sanctions regulations that were identified in a recent GAO report have been drafted and are in clearance, as RMA agreed to when GAO issued its report. These regulations will formalize the sanctions authority Congress provided RMA in ARPA.

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

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

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

IT SYSTEM IMPROVEMENTS

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

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

CONFLICT OF INTEREST SUPPLEMENTARY GUIDANCE

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

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

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

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

SIMPLIFICATION OF THE FEDERAL CROP INSURANCE PROGRAM

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

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

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

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

RMA continues to move forward with the CIMS project. The following CIMS services have been tested and are ready for implementation:

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

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

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

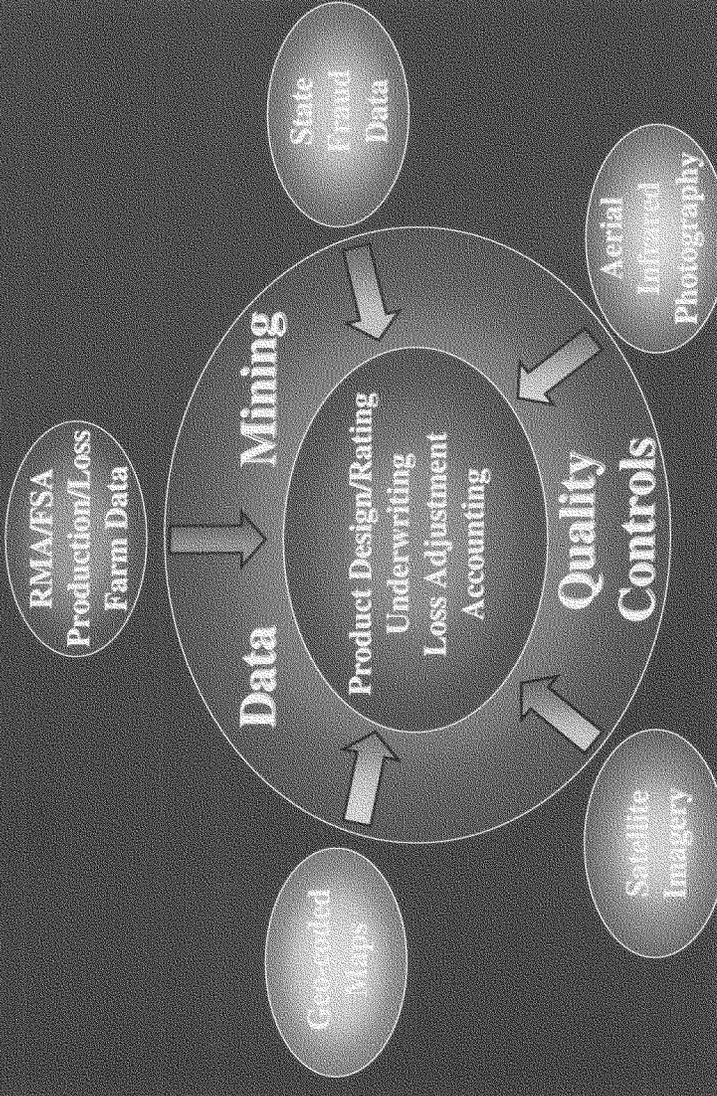
RMA continues to improve and update the terms and conditions of existing crop insurance policies to enhance coverage and efficacy of the policies, as well as to clarify and define insurance protection and the duties and responsibilities of the policyholder and AIPs to improve the understanding, use and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

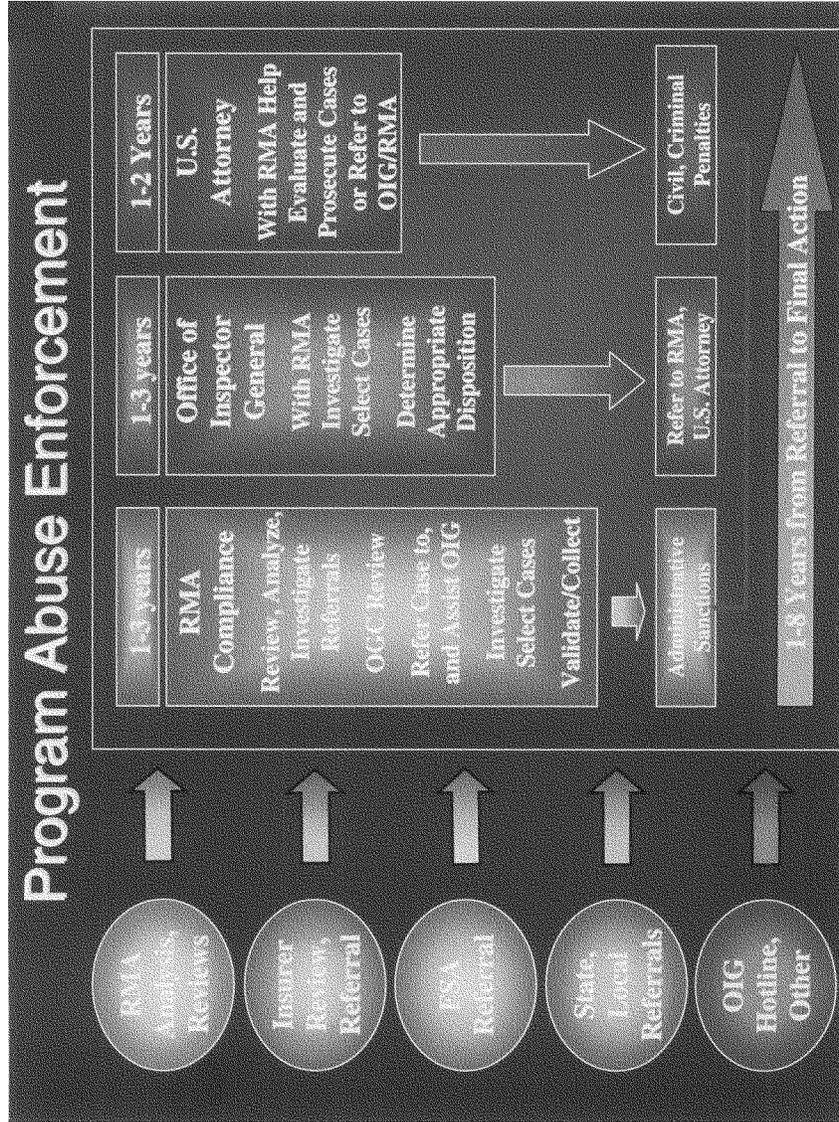
When I accepted this position, Secretary Johanns charged me with administering the crop insurance program in a timely and farmer-friendly manner. I take this

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

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

Prevention and Detection





STATEMENT OF DON BROWN

Chairman Moran, Ranking Member Etheridge and members of the committee, thank you for the opportunity to testify today about ways to improve the crop insurance program. The continued availability of affordable insurance protection is vital to the future of agriculture, but as you are keenly aware, the current crop insurance system has pervasive and persistent inefficiencies that negatively impact our farmers and the Nation's taxpayers.

Waste, fraud and abuse in the crop insurance program is a serious problem. It has been recognized by the Department of Agriculture for many years. The 1999 GAO Report "USDA needs a better estimate of improper payments to strengthen controls over claims" estimated that the US Government was paying out \$100 million a year in erroneous claim adjustments. Additionally, the report suggested that it was plausible that fraudulent claims could reach \$200 million to \$500 million per year.

The Risk Management Agency has taken steps to address waste, fraud and abuse in the crop insurance program, but a system still does not exist that can accurately and effectively verify crop insurance claims.

In recent years, digital camera technology has advanced to the point where multi-spectral digital photography is affordable, transferable and accessible. A multiple camera array mounted on an airplane, can image hundreds of thousands of acres of farmland in a few hours. This imagery and the accompanying data can be used to accurately measure the health of a crop. This technology provides a definitive tool with which insurance adjustors can measure crop loss.

Let me take a step back and review the current procedure for reviewing a claim. I am sure you are aware that if the dollar figure of a claim is below a certain threshold amount, in many instances an adjustor is not even sent to verify the claim. In those cases where an adjustor does visit the site, he or she may drive hundreds of miles to a farm in his or her region. The claims adjustor would literally walk up and down rows of planted crop and sample the field for damage. The adjustor would then estimate the amount of crop loss for the entire field. Visualize an adjustor in the middle of a section—640 acres of crops—trying to estimate with any accuracy the level of insured loss. It is a daunting challenge. In order to settle the claim he or she must hazard a guess. With nothing other than experience and the naked eye, the producer and the insurer arrive at a number.

Today, our company—in partnership with others—has developed a proven ability to automate this process and give crop insurance adjustors a tool to measure the insurable loss in a timely and fair way. With multi-spectral digital imagery, the claims adjustor does not even have to leave the office. With a little training, an adjustor can look at a data file, calculate the amount of crop loss in minutes and finalize their report. The farmer is provided with a very precise mapping of the field showing the areas of total loss and the areas of marginal or no loss. The guesswork is taken out and the adjustor and the farmer can feel comfortable with the final settlement.

How does this technology work? We deploy a flight crew to fly very precise flight lines at predetermined altitude over the target area. We collect images about every 4–7 seconds with four cameras that are triggered simultaneously. Each camera captures an identical image but through a precision filters—red, green, blue, and false infrared. The first three filters cover the part of the light spectrum visible to the human eye, the last filter that part not visible to humans.

