



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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B-114824

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The Honorable Herman E. Talmadge
Chairman, Committee on Agriculture,
Nutrition, and Forestry
United States Senate

NOV 17 1977



Dear Mr. Chairman:

Pursuant to the Committee staff's request, made on your behalf on October 14, 1977, we are submitting information on Federal disaster relief programs for inclusion in a Committee print.

To facilitate assembling the information in the Committee print, we are presenting the various segments in a format consistent with the outline provided by your office.

As agreed with your office, the enclosed information is based on data contained in (1) our issued reports, (2) a report that we expect to issue soon, or (3) findings of which we are aware that have been reported by the Department of Agriculture's Office of Audit. Because of the time constraints for developing this report, we have neither initiated additional review work nor afforded the Department of Agriculture the opportunity to review and comment on the material.

We trust this report will be of assistance to you. We will be pleased to discuss it further with you or the Committee staff.

Sincerely yours,
James R. Steele

Comptroller General
of the United States

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Enclosure

CED-78-13
(02228)

PROTECTING AGAINST PRODUCTION LOSSDISASTER PAYMENTS

1. In a GAO report, "Alleviating Agricultural Producers' Crop Losses: What Should the Federal Role Be?" (RED-76-91, May 4, 1976), and in Senate Committee on Agriculture and Forestry hearings in March 1975, several problems relating to the scope and implementation of the Commodity Credit Corporation's (CCC) disaster payment program were noted and discussed. Among these were:

a. During the first crop year in which payments were made, the Department of Agriculture (USDA) encountered considerable difficulty in administering the program and in explaining it to farmers because of the program's complexity and USDA's lack of experience in managing it. Also, there was a great deal of misunderstanding among farmers about the program.

b. As little as one unit of production per acre could determine whether or not a farmer was entitled to a low-yield payment. Farmers were not eligible unless their yields were less than 66-2/3 percent of their established yields, even though payments were for the entire loss. Thus, for example, a farmer with an established yield of 100 bushels who harvested 66 bushels per acre became eligible for payment on the 34-bushel deficiency, while a farmer with the same established yield who harvested 67 bushels was not eligible for payment on the 33-bushel deficiency.

c. Only farms that had acreage allotments were covered. In three counties in Iowa and three counties in Minnesota studied by GAO, 10 percent of the farms (covering 38,000 acres) were ineligible for feed grain payments because they did not have allotments.

d. A farmer's eligibility for a low-yield payment was determined by his total production from both allotted and unallotted acreage, even though only allotted acreage times yield was used to determine the farmer's full production level. For example, a farmer with an allotment of 100 acres and an established yield of 100 bushels who planted 150 acres of wheat and harvested 66 bushels an acre--a total of 9,900 bushels--was not eligible for a disaster payment. He became ineligible because the production from his unallotted acreage boosted his harvest over 6,667 bushels--two-thirds of the production from his allotted acreage. Having been encouraged by USDA from 1974 through 1977 to plant all available acreage,

the farmer with substantial amounts of unallotted acreage in production risked losing his eligibility for low-yield payments. In fact, USDA officials said that production from unallotted acreage was the main cause of applications for payment being denied in 1974.

e. Whether a farmer was prevented from planting or had an abnormally low yield the payments per bushel were the same even though the farmer's out-of-pocket costs in growing a crop which had a low yield or which was wiped out completely after planting were much higher.

f. Under the law, cotton producers were eligible for prevented planting payments even if the land was subsequently planted with another crop, but wheat, feed grain, and rice producers were not.

g. Under the law, the program covered producers of upland cotton, wheat, rice, corn, sorghum, and barley. Producers of other major crops, such as soybeans, oats, and tobacco, were not covered.

h. Different yield computations were used to determine (1) eligibility for low-yield payments and (2) the amount of the payment. In the Agriculture and Consumer Protection Act of 1973 (Public Law 93-86, 87 Stat. 221), the Congress consistently used a set phrase when referring to the yield of a particular commodity. For feed grains, the law used the phrase "yield of feed grains established for the farm." On the basis of this language, yields for computing the amount of the disaster payment were based on the yield for the preceding crop. But for determining eligibility for disaster payments, the same phrase was interpreted by USDA to provide for a yield based on average yield for 10 years.

A case involving an Iowa producer illustrates the effect on the individual producer of using the 10-year average yield. The producer had an allotment of 10.5 acres and was assigned an established yield of 117 bushels an acre by the county committee. The yield was adjusted downward to 90.1 bushels an acre, however, on the basis of the 10-year average yield. The producer's total production in 1974 was 728 bushels.

If the established yield had been used to determine eligibility for payment, the producer would have qualified because his production of 728 bushels would have been below the eligibility point of 819 bushels (10.5 acres x 117 bushels an acre x 66-2/3 percent--the disaster level

prescribed in the act). However, by using the 10-year average, the eligibility point was reduced to 631 bushels (10.5 acres x 90.1 bushels x 66-2/3 percent) and the producer's production of 728 bushels was too high to entitle him to payment. In effect, using the 10-year average substituted 51 percent for 66-2/3 percent as the percentage of the established yield below which this producer would be eligible for payment.

2. The Food and Agriculture Act of 1977 (Public Law 95-113, Sept. 29, 1977; 91 Stat. 913) provides for correcting some of the problems discussed above.

a. All wheat, feed grain, cotton, and rice farms are to be covered by the program whether they have acreage allotments or not.

b. A higher unit rate is to be paid for wheat and feed grain low-yield disasters than for prevented-planting disasters.

c. Payments for low-yield disasters are to be based on planted acreage.

d. A difference of one unit of production will no longer result in one farmer receiving a disaster payment for 100 percent of his loss while another farmer whose yield is one unit more receives no payment. For example, wheat and feed grain farmers whose yields fall below 60 percent of normal will be paid 50 percent of the target price for any shortfall on planted acres below 60 percent of the established yield for the farm.

e. Cotton producers who are prevented by a natural disaster from planting cotton are no longer eligible for disaster payments if they subsequently plant another nonconserving crop; they are now treated the same as wheat, feed grain, and rice producers in that respect.

INSURANCE PROGRAM

GAO's 1976 report on problems relating to CCC's disaster payment program also described the Federal Crop Insurance Corporation's (FCIC) crop insurance program and discussed several options for providing crop protection, including legislative proposals then before the 94th Congress to expand the crop insurance program. The proposed legislation (S. 1647 and H.R. 7247), which was not enacted, would have expanded FCIC's crop insurance program and repealed CCC's disaster payment program. Among the options GAO discussed were:

- Maintaining the existing CCC and FCIC programs.
- Enacting the proposed legislation.
- Maintaining the existing FCIC program and eliminating the inconsistencies in the CCC program to the extent feasible.
- Amending and enacting the proposed legislation to provide an insurance program offering producers adequate protection at an equitable cost.

GAO said that, if the disaster payment program was to be retained, the Congress should reconsider the program's authorizing legislation in light of inconsistencies in program coverage, eligibility requirements, payment rates, and yield definitions.

GAO said also that, if the proposed legislation was to be enacted, the Congress should consider:

- Authorizing FCIC to develop and implement a plan for providing insurance coverage in situations where uncontrollable conditions prevent producers from planting their crops.
- Authorizing lower-than-full-cost premium rates in those cases in which producers might otherwise have to pay prohibitively high rates.

GAO said that, in any event, the Congress should consider adopting those portions of the proposed legislation which would:

- Make it easier for FCIC to start a reinsurance program.
- Revise the way in which FCIC's administrative and operating activities were funded.
- Otherwise bring FCIC's law up to date.

CURRENT GAO REVIEW OF THE CROP INSURANCE PROGRAM

GAO is preparing a report on its review of FCIC's crop insurance program. GAO's observations follow.