By manipulating the four bands it is possible to measure, very accurately, the relative health of the vegetation. This measurement is a function of the reflectance and absorption of the sun off the surface of the leaf. This technique is well proven and has been cited by the Department of Agriculture as an effective tool to prevent fraud in the crop insurance program.

Quoting from the Department of Agriculture "Risk Management Agency Report to Congress in 2003, "Protecting Farms, Preventing Fraud": "Unlike aerial photographs taken with film, these special digital images capture a light wavelength invisible to the human eye that is displayed as different shades on a photographic image. By monitoring the reflection of light radiated from the ground, infrared images can detect the health of a crop. The healthier the vegetation, the brighter red the image appears in the photograph. But what makes the technology even more valuable is that infrared sensing detects not only variations in plant life, but also the soil condition beneath the plants."

The report goes on to say, "It is our belief that this technology will become a tool of great significance nationwide in monitoring crop conditions and compliance, and in influencing how growers conduct their growing practice."

To analyze the data, it is not necessary for several thousand adjusters to become experts in multi-spectral analysis. The computer processes these overlapping images into a new image called a Normalized Digital Vegetation Index (NDVI). These images can be categorized in to eight categories depicting the health of the crop—a spectrum from healthy to total loss. For precision agriculture functions, these images can be further broken down into more than 30 bands or categories. These images will give adjusters a verifiable tool to use in calculating crop damage.

Remote sensing imagery is able to cover and analyze a larger ground area than any human effort on the ground could handle, even if allowed far greater amounts of time. These significant savings in time, money and labor costs would lead to greater efficiency in the program and would also allow ground investigators to focus more clearly- and more quickly- on the potential trouble spots identified by the images.

In closing, I would encourage members of the committee and the Department of Agriculture to explore ways to use this exciting new technology. I believe a small investment in a structured pilot project would yield substantial cost savings to the Federal Government by eliminating significant amounts of waste, fraud and abuse in the crop insurance program.

Thank you for your time and attention to this important topic.

[Editor's note: Mr. Brown submitted the following clarification for the record:]

I am writing to clarify and revise testimony I gave before your subcommittee on June 14th. As the hearing was about to be adjourned, one of the other panelists referred to a comment that I had made concerning the cost of multi-spectral imagery if it were to be used as a tool in the loss adjusting process. Somehow, I seem to have failed to communicate accurately the anticipated costs of this imagery per acre.

For the type of multi-spectral imagery that Vega Imaging Solutions and our partners provide, the anticipated price is approximately \$0.75 per acre. In addition to being cost effective, the turnaround time for Vega Imaging Solutions services is 72 hours. Typical turnaround time for conventional aerial photography is 2-3 months.

The introduction of multi-spectral, high-resolution, closely-rectified digital imagery into the claims settlement process will have a major impact on the issue of waste, fraud, and abuse in the Federal Crop Insurance Programs

Thank you for allowing me to clarify this portion of my testimony.

STATEMENT OF ROBERT W. PARKERSON

Mr. Chairman, my name is Robert W. Parkerson. I serve as president of National Crop Insurance Services (NCIS), on whose behalf my testimony is presented today. I would like to thank the subcommittee for the opportunity to present this testimony.

NATIONAL CROP INSURANCE SERVICES

NCIS is a nonprofit trade association whose member companies include every crop insurance company that participates in the Federal crop insurance program. NCIS has worked actively with the Risk Management Agency (RMA) as an approved contractor and with the Board of the Federal Crop Insurance Corporation (FCIC) as an expert reviewer. We have received thirteen risk management education grants or research awards over the last several years and have served as expert reviewers on six projects.

NCIS is also a licensed statistical agent and advisory organization for Crop-Hail insurance in all required states, and assists the crop insurance industry in meeting the regulatory requirements of the individual states. This is accomplished by filing the appropriate material and statistical information with respective state insurance departments. Further, NCIS serves as liaison with individual state insurance departments through active participation with the National Association of Insurance Commissioners (NAIC).

In 2005, NCIS member companies wrote more than \$3.9 billion in MPCIC and related revenue products premium and over \$434 million in private Crop-Hail insurance products premium. The potential liability under both programs was \$59 billion. The protection provided represents approximately 80 percent of the total acres planted to principal crops in the United States. NCIS member companies service policies that encompass all farmers participating in the Federal and private programs, including limited resource and socially disadvantaged farmers. In partner-

ship with the government, our participating member companies are the safety net that equitably provides risk management to the American farmer.

For those of us working in the crop insurance industry, our livelihoods depend on the integrity of this program. Without program integrity, farmers would not have the safety net they so richly deserve. We have all worked too hard and achieved too much to allow the slightest erosion of integrity to cause the downfall of this program.

The program's accomplishments—widespread participation, efficient, low cost delivery, and the continuing growth of the crop insurance program—must not be jeopardized by fraud, waste, and abuse.

A MATURE FEDERAL PROGRAM AND ITS CHALLENGES

We tend to forget that multiple peril crop insurance has reached a mature stage of development. Here are some fundamental facts that we often repeat:

- A very significant portion of insurable acres actually are covered, and this has been so for a number of years.
- On a fairly constant basis the MPCCI program has come to provide risk management protection against liability in excess of \$40 billion annually.
- The program's actuarial soundness has steadily improved under RMA's stewardship.
- The MPCCI program has evolved over the past decade so that now twenty two plans of insurance are available covering 110 crop policies.

These are convincing signs of a mature program.

With this level of maturity, it is time for some frank talk about challenges facing the MPCCI program. Those challenges center on enhancing program integrity. We want to offer our thoughts on internal and external avenues for improvement.

First, working together, RMA and the industry can strengthen internal operation of the Federal crop insurance program. Let me start by telling you what we can do, and have been doing, in the private sector. In one word, it is education. We believe that better knowledge of this complex program both improves program compliance and enhances vigilance. That is the reason NCIS, on behalf of its member companies, is committed to a broad based and continuing education program to help combat fraud, waste, and abuse.

NCIS held a Program Integrity Conference on May 22–23, 2006, in Overland Park, Kansas. This conference centered on the crop insurance industry's ability to reduce fraud, waste, and abuse and how best to handle these issues in a growing and complex program. Senator Pat Roberts, RMA Administrator Eldon Gould, and Bert Little were key speakers at this conference. Over 100 people from the crop insurance industry attended this day-and-a-half long event. Representatives from the NAIC, the Federal Bureau of Investigation, the International Center for Ethics in Business, the USDA Office of Inspector General, NCIS, and crop insurance companies spoke on various issues dealing with fraud, waste, and abuse. We look forward to offering updated versions of this conference in 2007 and following years.

The private sector firmly believes that educational efforts can be key deterrents to fraud, waste, and abuse. The Federal crop insurance program is complex, and improving understanding of its terms and operation should help limit fraud, waste, and abuse. Everyone involved—our policyholders, agents, adjusters, RMA personnel, and company employees—all need to understand the program and recognize that their individual actions affect the integrity of the entire crop insurance program. On a whole, agents who sell crop insurance and loss adjusters who determine the amount of indemnities payable are honest and dedicated professionals. As a result of their dedication, America's farmers can be assured that program options will be accurately explained to them at time of purchase, and that losses will be adjusted fairly and accurately in the event of damage.

Moreover, through proper education, company employees, agents, and adjusters are becoming better equipped to recognize behavior outside the bounds of program compliance. Knowing this encourages agents, adjusters, and producers to behave in an ethical manner. The benefits of effective training are that errors can be avoided, that uniformity in adjusting losses can be increased, thus leading to higher confidence in the program, and that there will be appropriate discipline in those rare instances of intentional wrongdoing. Through effective training, industry and RMA can work together to improve the program.

The ever-growing complexity of the crop insurance program and the capacity of agents, adjusters, company personnel and even RMA to keep up with it continues to be a concern for many of us involved in the industry.

A mature program certainly does not mean that initiatives to develop innovative products should end. Nor does it mean that we should forget the need to be vigilant about the way existing products are operating. When we review existing products or consider new ones, however, we must be certain that two questions can be answered satisfactorily: (1) Does the product serve legitimate risk management objectives of America's farmers; and (2) does the product operate in a fashion that is consistent with the public interest? The second question means that, at the product development stage, it is essential to eliminate, or at least to limit radically, opportunities for fraud, waste, and abuse to arise. We must close potential loopholes and guard against distortion before products are introduced. Unquestionably, this is the duty of RMA, and we in the private sector can and should help.

The significance of this second question—is the product consistent with the public interest—can be illustrated by anticipated introduction of the “Combo Policy” in 2009. The goal is to have a product which helps simplify the program and makes it more user-friendly for the farmer. Getting this new product introduced is taking longer than anyone desired or anticipated. Rather than complaining about delays, however, we want to use introduction of this anticipated product to deal with program integrity issues. First, we hope that the extended internal review this product is receiving means that RMA is working hard to close any potential policy loopholes before publication of a proposed rule for public comment. Second, we hope that RMA also is taking this time to assure that this product, when introduced, will be accompanied by complete, meaningful handbooks for implementing it and adjusting losses. Third, it is imperative that, once a proposed rule is published, an ample period for public comment is provided. Fourth, the crop insurance industry and producer groups should offer probing and constructive comments. Finally, RMA needs to listen carefully to the comments offered by those who will sell and service the “Combo policy” and by those who will purchase it as an enhanced risk management tool. If these steps are followed, the final product should be relatively error free and should enhance program integrity and not call it into question. We look forward to working closely together with RMA during the implementation phase of the “Combo Policy.”