Federal crop insurance indemnities under the current program would provide little economic relief to the Nation's agricultural producers in the event of widespread crop failures. A major change in basic program operations--from county or

areawide rates and coverages to more personalized rates and coverages--may be necessary if the program is to attain wide-spread acceptance.

Currently production guarantees and basic premium rates are set on a county or areawide basis. A personalized crop insurance program might provide a more attractive and saleable insurance program which would stimulate greater producer participation. Further, because personalized insurance is actuarially sound, it could benefit the Corporation's financial operations.

Minimal economic protection

In crop year 1974 the FCIC program provided about \$1.2 billion of protection on agricultural crops. This coverage was less than 3 percent of the \$40.1 billion derived from agricultural crop sales in the 39 States with Federal crop insurance. In 1976 coverage was about \$2 billion. In 1974 when adverse weather conditions caused widespread damage, producers suffered production losses on five major crops valued at about \$6.9 billion, of which an estimated \$420 million was incurred by insured producers. FCIC paid insured producers about \$49.8 million, or 12 percent of the estimated value of lost production.

When insurance indemnities reimburse producers for their direct production expenses, adverse economic effects are significantly reduced. During 1974 production costs on the five major crops ranged from \$89 to \$238 an acre. FCIC's per-acre coverage for these crops ranged from 25 percent to 37 percent of these costs.

Continuing low producer participation

A high level of participation is essential to a sound insurance program. FCIC's program has not attained a high degree of national acceptance and participation from agricultural producers. In 1964 FCIC insured about 7.1 percent of the harvested acres of nine major crops. Although the total insured acres of these crops had increased significantly by 1974, FCIC still insured only 7.5 percent of harvested acres because total harvested acres had also increased.

FCIC capital eroded due to administrative expenses

FCIC's invested capital was increased from \$60 million to \$150 million in fiscal year 1977, and, as of November 11, 1977, legislation had been passed by the Congress but not

signed by the President for a further increase to \$200 million. Capital reserves for the insurance program have fluctuated due to cycles of good and bad crop years and the amount of business. For crop years 1948-76 premiums exceeded indemnities by about \$20 million. But capital has consistently dwindled because the insurance fund has had to absorb some \$88 million of administrative and loss adjustment expenses not covered by annual appropriations.

Personalized rates and coverages

A producer's yields deviate from year to year because of variations in nature and the producer's management practices. The annual deviation is indicative of the insurance risk because yield deviations below the production guarantee result in indemnities. There are both erratic (high-risk) and consistent (low-risk) producers in any group; thus, insurance rates might well reflect these risks. However, FCIC's basic premium rates are the same for all insured producers in a given area.

Because FCIC sets production guarantees and basic premium rates for most crops on the basis of the estimated productive capability of land areas and countywide loss history, production guarantees and rates may be too high for some producers and too low for others. Establishing the same production guarantee for all producers in an area could encourage adverse selectivity--that is, greater participation by those producers whose average yield is at or below the average yield of the group.

A 1970 task force appointed by the Secretary of Agriculture suggested a more personalized insurance program and FCIC has experimented on a limited basis with such a package. One FCIC study tentatively concluded that policy cancellations could be reduced and loss history improved by offering more personalized production guarantees and premium rates.

In October 1977 FCIC's manager told GAO that he agreed with the principle of individualizing insurance rates and coverages. He said this was a major objective and he indicated that FCIC would move toward attaining this goal.