Two internal RMA personnel issues also are significant aspects of reducing fraud, waste, and abuse. First, RMA needs to have sufficient personnel to accomplish the tasks Congress has assigned to it. Second, RMA needs the resources to deal with the loss of institutional knowledge from staff retirements, including some anticipated in the next to 10 years. The ability to replace these key individuals with skilled and knowledgeable personnel is critical, but we fear it may prove difficult for RMA.

RMA also must find better ways for dealing with external pressures for change. Changes made to existing policies and procedures are often driven by external pressures and made without adequately taking into account the timing of the changes, or the cost benefit or the risk impact changes may have on the program. As a result, changes of this nature frequently result in unintended consequences. RMA has kept the industry as well informed as possible, given its regulatory constraints, and we appreciate its willingness to do so. However, due to haste or extremely short comment periods, the private sector has often had little opportunity to provide input or analysis before some changes are released as final. It is difficult to make comments on or discuss an issue when all of the facts may not be known, or potential impacts have not been sufficiently thought through. This makes it difficult at times to work together. Examples of this type of situation include the Basic Provisions policy language dealing with prevented planting due to drought or failure of irrigation water supply and the 2005 Apple Crop Policy provisions. The 2006 Nursery Crop Provisions and the 2007 Florida Fruit Tree Crop Provisions are two current examples where it is still too soon to fully realize whether there may be any problems. Recently, NCIS sponsored a loss adjustment training school in Lake Mary, Florida, on the Nursery and Florida Fruit Tree policies in an effort to ensure that all adjusters are adequately trained regarding the extensive changes made to these policies. We believe these represent examples where external pressures have led or may lead to unwise program decisions. We must recognize that there are financial consequences and program integrity consequences when external pressures result in a program change that has not withstood the normal rigors of development, review, and testing an insurance product requires.

The Agricultural Risk Protection Act of 2000 (ARPA) introduced important program integrity tools. One is data mining, and another is use of Farm Service Agency (FSA) resources in an effort to identify potential program abuse. We are believers in data mining, but our members have a common concern about its implementation—they do not receive critical information early enough to prevent or mitigate losses. Use of FSA resources has potential, but our members are not convinced this

change materially has benefited the program, again because the companies often do not receive FSA's input in a timely fashion. We believe delayed receipt of FSA information unquestionably deprives insurance providers of data needed to deal proactively with program abusers. It is vitally important that RMA, FSA, and industry work together in the implementation of ARPA.

We want to offer some positive examples of the industry's efforts to work with RMA on program integrity issues and related concerns.

NCIS is in regular contact with Mr. Gould and his staff and we have worked diligently together to resolve issues as they arise in the program. Some of these have dealt directly with program vulnerabilities that, if not corrected, could lead to program abuse. NCIS worked with RMA in developing an SRA appendix III Type 57 record system which will enable electronic transmission to RMA of SRA required company quality control activities. This process will help both RMA and the companies monitor and resolve quality control issues. Even though this process has been successful, there are still some issues to be resolved. Certain review processes still take a random approach towards discovering program vulnerabilities. We believe data mining would be a useful tool to better target areas of weakness and complement the review processes as laid out in appendix IV of the SRA and other FCIC approved procedural manuals. We want to sit down with RMA and follow up on discussions of processes and methods that would allow us all to all "work smarter."

We believe the concepts and basic fundamentals that underlie AGR, AGR-Lite, GRP, and GRIP are an important part of this program and can fill a need for many farmers in the country. However, we do have some concerns with how they work. Recently, NCIS formed a workgroup of industry members that met to discuss many of the concerns associated with the AGR and AGR-Lite program. Currently, this workgroup is working with RMA in identification of areas of concern and with recommendations to strengthen the program. RMA has been working on issues in the GRP and GRIP programs and NCIS met with them to discuss our concerns related to these programs.

Finally, we must place in perspective examples of fraud, waste, and abuse. Fortunately, as Dr. Little explained to our program integrity conference at the end May, fraud in crop insurance is quite low, and is less than 1 percent of total indemnities paid. This is very good, because it is noticeably less than what other property/casualty insurance lines experience. It means that advocates of a strong public-private partnership can confront their critics with the confidence of knowing that they sell, service, and manage agricultural risks in a superior fashion. This also should permit all as to have the patience to allow improved educational efforts and better product development and review to work.

Crop insurance is an effective risk management tool for growers to protect themselves. Growers must have confidence in the stability of the program and purchase adequate coverage. We and RMA fortunately can offer growers a financially sound and stable program.

As an industry we take seriously our responsibility to deliver the Federal Crop Insurance Program with integrity and fairness, and we have a long history of being proactive in addressing issues of fraud, waste, and abuse. We shall continue to be proactive.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss USDA's efforts to address fraud, waste, and abuse in the Federal Crop Insurance Program. My testimony today is based on our September 2005, report to the Chairman of the Committee on Homeland Security and Governmental Affairs.¹ As you know, federal crop insurance is part of the overall safety net of programs for American farmers. It provides protection against financial losses caused by droughts, floods, or other natural disasters. In 2005, the crop insurance program provided \$44 billion in insurance coverage for over 200 million acres of farmland at a cost of \$2.7 billion to the federal government, including \$117 million estimated by the U.S. Department of Agriculture's (USDA) Risk Management Agency (RMA) to have resulted from fraud, waste, and abuse.

RMA which supervises the Federal Crop Insurance Corporation's (FCIC) operations, has overall responsibility for administering the crop insurance program, including protecting against fraud, waste, and abuse. RMA partners with private insurance companies that sell and service the insurance policies.

In part, to improve the integrity of the crop insurance program, Congress enacted the Agricultural Risk Protection Act of 2000 (known as ARPA). This act provided RMA and USDA's Farm Service Agency (FSA) with new tools for monitoring and controlling program abuses. ARPA required the Secretary of Agriculture to develop and implement a coordinated plan for FSA to assist RMA in the ongoing monitoring of the crop insurance program and to use information technologies, such as data mining—the analysis of data to establish relationships and identify patterns—to administer and enforce the program.

However, concerns have arisen that some farmers may have abused the crop insurance program by allowing crops to fail through neglect or deliberate actions in order to collect

¹ GAO, *Crop Insurance: Actions Needed to Reduce Program's Vulnerability to Fraud, Waste, and Abuse*, GAO-05-528 (Washington, D.C.: September 30, 2005).

insurance and that some insurance companies have not exercised due diligence in investigating losses and paying claims. My testimony today focuses on two primary issues discussed in the September 2005 report: (1) the effectiveness of USDA's procedures and processes to prevent and detect fraud, waste, and abuse in selling and servicing crop insurance policies, and (2) the extent to which program design issues may make the program more vulnerable to fraud, waste, and abuse.²

In summary, since the enactment of ARPA, RMA has taken a number of steps to improve its procedures and processes to prevent and detect fraud, waste, and abuse in the crop insurance program. Most notably, RMA reports that data mining analyses and subsequent communication to farmers resulted in a decline of at least \$300 million in questionable claims payments from 2001 to 2004. However, we found that RMA is not effectively using all of the tools it has available and that farmers and others can continue to take advantage of the program. We identified weaknesses in four key areas: (1) field inspections, (2) data mining processes that exclude many large farming operations when farmers do not report their interest in them, (3) quality assurance reviews conducted by insurance companies, and (4) imposition of sanctions. Weaknesses in these areas continue to leave the program vulnerable to questionable claims, and insurance companies and RMA cannot always determine the validity of a claim to minimize fraud, waste, and abuse.

We also found that the program's design, as laid out in RMA's regulations or as required by statute, can impede RMA officials' efforts to prevent and detect fraud, waste, and abuse in a number of ways. In terms of RMA's regulations, farmers can insure their fields individually instead of insuring all fields combined, which makes it easier for them to switch production among fields, either to make false insurance claims or to build up a higher yield history on a particular field in order to increase its eligibility for higher future insurance guarantees. Moreover, companies participating in the crop insurance

² Our September 2005 report also addressed the effectiveness of USDA's procedures to assure program integrity in developing new crop insurance products.

program bear minimal risk on some of the policies they sell and service, giving the companies little incentive to rigorously challenge questionable claims on these policies. In terms of statutory requirements, RMA is obligated by law to offer farmers “prevented planting” coverage—coverage if an insured crop is prevented from being planted—but it is often difficult to determine whether the farmer had the opportunity to plant a crop. Furthermore, statutorily established premium subsidies are high and, therefore, may shield high-risk farmers from the full effect of paying higher premiums.

Our report highlighted eight recent crop insurance fraud cases that reflect some of the issues we identified. These cases, totaling \$3.1 million in insurance claims, were investigated by USDA’s Office of Inspector General (OIG) and resulted in criminal prosecutions between June 2003 and April 2005. The cases show how farmers, sometimes in collusion with insurance agents and others, falsely claim prevented planting, weather damage, and low production. Some of the cases show farmers hiding or moving production from one field to another. Several of these cases also demonstrate the importance of having FSA and RMA work together to identify and share information on questionable farming practices/activities.