CURRENT LEGISLATIVE PROPOSALS

The 95th Congress has before it a number of bills, including H.R. 7111 and S. 1575, proposing changes in the Federal crop insurance program. H.R. 7111 and S. 1575 would assist producers of agricultural products in protecting

themselves against loss when natural or uncontrollable conditions adversely affect production. These two bills would substantially expand the coverage of the present FCIC program and would include and broaden the protection now afforded by the present CCC disaster payment program. Their principal features are:

- A new Farm Production Protection Corporation would replace FCIC.
- The new corporation would be authorized, if sufficient actuarial data was available, to protect producers of a wide range of agricultural products in all counties, including such products as timber, livestock, and poultry for which no coverage is currently provided. Crop insurance is not now available in all counties or necessarily for all major crops in a county. Also, under existing legislation and implementing regulations, FCIC can limit or refuse insurance in any county or area or on any farm on the basis of the insurance risk involved.
- Protection would be offered against loss of production cost up to the cost of production for a representative period, adjusted so that the average cost fixed for farms in the same area would be equitable among producers. Present limitations which provide that FCIC coverage will exceed neither the usual crop investment in an area nor 75 percent of a farmer's average yield would no longer apply.
- Protection could be denied in any county or area or for any farm not suited to the production of the agricultural product in question or where it is administratively impractical to establish a county program.
- In any county or State where production protection is offered by the new program, no person would be eligible to receive disaster payments under any other USDA program.
- The new program would be financed from producer premiums at rates sufficient to cover claims for normal loss of production. Catastrophic or disaster losses would be chargeable to a disaster relief fund which would be initially funded through borrowings from the Treasury and subsequently through appropriations.

--The corporation's operating and administrative costs, including the direct cost of loss adjustment and agent commissions, would be financed from appropriations. Administrative and operating expenses connected with catastrophic losses would be payable from the disaster relief fund.

FCIC officials informed GAO that, if the proposed legislation is enacted, the new program would be operated strictly according to sound actuarial principles which would govern the protection to be offered for specific products and areas; the fixing of premiums; the determination of losses chargeable to premium income or the disaster relief fund, respectively; and the determination of production losses subject to recovery. They said that the new corporation's board of directors should have broad latitude in administering the protection program to provide reasonable protection for a maximum number of producers at reasonable cost to the Government.

In commenting on the proposed legislation, GAO suggested that the Congress, in considering the need for such latitude, may wish to delineate, either in the legislation itself or in the legislative reports, some of the principles that should guide the corporation's program. One such matter would be the required application of sound actuarial principles. Another would be the proper distinction between normal losses and catastrophic or disaster losses, now only loosely defined in the bills.

The proposed legislation would provide for premiums sufficient only to cover claims for normal loss of production and would prohibit including catastrophic or disaster losses in the experience used for fixing premium rates. The bills define a catastrophic or disaster loss as occurring when the amount of production falls below the normal production level for a given area or county as determined by the corporation's board of directors.

GAO suggested that the Congress obtain for the legislative record assurances from USDA officials regarding (1) the manner in which premiums would be computed, based only on normal losses, so that inequities among producers would not result and (2) the manner in which the board of directors would determine when payments to producers are to be charged to premium funds and when such payments are to be charged to the disaster relief fund.

GAO offered the following specific suggestions on the proposed bills.

1. Under the present CCC program, a producer prevented from planting acreage of certain agricultural products is eligible for prevented-planting payments. The bills do not specifically provide for protection of farmers' losses due to prevented planting. If the Congress wishes to continue prevented-planting protection, the bills should be clarified by making special provision for this type of protection under the new corporation's program.

2. The bills would authorize the Secretary of Agriculture to appoint from time to time advisory committees consisting of members experienced in agricultural pursuits. In view of the concerns expressed by committees and Members of Congress over the need for the large number of advisory committees appointed by the Federal Government and the costs associated with their operations, GAO said that the Congress may wish to more specifically circumscribe the number, duration, and purpose of such committees that may be established under the bills. The Federal Advisory Committee Act (Public Law 92-463, Oct. 6, 1972) states the policy of the Congress that new advisory committees shall be established only when they are determined to be essential and that their number shall be kept at the minimum necessary.

3. The bills do not specifically provide for an evaluation, by the Secretary of Agriculture, of the new program after it has been in effect for a representative period. GAO believes that program evaluation is a fundamental part of effective program administration and that the responsibility for evaluations should rest initially on the responsible agencies. In line with this concept, GAO suggested that the Congress might want to specify the kinds of information and tests which will enable it to better assess how well the program is working and whether alternative approaches may offer greater promise.

ENCLOSURE I

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PROTECTION AGAINST LOSS FROM DISEASE,
POISONING, OR CONTAMINATION

BEEKEEPER INDEMNITY PAYMENTS

The Agricultural Act of 1970 (7 U.S.C. 135b note), authorizes payments to beekeepers who, through no fault of their own, lose honeybees as a result of using pesticides registered and approved for use by the Federal Government. GAO reviewed selected aspects of this program, administered by USDA's Agricultural Stabilization and Conservation Service (ASCS), to determine the:

- Adequacy of ASCS regulations for effectively administering the program.
- Adequacy of the training of ASCS bee loss inspectors.
- Propriety of payment rates.
- Probable trend in program costs.

In a report, "Aspects of the Beekeeper Indemnity Payment Program" (B-176563, Feb. 13, 1973), GAO said that the training provided local agricultural employees for inspecting bee losses appeared to be adequate; that the payment rates established were generally sufficient to cover replacement costs and some loss of income; and that, in some of the States reviewed, future program payments were expected to decline whereas, in others, the payments were expected to increase.

GAO observed that, although program regulations and implementing instructions were generally adequate, the instructions were unclear in several areas. In response to GAO's recommendations, agency officials initiated actions to revise the program instructions to:

- Provide guidelines for establishing reasonable time limits within which beekeepers must report their bee losses and the related inspections must be made.
- Provide that local agricultural offices make sure that inspections are made within the prescribed time limits.
- Provide more specific guidance to the local offices on whether they are to accept any one type or any combination of the types of evidence specified in the instructions as proof of damage by an approved pesticide.

PROVIDING EMERGENCY CREDIT ASSISTANCE

PROCEDURES FOR MAKING DISASTER DESIGNATIONS
IN THE STATE OF ARKANSAS

In a September 12, 1975, report (RED-76-24), GAO answered certain questions relating to the Secretary of Agriculture's disaster designations of selected Arkansas counties under the emergency loan program administered by USDA's Farmers Home Administration. Information was presented on the policies and procedures governing disaster designations; how they were implemented in Arkansas, particularly regarding the length of time required to designate the counties as disaster areas; and Office of Management and Budget involvement in implementing and operating the emergency loan program.

PROVIDING EMERGENCY LIVESTOCK FEED ASSISTANCEEMERGENCY LIVESTOCK FEED PROGRAM

This CCC program was authorized by the Agricultural Act of 1949, as amended (63 Stat. 1055), and the Act of September 21, 1959, as amended (Public Law 86-299, 73 Stat. 574). Its purpose was to provide financial assistance to eligible livestock owners in designated emergency areas through sales of CCC-owned feed grain at beneficial prices. The program could only be operated in those designated emergency areas where the Secretary of Agriculture determined there was a shortage of feed because of flood, drought, hurricane, storm, tornado, earthquake, disease, infestation, or other catastrophes. The program was terminated in November 1976 because CCC-owned feed stocks were depleted.

In fiscal year 1976 USDA's Office of Audit made several reviews of the program. In reviews in 32 of 81 participating counties in four States, the Office of Audit found that about 300 of the approximately 3,000 participants in the 32 counties were not eligible for program benefits. These 300 ineligible participants received benefits of about \$900,000. About \$155,000 of this resulted from administrative errors and will not be recovered. As of November 1, 1977, about \$284,000 of the rest had been recovered and action was being taken to recover the remaining \$461,000.

EMERGENCY FEED PROGRAM

This program, which was terminated September 30, 1977, was a Federal Disaster Assistance Administration (FDAA), Department of Housing and Urban Development, program authorized by the Disaster Relief Act of 1974 (Public Law 93-288, 88 Stat. 148) and was administered by ASCS. Its purpose was to assist eligible livestock owners in designated emergency areas by sharing the cost of providing livestock feed. This assistance was designed to help preserve foundation herds and to prevent widespread selling off or destroying of herds due to natural disaster.