In our report, we made several recommendations to the Secretary of Agriculture to strengthen procedures and processes to prevent and detect fraud, waste, and abuse in the crop insurance program. We also noted that the Congress should consider allowing RMA to reduce premium subsidies for farmers who consistently have claims that are irregular in comparison with other farmers growing the same crop in the same location.

Background

In conducting their operations, farmers are exposed to both production and price risks. Over the years, the federal government has played an active role in helping to mitigate the effects of these risks on farm income by promoting the use of crop insurance.

RMA administers the federal crop insurance program in partnership with private insurance companies that sell the insurance policies to farmers and adjust any claims. The companies also share in a percentage of the risk of loss or opportunity for gain associated with each insurance policy written.

Under the program, participating farmers are assigned (1) a “normal” crop yield based on their actual production history and (2) a price for their commodity based on estimated market conditions. Farmers can then select a percentage of their normal yield to be insured and a percentage of the price they wish to receive if crop losses exceed the selected loss threshold. In addition, under the crop insurance program’s “prevented planting” provision, insurance companies pay farmers who were unable to plant the insured crop because of an insured cause of loss that is general to their surrounding area, such as weather conditions causing wet fields, and that had prevented other farmers from planting fields with similar characteristics. These farmers are entitled to claims payments that generally range from 50 to 70 percent of the coverage they purchased, depending on the crop.

RMA establishes the terms and conditions that the private insurance companies selling and servicing crop insurance policies are to use through a contract called the standard reinsurance agreement (SRA). The SRA establishes the minimum training, quality control review procedures, and performance standards required of all insurance providers in delivering any policy insured or reinsured under the Federal Crop Insurance Act, as amended.

RMA is responsible for ensuring that the federal crop insurance program is carried out efficiently and effectively and for protecting against fraud, waste, and abuse in the program. In this regard, RMA uses a broad range of tools, including RMA compliance reviews of companies’ procedures, companies’ quality assurance reviews of claims, data mining, and FSA inspections of farmers’ fields. Insurance companies must conduct quality assurance reviews of claims that RMA has identified as anomalous or of those claims that

are \$100,000 or more to determine whether the claims they have paid are in compliance with policy provisions.

The Congress enacted ARPA, amending the Federal Crop Insurance Act, in part, to improve compliance with, and the integrity of, the crop insurance program. Among other things, ARPA expanded RMA's authority to impose sanctions against farmers, agents, loss adjusters, and insurance companies that willfully and intentionally provide false or inaccurate information to FCIC or to an approved insurance provider. It also provided authority to impose civil fines for violations. ARPA also increased the percentage share of the premium the government pays for most coverage levels of crop insurance, beginning with the 2001 crop year. Although the percentage of the premium the government pays declines as farmers select higher levels of coverage, the government contribution significantly increases for all levels of coverage, particularly for the highest levels of coverage. For example, the government now pays fully one-half of the premium for farmers who choose to insure their crop at 75-percent coverage.

RMA Has Strengthened Procedures for Preventing Questionable Claims, but the Program Remains Vulnerable to Potential Abuse

RMA has taken a number of steps to improve its procedures and processes to prevent and detect fraud, waste, and abuse, such as data mining, expanded field inspections and quality assurance reviews. In particular, RMA now develops a list of farmers each year whose operations warrant an on-site inspection during the growing season because data mining uncovered patterns in their claims that are consistent with the potential for fraud and abuse. For example, the list includes

- 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 indemnity payments;
- 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 field(s); and

- farmers who, in comparison with their peers, have excessive harvested losses over many years.

Since RMA began performing this data mining in 2001, it has identified about 3,000 farmers annually who warrant an on-site inspection because of anomalous claims patterns. In addition, RMA annually performs about 100 data manipulations to identify areas of potential vulnerability and trends in the program.

RMA also provides the names of farmers from its list of suspect claims for inspection to the appropriate FSA state office for distribution to FSA county offices, as well as to the insurance company selling the policy to the farmer. As a result of these inspections and other information, RMA reported total cost savings of \$312 million from 2001 to 2004, primarily in the form of estimated payments avoided. For example, according to RMA, claims payments to farmers identified for an inspection decreased nationwide from \$234 million in 2001 to \$122 million in 2002. According to RMA, some of the farmers on the list for filing suspect claims bought less insurance and a few dropped crop insurance entirely, but most simply changed their behavior regarding loss claims.

However, our review showed that RMA is not effectively using all of the tools it has available and that some farmers and others continue to take advantage of the program, as the following discussion indicates.

Inspections during the growing season are not being used to maximum effect. Although FSA is assisting RMA as required under ARPA, by conducting field inspections, FSA is not doing so in accordance with USDA guidance. Between 2001 and 2004, farmers filed claims on about 380,000 policies annually, and RMA's data mining identified about 1 percent of these claims as questionable and needing FSA inspection. Under USDA guidance, FSA should have conducted all of the requested inspections, but instead conducted only 64 percent of them; FSA inspectors said that they did not conduct all requested inspections primarily because they did not have sufficient time. Moreover, between 2001 and 2004, FSA offices in nine states did not conduct any of the field inspections RMA requested in

one or more of the years. Until we brought this matter to their attention in September 2004, FSA headquarters officials were unaware that the requested inspections in these nine states had not been conducted. Furthermore, FSA may not be as effective as possible in conducting field inspections because RMA does not provide it with information on the nature of the suspected abusive behavior or the results of follow-up investigations. About 80 percent of the FSA inspectors we surveyed believe that receiving more information from RMA would help them be more effective in detecting fraud, waste, and abuse. Finally, these inspections do not always occur in a timely fashion, which would help detect abuse during the growing season. Because of these problems, the insurance companies and RMA cannot always determine the validity of a claim.

RMA's data analysis of the largest farming operations is incomplete. RMA's data mining analysis excludes comparisons of the largest farming operations—including those organized as partnerships and joint ventures. These entities may include individuals who are also members of one or more other entities. Because it does not know the ownership interests in the largest farming operations, RMA cannot readily identify potential fraud. For example, farmers who are members of more than one farming operation could move production from one operation to another to file unwarranted claims, without RMA's knowledge that these farmers participate in more than one farming operation. RMA cannot make these comparisons because it has not been given access to similar data that FSA maintains. However, ARPA requires the Secretary of Agriculture to develop and implement a coordinated plan for RMA and FSA to reconcile all relevant information received by either agency from a farmer who obtains crop insurance coverage.

Using FSA data, we examined the extent to which (1) farming operations report all members who have a substantial beneficial interest in the operation, (2) these farming operations file questionable crop insurance claims, and (3) agents or claims adjusters had financial interests in the claim.³ We found that of the 69,184 entities that had crop

³ The Center for Agribusiness Excellence conducted this analysis at our request. The Center, located at Tarleton State University in Stephenville, Texas, provides research, training, and resources for data

insurance policies in 2003 and that were in both RMA's and FSA's databases, 21,310, or about 31 percent, did not report one or more members who held a beneficial interest of 10 percent or more in the farming operation holding the policy—for a total of \$224.8 million in claims paid.

RMA should be able to recover a portion of these payments. According to RMA regulations, if the policyholder fails to disclose an ownership interest in the farming operation, the policyholder must repay the amount of the claims payment that is proportionate to the interest of the person who was not disclosed.⁴ The average ownership interest of the persons not disclosed for the 21,310 entities was 33 percent; as a result, RMA should be able to recover up to \$74 million in claims payments. Our analysis of RMA's and FSA's databases for 2004 showed similar results. Of the 21,310 entities failing to disclose ownership interest in 2003, we found 210 entities with suspicious insurance claims totaling \$11.1 million. In addition, we identified 24 crop insurance agents who sold policies to farming entities in which the agents held a substantial beneficial interest but failed to report their ownership interest to RMA as required.⁵ These farming entities received \$978,912 in claims payments in 2003 and 2004.

RMA is not effectively overseeing insurance companies' quality assurance programs. RMA guidance requires insurance companies to provide oversight to properly underwrite the federal crop insurance program, including implementing a quality control program, conducting quality control reviews, and submitting an annual report to FCIC. However, RMA is not effectively overseeing insurance companies' quality assurance programs, and

warehousing and data mining of agribusiness and agriculture data. The Center provides data mining of crop insurance data for RMA.

⁴ 7 C.F.R. § 457.8.

⁵ RMA guidance Manual 14, *Guidelines and Expectations for Delivery of the Federal Crop Insurance Program* states that insurance companies must conduct conflict-of-interest reviews for all crop insurance claims of individuals directly associated with the federal crop insurance program. However, without knowledge that these insurance agents held a substantial beneficial interest of 10 percent or more in entities that received claims payments, insurance companies may not have conducted the reviews in 2003 and 2004. As of August 2005, RMA could not confirm that these reviews had been conducted.

for the claims we reviewed, it does not appear that most companies are rigorously carrying out their quality assurance functions. For example, 80 of the 120 insurance claim files we reviewed claimed more than \$100,000 in crop losses or met some other significant criteria; RMA's guidance states that the insurance provider must conduct a quality assurance review for such claims. However, the insurance companies conducted reviews on only 59 of these claims, and the reviews were largely paper exercises, such as computational verifications, rather than comprehensive analysis of the claim. RMA did not ensure that companies conducted all reviews called for under its guidance and did not examine the quality of the companies' reviews.

RMA has infrequently used its new sanction authority to address program abuses.

Although ARPA expanded RMA's authority to impose sanctions on farmers, agents, and adjusters who willfully and intentionally provide false or inaccurate information or fail to comply with other FCIC program requirements, RMA has only used this authority on a limited basis. RMA has identified about 3,000 farmers with suspicious claims payments— notable policy irregularities compared with other farmers growing the same crop in the same county—each year since the enactment of ARPA. While not all of these policy irregularities were necessarily sanctionable, RMA imposed only 114 sanctions from 2001 through 2004. According to RMA officials, RMA requested and imposed few sanctions because it had not issued regulations to implement its expanded authority under ARPA. Without regulations, RMA has not established what constitutes an "FCIC requirement" and how it will determine that a violation has occurred or what procedural process it will follow before imposing sanctions. Insurance agents we surveyed and company officials we contacted believe that RMA needs to more aggressively seek to penalize those farmers, agents, and adjusters who abuse the program. RMA officials told us that they will give priority to issuing regulations implementing the sanctions authorized under ARPA.

RMA's Regulations and Some Statutory Requirements Hinder Efforts to Reduce Abuse in the Crop Insurance Program

While RMA can improve its day-to-day oversight of the federal crop insurance program in a number of ways, the program's design, as laid out in RMA's regulations or as required by statute, hinders officials' efforts to administer certain program provisions to prevent fraud, waste, and abuse, as the following discussion indicates.

RMA's regulations allow farmers the option of insuring their fields individually rather than combined as one unit. Under RMA's regulations, farmers can insure production of a crop on each optional unit or insure an entire basic unit. Farmers may want to insure fields separately out of concern that they would experience losses in a certain field because of local weather conditions, such as hail or flooding. If farmers instead insured their entire crop in a single basic insurance unit, the hail losses may not have caused the production yield of all units combined to have been below the level guaranteed by the insurance and, therefore, would not warrant an indemnity payment. Although optional units provide farmers added protection against loss, this coverage option increases the potential for fraud and abuse in the crop insurance program.

Insuring fields separately enables farmers to "switch" production among fields—reporting production of a crop from one field that was actually produced on another field—either to make false insurance claims based on low production or to build up a higher yield history on a particular field in order to increase its eligibility for higher future insurance guarantees. Of the 2,371 farmers identified through data mining as having irregular claims in 2003, 12 percent were suspected of switching production among their fields. Furthermore, in our review of claim files, we identified 10 farmers with patterns of claims associated with this type of fraud.

According to a 2002 RMA study, relative losses per unit increase as the number of separately insured optional units increases.⁶ However, according to an RMA official, gathering the

⁶ *Final Research Report For Multiple Year Coverage*, Task Order # RMA-RED-01-06, Watts and Associates, Inc., June 27, 2002.

evidence to support a yield-switching fraud case requires considerable resources, especially for large farming operations.

In some cases, insurance companies have little incentive to rigorously challenge questionable claims. Insurance companies participating in the crop insurance program share a percentage of the risk of loss or opportunity for gain on each insurance policy they write, but the federal government ultimately bears a high share of the risk. Under the SRA, insurance companies are allowed to assign policies to one of three risk funds—assigned risk, developmental, or commercial. The SRA provides some criteria for designating policies to these funds. For the assigned risk fund, the companies cede up to 85 percent of the premium and associated liability for claims payments to the government and share a limited portion of the gains and losses on the policies they retain. For the developmental and commercial funds, the companies cede a smaller percent of the premium and associated liability for claims payments to the government and share a larger portion of the gains and losses on the policies they retain.⁷

Economic incentives to control program costs associated with fraud, waste, and abuse are commensurate with financial exposure. Therefore, for policies placed in the assigned risk fund, companies have far less financial incentive to investigate suspect claims. For example, in one claim file we reviewed, an insurance company official characterized the farmer as filing frequent, questionable claims; however, the company paid a claim of over \$500,000. The official indicated that if the company vigorously challenged the claim, the farmer would have defended his claim just as vigorously, and the company would have potentially incurred significant litigation expenses, which RMA does not specifically reimburse. With this cost and reimbursement structure, in the company's opinion, it was less costly to pay the claim.

RMA and insurance companies have difficulty determining potential abuse associated with prevented planting coverage. Under the Federal Crop Insurance Act, as amended, RMA must offer prevented planting coverage. RMA allows claims for prevented planting if farmers cannot plant due to an insured cause of loss that is general in the surrounding area and that

prevents other farmers from planting acreage with similar characteristics.⁸ Claims for prevented planting are paid at a reduced level, recognizing that farmers do not incur all production costs associated with planting and harvesting a crop. However, determining whether farmers can plant their crop may be difficult. Annually, RMA pays about \$300 million in claims for prevented planting.

Twenty-five of the FSA county officials that provided us written comments on this issue reported that they believe some farmers in their county who claimed prevented planting losses never intended to plant or did not make a good faith attempt to plant their crop. Additionally, in some cases, it appears that the insurance company's claims adjusters may not exercise due diligence in evaluating prevented planting claims. For example, a farmer in south Texas received claims payments of over \$21,000 for prevented planting claims for corn in 2003 and 2004. The farmer claimed that excess rainfall made his fields too wet to plant. However, according to a June 2004 FSA field inspection report, there was no evidence the farmer had made any attempt to prepare the fields for planting in either the 2003 or 2004 growing season. Among other things, the FSA inspection report noted, and photographs showed, the fields contained permanent grasses and 5-foot tall weeds, as well as large hay bales from the prior growing season. In response to our review, RMA investigated the 2003 and 2004 prevented planting claims for this farmer and subsequently directed the insurance company to seek reimbursement for the 2003 claims payment.

High premium subsidies may inhibit RMA's ability to control program abuse. To encourage program participation, ARPA increased premium subsidies—the share of the premium paid by the government—but this increase may hamper RMA's ability to control program fraud, waste, and abuse. Premium subsidies are calculated as a percentage of the total premium, and farmers pay only between 33 to 62 percent of the policy premium, depending on coverage level. High premium subsidies shield farmers from the full effect of

⁷ In 2003, companies placed about 19 percent of the policies they wrote in the assigned risk fund and about 69 percent in the commercial fund. However, for those farmers on RMA's inspection list, about 47 percent of the policies were in the assigned risk fund, and 38 percent were in the commercial fund.

⁸ 7 C.F.R. § 457.8.

paying higher premiums. Because premium rates are higher in riskier areas and for riskier crops, the subsidy structure transfers more federal dollars to those who produce riskier crops or farm in riskier areas.

In addition, premium rates are higher for farmers who choose to insure their fields separately under optional units, rather than all fields combined, because the frequency of claims payments is higher on the separately insured units. Again, however, because of high premium subsidies, farmers pay only a fraction of the higher premium. Thus, the subsidy structure creates a disincentive for farmers to insure all fields combined. Over one-half (56 percent) of the crop insurance agents responding to our survey believed that charging higher premiums for farmers with a pattern of high or frequent claims would discourage fraud, waste, and abuse in the crop insurance program.

Recently Prosecuted Crop Insurance Fraud Cases Highlight Program Vulnerabilities

Some of the issues we identified are reflected in eight recent crop insurance fraud cases that USDA's Office of Inspector General (OIG) investigated and that resulted in criminal prosecution between June 2003 and April 2005. The cases show how a few farmers, sometimes in collusion with others, falsely report planting, claims of damage, and production to try to circumvent RMA's procedures. In some cases, farmers hid production or switched it from one field to another. Several of these cases also demonstrate the importance of having FSA and RMA work together to identify and share information on questionable farming practices/activities. Table I summarizes these eight cases, which accounted for \$3.1 million in fraudulent claims payments. These cases were researched and analyzed by our Office of Forensic Audits and Special Investigations.

Table 1: Crop Insurance Fraud Cases Investigated by the USDA/OIG and Resulting in Criminal Prosecution, June 2003 to April 2005

Case	Fraud allegation	How detected	Collusion	Fraudulent claims payments
1.	Failure to plant.	OIG/RMA/FSA identified irregularities through joint data mining effort and follow-up inspection.	Possible. Insurance adjuster indicted for falsely verifying losses.	\$57,155
2.	False claim of crop damage from hail, heat, and drought.	RMA and FSA received complaints and initiated review.	Possible. Insurance policy purchased from agency owned by a sister-in-law.	39,826
3.	False claim of crop damage from excessive moisture.	OIG initiated. Fraud detection survey of grain elevator disclosed irregularities.	No.	435,087
4.	Failure to plant.	FSA filed complaint with RMA.	Yes. Insured was also agent and issued policies through his agency. Insurance adjusters falsified forms. Seed dealers also provided false receipts.	630,000
5.	False claim of crop damage.	RMA noticed suspicious adjustments in grain quality by grain elevator company.	Yes. Farmer and grain elevator operator.	1,000,000
6.	False crop yield history to inflate insurance claim.	OIG hotline complaint.	Yes. Insurance agents pled guilty to falsifying insurance documents.	^a
7.	No ownership interest in crops; underreporting of crop yield.	OIG hotline complaint.	No.	19,000
8.	Failure to plant; false claim of moisture damage; concealing production.	Bankruptcy fraud investigation revealed insurance fraud.	Ongoing investigation of insurance representatives.	\$912,364

Source: GAO's analysis of USDA and U.S. Department of Justice case information.