As of October 31, 1977, USDA's Office of Audit had issued three audit reports on this program. One report, involving a review of two counties in one State, found no evidence of program abuse. A second report involved a review of nine counties in one State. The Office of Audit found the program operations to be generally satisfactory; however, improvements in program instructions and training of personnel were needed. The third report covered two counties in one State, and involved a review of 96 program applicants. The review found 8 of the 96 applicants to

have been overpaid \$1,200 because feed grain and livestock sales had not been reported.

As of October 1, 1977, this program was replaced by the Emergency Feed Program authorized by section 1105 of the Food and Agriculture Act of 1977 (Public Law 95-113, 91 Stat. 955). Under the new program, the Secretary of Agriculture is authorized to provide emergency feed assistance to help in the preservation and maintenance of livestock but only if all of the following conditions created by the emergency are present:

1. The person has suffered a substantial loss in the livestock feed normally produced on the farm for such person's livestock.
2. The person does not have sufficient feed for such person's livestock for the estimated period of the emergency.
3. The person is required to make feed purchases during the period of the emergency in quantities larger than such person would normally make.

Persons eligible for assistance under the program may be reimbursed not more than 50 percent of the cost of the feed purchased during the emergency period. Any person who disposes of any feed for which reimbursement is received, in any manner other than as authorized by the Secretary, will be subject to a penalty equal to the market value of the feed involved, to be recovered by the Secretary in a civil suit brought for that purpose. In addition, the person will be subject to a fine of not more than \$10,000, or imprisonment for not more than 1 year, or both.

HAY TRANSPORTATION ASSISTANCE PROGRAM

This program, which was terminated in June 1977, was an FDAA program authorized by the Disaster Relief Act of 1974 (Public Law 93-288, 42 U.S.C. 5145). It was administered for FDAA by ASCS. Its purpose was to provide Federal assistance to eligible livestock owners for transporting hay into drought-stricken counties designated as emergency areas by the President. When the program started, Federal assistance was limited to two-thirds of the transportation cost, not to exceed \$27 a ton. Public Law 94-463, enacted October 8, 1976 (90 Stat. 1983), increased the assistance to 80 percent of the transportation cost, not to exceed \$50 a ton.

USDA's Office of Audit conducted several reviews of the hay transportation assistance program. These reviews indicated the following problems.

- 1,162 of the 1,765 livestock owners who participated in the program in one State received overpayments amounting to about \$209,000. In 47 cases false information or documents of questionable validity were furnished to support claims for reimbursement. The 47 cases, which involved payments of about \$60,500, were referred to USDA's Office of Investigation. The audit report did not indicate the reason for the referrals. However, audit reports are usually referred to the Office of Investigation for further review when there are indications of criminal activity.
- 244 of 475 program participants covered by reviews in 21 counties in 3 States received overpayments of about \$150,000, because of the submission of false or misleading information. Cases involving 192 of the 244 participants were referred to the Office of Investigation for further review.

CATTLE TRANSPORTATION ASSISTANCE PROGRAM

This program, also terminated in June 1977, was an FDAA program authorized by Public Law 93-288 and was administered by ASCS. Its purpose was to provide cattle transportation assistance to producers for moving cattle from counties designated as emergency areas to grazing areas outside the designated county. The program entitled eligible cattlemen to receive assistance up to \$24 a head.

As of October 31, 1977, USDA's Office of Audit had issued two audit reports on this program. One said that the Office of Audit had reviewed the program in two counties in one State and had found no evidence of problem areas. The other report, covering a review of 48 applicant claims in four counties in another State, disclosed 11 cases of improper payments, involving overpayments of about \$4,700. Seven of these applicants submitted incorrect data to support their claims for payments. These seven cases were referred to USDA's Office of Investigation for further review.