^aData not available.

In conclusion, Mr. Chairman, federal crop insurance plays an invaluable role in assuring the nation's farmers that their crops will be protected from natural disasters. However, fraud, waste, and abuse can result in higher program costs and hurt the reputation of the program. In recent years, with the assistance of the new tools in ARPA, RMA has made progress in strengthening a number of program elements and thereby reducing fraud, waste, and abuse, as well as the amount of funds paid in error.

Still, the weaknesses we identified in how RMA, FSA, and insurance companies carry out their program responsibilities continue to leave the program vulnerable to questionable claims and missed opportunities to prevent losses to the federal government. In addition,

RMA may be able to reduce program vulnerability and costs by improving aspects of the program's design.

In our report, we said that the Congress may wish to consider allowing RMA to reduce premium subsidies—and hence raise the insurance premiums—for farmers who consistently have claims that are irregular in comparison with other farmers growing the same crop in the same location. We made eight recommendations to the Secretary of Agriculture to strengthen program oversight and reduce vulnerability to fraud, waste and abuse, including improved sharing of information between RMA and FSA, improved inspection practices, regulations to implement sanctions, and stronger oversight of companies' quality control procedures. USDA agreed to act on most of our recommendations. However, it disagreed with our recommendation to ensure that FSA field offices conduct all inspections called for under agency guidance, stating that FSA did not have sufficient resources to complete all of these inspections. USDA also disagreed with our recommendation to reduce the insurance guarantee or eliminate optional unit coverage for farmers who consistently have filed claims that are irregular in comparison with other farmers growing the same crop in the same location. We continue to believe that it is reasonable for USDA to use all tools at its disposal and that our recommendations will reduce the federal crop insurance program's vulnerability to fraud, waste, and abuse.

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Mr. Chairman, this concludes my prepared statement. We would be happy to respond to any questions that your or other Members of the Subcommittee may have.

**Testimony of
Bert Little, Ph.D.
Associate Vice President for Academic Research
Executive Director, Center for Agribusiness Excellence
Tarleton State University
Before the Subcommittee on General Farm Commodities and Risk Management
Thursday, June 15, 2006**

Chairman Moran, Ranking Member Etheridge, and Members of the Subcommittee, thank you for the opportunity to appear this morning before the subcommittee to discuss efforts to eliminate fraud, waste and abuse in the Federal Crop Insurance program and, in particular, the data warehousing and data mining efforts currently undertaken by the Center for Agribusiness Excellence (CAE) for the Risk Management Agency (RMA).

I. WHO IS TESTIFYING

I am Bert Little, Associate Vice President for Academic Research and Professor of Computer Science and Mathematics at Tarleton State University, which has been a member of the Texas A&M University System since 1917. In this role, I also direct the CAE, which was founded at Tarleton specifically to address a section of the Agriculture Risk Protection Act of 2000 (ARPA 2000) that directs the Secretary of Agriculture to use data mining and data warehousing to improve integrity and compliance in Federal Crop Insurance. As the subcommittee knows, program abuse was a central concern of both Congress and farm producers during the development of ARPA 2000. Testimony made clear that crop insurance abuse was hurting farmers everywhere by weakening program credibility and creating pressure for higher farmer-paid insurance premiums. The resulting statute contained several important planks to address this problem by tightening oversight and toughening penalties. Key among these was Section 515(f), which directs the Secretary to detect abuses by tracking agents, producers, and other program participants with disparate performance records and to provide Congress with an Annual Report on Program Compliance and Integrity Efforts. To accomplish these ends, Section 515(j)(2) on Information Management directs that

The Secretary shall use information technology known as data mining and data warehousing and other available information technologies to administer and enforce this title.

In open competition in July 2002, CAE won a five-year USDA contract to perform these tasks laid out in Sections 515(f) and 515(j)(2) of ARPA 2000. At the time, CAE had been working with RMA under a Cooperative Agreement from December 14, 2000, to research a report on disparate performance in the program. As a result, CAE now has built a record of more than five years of experience and accomplishment in this field and, working with RMA, has demonstrated how data mining techniques can dramatically improve program operation in real world practice. The results of CAE's work under ARPA 2000 were reported in RMA's Annual Reports on Program Compliance and Integrity Efforts, as required under Section 515(i) and cited below.

II. HOW MUCH SAVINGS FOR USDA RMA

I say with some pride that the record of accomplishment by RMA and CAE under the data mining program has been formidable. In its first two compliance and integrity reports, RMA reported that CAE saved the Federal Crop Insurance program respectively \$72 million and \$110 million during crop years 2001 and 2002 through indemnities not paid because of increased scrutiny of anomalous policies. RMA reported in its most recent report, dated January 2006, that CAE's data mining effort saved an additional \$81 million for 2003, which is the most recent year for which RMA has published data.¹

III. HOW SAVINGS WERE ACHIEVED: DATA MINING AND WAREHOUSING

These savings were achieved through a number of coordinated initiatives, and I compliment RMA and its staff in its effective use of this new tool at its command compliance arsenal. At this point, CAE has developed a data warehouse that contains all RMA policy information from 1990 to the present. In addition, CAE has integrated data on weather, soils, and other agronomically relevant factors into its warehouse. The total data in the warehouse is in excess of two terabytes (terabyte = 1 trillion words (bites) of information) and are standardized to the same scaling and format to allow multi-year analyses, which were previously not possible. The data warehouse is updated every two weeks by information provided from RMA. The data warehouse is secured behind RMA's firewall, subject to the same privacy and security protections as data maintained by USDA itself.

IV. ONE EXAMPLE: THE SPOTCHECK LIST

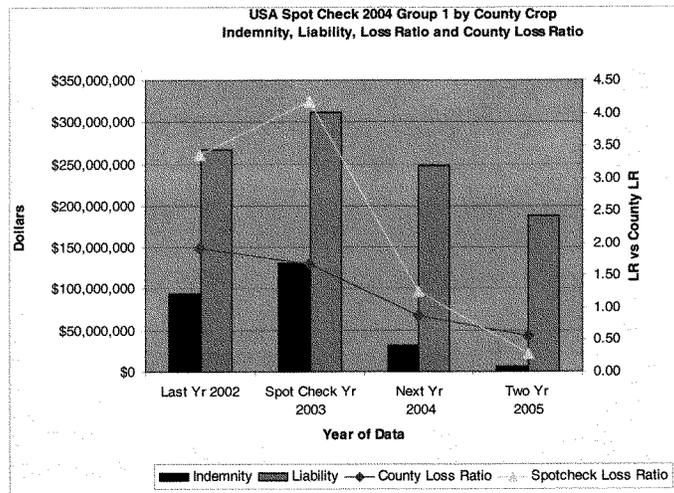
Through various programs and algorithms, we have worked with RMA to identify multi-year patterns that signal suspicious or anomalous crop insurance claims. One specific effort, called the Spotcheck List, follows a simple process to translate this data into concrete program savings:

- (1) Often using as a starting point anecdotes from the field (investigators, producers, agents, adjusters), we use our data mining system to identify schemes that appear to be in use to possibly obtain improper crop insurance indemnities;
- (2) The potential scheme is analyzed to determine whether it exists in the national data, where, and to what extent. We assign teams of RMA and CAE analysts to review the data and determine whether the scheme is reasonable or practical from an agricultural or field perspective;
- (3) We place these schemes and the specific producers identified as having participated in them on a Spotcheck List. The list is reviewed by USDA RMA Compliance staff which may add additional persons of interest to it;

¹ *Risk Management Agency Program Compliance and Integrity Annual Report to Congress, June 2000 – December 2001*, April 2002, v; *Risk Management Agency: Preventing Fraud. Protecting Farms. Program Compliance and Integrity Annual Report to Congress, January 2002 – December 2002*, November 2004, 11; *Risk Management Agency Program Compliance and Integrity Annual Report to Congress, January – December 2003*, January 2006, 13-14.

- (4) The Spotcheck List is then provided to USDA's Farm Service Agency (FSA), whose local county offices are asked to conduct growing season inspections (GSIs) on the identified fields;
- (5) At an early point in the growing season, FSA sends letters, notifying each producer on the Spotcheck List that a GSI will be performed on his or her crop, and an additional pre-harvest visit may be made.

Not surprisingly, producers who are on the Spotcheck List react to the information by backing off any contemplated abusive activities, resulting in drastic, visible, measurable improvements in program performance. Growers change their behavior as a result of simply knowing that they are being scrutinized. In most cases, the effect lasts for two years (Chart Below); a small proportion, one-fifth, changes their behavior for only one year (See Appendix I). Altogether, over five years (2001 through 2005), this one initiative, the Spotcheck List, produced indications of reduction in unneeded indemnities of approximately \$450 million (Appendix II).



The chart above tracks the performance of those policies on the Spotcheck List (deployed in 2004 but based on 2003 data) for which the improvement lasted at least two years, about two-thirds of the total. Note the dramatic decreases in indemnities paid to those producers in 2004 as well as similar decreases in 2005. For this group alone, the cumulative savings to RMA in reduced indemnities approximately \$99 million in 2004 and an additional \$26 million in 2005.

IV. OTHER COST SAVINGS ACTIVITIES BY CAE

CAE produces more than the Spotcheck List for RMA. During 2005, we produced 122 additional research products at the request of RMA aimed at identifying program abuse, each laying the groundwork for additional cost savings. In addition, we have used our data mining

tools to assist the USDA Office of Inspector General (OIG) in its investigations and audits of USDA programs, the Government Accountability Office (GAO), plus the work of Federal prosecutors and the Federal Bureau of Investigation (FBI). CAE personnel also have served as expert witnesses for Federal prosecutors when requested.

V. FUTURE OF CAE

We believe that data mining as mandated under ARPA 2000 has been a dramatic success for Congress and USDA. For an investment of \$22.5 million, it has conservatively produced program savings of over \$450 million since December 2000 with the Spotcheck List alone. The public interest argues strongly that it should and must be continued.

At this point, however, despite wide support for data mining and a strong record of accomplishment, the future of the program remains much in doubt. ARPA 2000 provided mandatory funding for data mining through the Federal Crop Insurance fund. However, this provision expired following Fiscal Year 2005. To bridge the gap, Congress provided discretionary funds in the Fiscal Year 2006 agricultural appropriations bill, though conferees noted that this represented "one-time funding."² Last month, the House included funding in the Fiscal Year 2007 appropriations bill to continue the project.

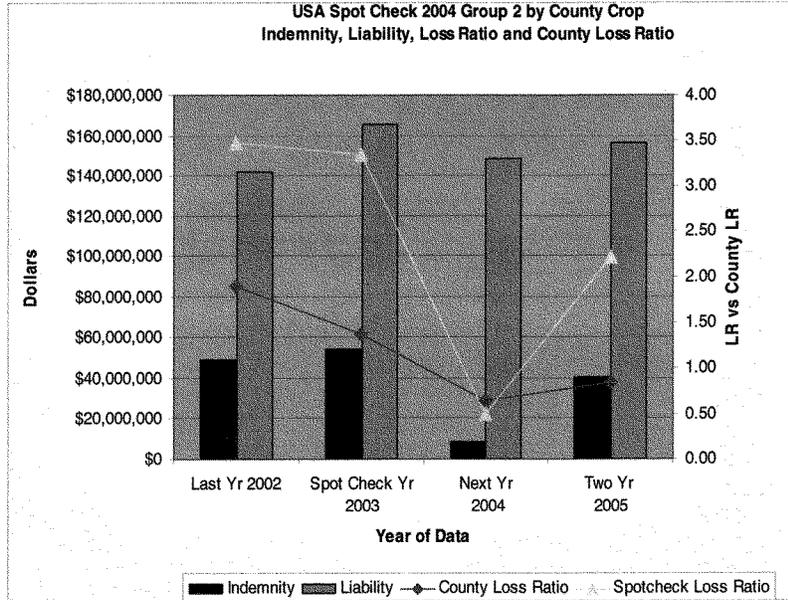
Adoption of the Fiscal Year 2007 appropriation provision will allow data mining to continue for another year. For the longer term, Congress may wish to consider continuing this program under the same funding structure originally adopted under ARPA 2000, that is, by providing a multi-year funding authority under the Federal Crop Insurance fund. This approach would provide the stability needed and predictability needed to make the program work over the long haul, allowing the kind of multiyear planning and analysis that made the approach so successful under the original statute. We stand ready to work with you to help address this issue.

VI. SUMMARY

Thank you again for giving us this opportunity to summarize CAE's record of providing cost savings to the Federal Crop Insurance program under the ARPA 2000 data mining program. Congress and USDA deserve a great deal of credit for taking the bull by the horns and implementing this program in an effective way to the benefit of farmers and taxpayers. We have been honored to be part of the process.

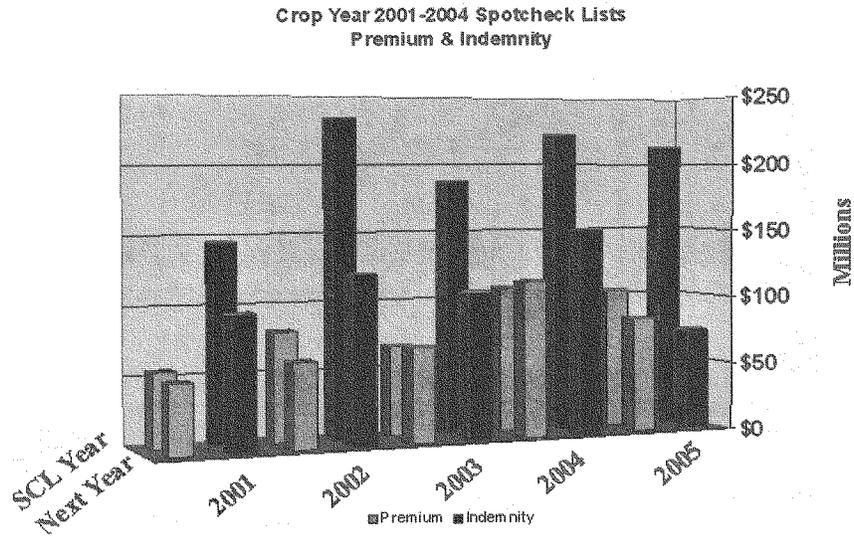
² *Conference Report to Accompany H.R. 2744, Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2006*, 109th Congress, 1st sess., Report 109-225, 83.

Appendix I



Rebounders: Those Who Were on The Spotcheck List, Changed Their Behavior for One Year, and Then Returned to Prior Loss Pattern. Indemnities decreased by \$46 Million in 2004, but increased \$32 Million in 2005.

Appendix II



Indemnity Decreases for 2001-2005: \$450 Million.

Taller bars (maroon, back row) reflect payments before producers were on the Spotcheck List, and the shorter bars (maroon, front row) are after they were on the Spotcheck List.

Agri ImaGIS Technologies
105 Central Ave
Maddock, ND 58348

July 7, 2006

House Agricultural Committee

Subject: Crop Insurance Fraud & Abuse

Dear Chairman:

In the past few years, our company has provided the crop insurance industry with new technologies to more accurately determine actual field crop losses from hail and other natural disasters. Agri ImaGIS Technologies has adopted multi-spectral imagery from satellite remote sensing and aerial camera platforms to determine crop losses. This is accomplished by analyzing vegetation biomass throughout the field.

Currently we are using medium resolution satellites to capture images of regional crop growing regions and aerial systems to provide rapid response imagery for specific weather events at higher resolutions.

Both aerial and satellite systems have their place in determining field losses for different types of crop loss. Multi-spectral image datasets from the satellite or aerial platforms are processed and geo-referenced by GPS satellite data to detect patterns of crop loss within the field, which helps determine the amount of crop loss acreage in different areas of the field. These acreage loss reports are given to crop adjusters to more accurately determine the amount of acreage affected by a hailstorm, or crop loss event, which results in a fairer appraisal to the farmer and the insurance company.

Benefits to Insurance Companies

Past crop insurance loss procedures have relied primarily on human observation and measurement which, though essential to the process, has led to inaccuracies which can cost both the crop insurance providers and their clients. But new technologies available from NASA and the Internet infrastructure can now assist in integrating and implementing better techniques to give more realistic and accurate crop damage claim adjustment. Also, problem claims from the past—which may include previously overlooked potential fraud and abuse cases—can be more easily reviewed through archived imagery data.

Some of the problem claims acted on have resulted in many thousands of dollars of savings by simply comparing like fields near the claim with the satellite images. One claim that we worked on had significantly different production levels reported on fields that were side by side. The grower claimed that the field across the road was 10% of the production of another field in another farm unit. This caused a huge red flag to appear. Both fields were planted with the same crop and at the same time-frame. Our technicians reviewed a satellite image during the past summer growing season, and by analyzing its vegetation signature, came to the conclusion that the productivity levels were very close to the same in both farm units.

This analysis gave the insurance company more confidence in rejecting the claim. The grower—because of the information presented to him by the analysis—agreed to the findings and refunded the money already paid. This one claim saved the insurance company and the government many thousands of dollars. Numerous other claims are very similar.

Benefits to Growers

At the same time, grower/farmers have benefited from the same technologies. They get a more accurate claim by using the imagery analysis to determine the true crop damage instead of a hypothetical guess by averages. Especially in larger fields, it is very difficult for crop adjusters to see all the varying levels of damage in the field. Remote sensing technologies give the adjuster and farmer a map with acreage biomass patterns they both can agree on. These maps help both parties agree on the amount of damage and this, in turn, can significantly reduce litigation with the claim. Remote sensing is a conflict neutralizer because of its accuracy. A picture does not lie nor leave much to the imagination, and cannot be easily misconstrued by either party.

Our Viewpoint

We feel remote sensing technologies should be adopted across the board as a mandatory piece of information for all federally subsidized and insured crop insurance claims. By using accurate information, fraud and abuse can be reduced dramatically. There are many social dynamics in play when crop insurance claims are processed. Personal relationships between and among customers, agents and adjusters, can tilt claims against or in favor of the insured. Damage mapping and field analysis through remote sensing technologies, however, help dissolve unfair or inaccurate assumptions. Both parties get a fair shake, helping to eliminate poor customer relations or resultant fraud.

We also noticed an interesting effect brought about by rumors—a.k.a. "scuttlebutt"—that satellite pictures are being taken every season of farm fields and that it would wise to be careful in following the correct procedures and practices in growing their crop. In many cases, mere speculation that fields are being monitored by a satellite taking images every 16 days helped reduce the amount of fraud.

Another reason we feel this technology is so applicable in the crop insurance today is that with the Internet, we can now analyze any field through remote sensed imagery within a few days of a crop loss claim. We currently deliver the claim report over our Internet site and transmit that field to the adjuster by cell phone or by paper document. The ability to see any field in the country at any time was not available a few years ago. It is now basically off-the-shelf technology.

Agri ImaGIS Technologies' own www.satshot.com claim center web system is working with a number of participants. For the 2006 crop season we are working with five major crop insurance companies along with CIRB (Crop Insurance Research Bureau) to process claims through this system. We are developing new tools that will allow crop adjusters and companies to integrate these new technologies into their procedures. We are also experimenting with other new GPS cell phone technologies to process and deliver the field analysis product directly to them in the field.

Within the next few years, we expect most crop insurance companies will be using some part or all of our technologies, though it is a long process to train all the personnel and get everyone adjusted to these new technologies.

We feel new regulations should be adopted to require these new technologies to be implemented more easily, and that incentives should be in place for the adoption curve to happen faster. Many companies will drag their feet if rules are not in place to adopt these technologies. With increased participation, cost savings to the government and the insurance companies will be substantial because of the more accurate claims they will produce. This is a no-cost technology overall, because of the reduction of fraud and abuse claims that will result both directly and indirectly through the constant remote monitoring.

We also feel that crop insurance companies will see a dramatic increase of efficiency of time spent on claim processing. For example, in one claim that we participated in Kansas in 2005, we proved just that. The crop adjuster in that particular claim took 2 days to process one large claim. We gave her the image maps in a pilot test program a few days after she had adjusted the claim. We walked with her in the field with our remote-sensed crop image maps and she was amazed. She said that if she had had these maps with her a few days earlier, she could have processed that whole claim in a half a day. Not 2 days.

Concerns

One of the major concerns we have is that current remote sensing satellite systems are rapidly degrading and not being replaced fast enough. This will allow a significant data gap to appear if a satellite fails. More remote sensing platforms are needed for cost-effective access to remote sensed imagery. We currently use Landsat imagery as our major default source, but it is in extreme jeopardy with only one satellite running (that is over 20 years old). The replacement will not be available until 2010. Funds are now finally in place for the new Landsat imaging satellite, but if this satellite goes down we will have to rely on foreign satellites that are over 10 times more costly. A consistent plan of replacement satellites is necessary to give confidence to insurance companies that an image will be available when needed and allow this technology to grow.

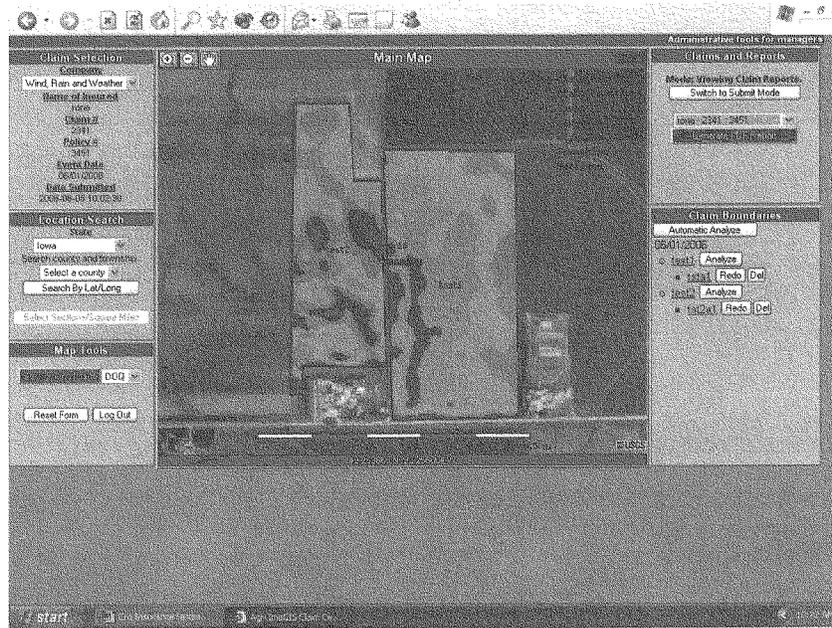
The United States needs increased funding for new remote sensing satellites with increased capacity and resolution. Our agriculture system is the envy of the world because of our edge in advanced technologies. Remote sensing satellites and aerial systems are included in the essential technologies required to continue to keep our agriculture industry competitive with the rest of the world.

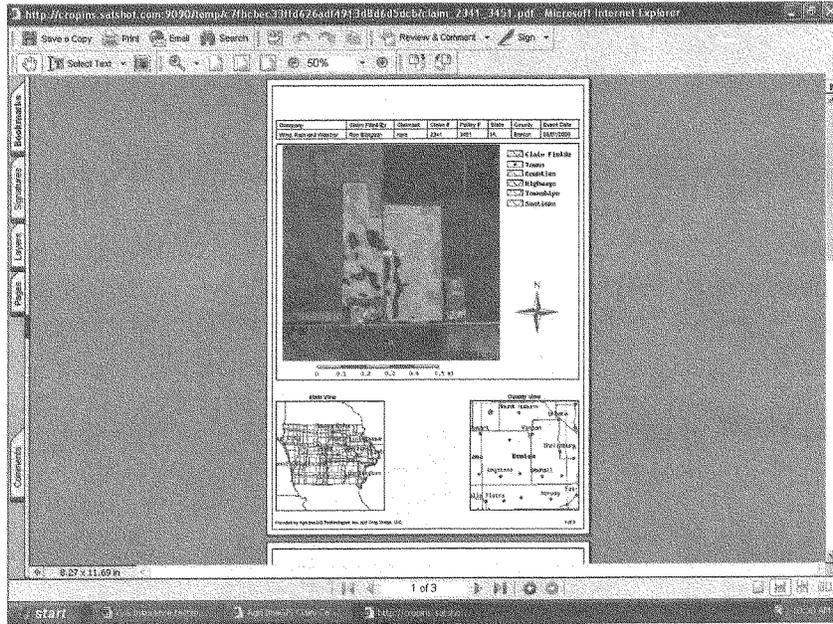
As you can see, we believe that it is imperative that remote sensing technologies be adopted across the industry as soon as possible. With budget concerns at the forefront these days, our voting public will not stand for fraud and abuse in our crop insurance system. We need to have available the best tools for everyone to do their job correctly and honestly so these matters do not damage the trust the public has in a crop insurance system which has helped grower/farmers to survive and develop.

Attached are a few screenshots of our Satshot Claim center system which maps, submits, analyzes and processes claims for the crop insurance industry. Agri ImaGIS is at the forefront of the agricultural remote sensing field and is poised to help both government and its business partners more expertly manage risk and fraud in our country's essential Federal Crop Insurance program.

Sincerely,

Lanny Faleide
President
Agri ImaGIS Technologies





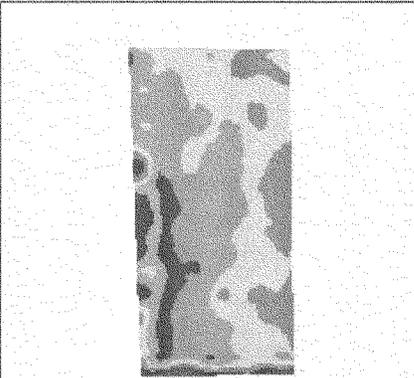
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Company	Claim Filed By	Claimant	Claim #	Policy #	State	County	Event Date
Wind, Rain and Weather	Ron Ellingson	rone	2341	3451	IA	Benton	06/01/2006

Field Name: test1
Analysis Name: test1

Acres	Legal	Crop
74.37	T86N12W16	



% of field	Loss
8.0	=
40.3 X	=
36.3 X	=
13.6	=
1.3	=
0.4	=
Field Avg	

0.27 x 11.69 in | 2 of 3

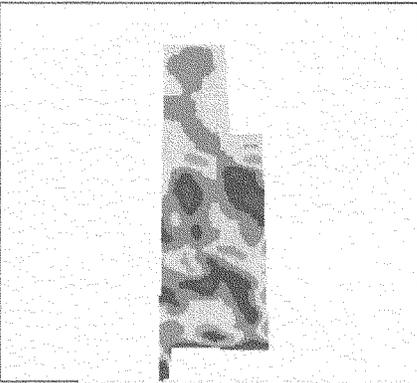
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Company	Claim Filed By	Claimant	Claim #	Policy #	State	County	Event Date
Wind, Rain and Weather	Ron Edgington	rone	2341	3451	IA	Benton	06/01/2006

Field Name: test2
Analysis Name: test2a1

Acres	Legal	Crop
46.51	T86N12W16	



% of field	Loss
1.1	=
4.8 X	=
36.7 X	=
37.8 X	=
14.7	=
2.8	=
Field Avg	

0.27 x 11.69 in 3 of 3