Plant Replacement and Improvement Program Insurance Analysis

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Executive Summary

PLANT REPLACEMENT AND IMPROVEMENT PROGRAM
INSURANCE ANALYSIS

The U.S. Army Corps of Engineers (USACE) self-insures over $500 million of fixed assets as part of its Plant Replacement and Improvement Program (PRIP). Projects and activities using those assets are assessed insurance charges, which are retained in a separate account to fund repairs when an asset is damaged and reimburse USACE's Revolving Fund when an asset is lost (or damaged beyond repair). Concern that the PRIP insurance account balance, at over $40 million, was too high led USACE to significantly reduce insurance rates in FY92. At the same time, it tasked the Logistics Management Institute to analyze the current program, investigate alternatives, and suggest improvements.

We present four major findings. First, since PRIP asset reports include uninsured items, USACE headquarters does not know the exact number or total value of all insured assets. Second, since PRIP insurance transactions are not linked to asset accounts (at least in aggregate), USACE headquarters has no basis for determining asset-type-specific insurance rates. Third, insurance coverage and replacement funding for catastrophic losses are potentially inadequate, despite the large insurance account balance. Fourth, although self-insurance is a long-standing USACE (and U.S. Government) policy, commercial insurance can be acquired legally under certain circumstances.

After evaluating five different options for insuring PRIP assets, we concluded that USACE should acquire commercial insurance to supplement its current self-insurance. That acquisition would free millions of dollars currently tied up in the PRIP insurance account, improve catastrophic coverage/funding, and offer greater insurance flexibility for the future. Whatever option is selected, it is important that USACE, in conjunction with Congress, develop an explicit policy for the treatment of catastrophic losses. Finally, we recommend that all aspects of the PRIP insurance account be re-evaluated every few years.
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CHAPTER 1
INTRODUCTION

BACKGROUND

Fixed assets that are owned by the U.S. Army Corps of Engineers (USACE) Revolving Fund, meet certain capitalization criteria, and are purchased for use on multiple civil works projects or activities are acquired through the Plant Replacement and Improvement Program (PRIP). To fund repairs for extraordinary damages and to reimburse the Revolving Fund for losses, USACE levies an insurance charge on all projects and activities that use PRIP assets.

That self-insurance program is a significant undertaking, covering over $500 million worth of fixed assets and (historically) collecting over $6 million in annual premiums. Insurance charges depend upon the type of asset (structures, dredges, etc.) and its current book value (initial cost plus additions and betterments minus accumulated depreciation). PRIP insurance charges are accumulated and retained in a separate account and are not applied to land, leased assets, or assets that are out of service.

In FY91, USACE concern that the insurance account balance was too high (at over $40 million) led it to take two steps. First, it reduced PRIP insurance rates by almost two-thirds beginning in FY92, from between 0.75 and 1.25 percent to between 0.35 and 0.45 percent. Second, it tasked the Logistics Management Institute (LMI) to analyze current PRIP insurance, investigate alternatives, and suggest improvements. We present our approach, findings, and recommendations in this report.

APPROACH

Our study involved four major steps. First, we collected and analyzed data on individual assets insured through PRIP. Since Corps of Engineers Management Information System (COEMIS) reports did not provide satisfactory data for this purpose, we sent out a data call to the field. All 42 USACE locations with PRIP
assets responded to that data call, which requested the type (work code), initial cost, and current book value of all insured PRIP assets as of 30 September 1991.

Second, we collected and analyzed data on PRIP insurance account income, expenses, and balances. COEMIS reports from USACE headquarters, supplemented by our field data call, provided those data. We also requested extracts from the Register of Approved Transactions file at several locations to give us sample data on the numbers and sizes of individual insurance account transactions.

Third, we reviewed USACE Revolving Fund asset accounting instructions and procedures (Chapter 15 of Engineering Regulation 37-2-10), along with other relevant PRIP documentation. We supplemented that review by interviewing headquarters and field personnel.

Finally, we subcontracted with J. H. Albert International Insurance Advisors, Inc., to analyze PRIP insurance rates and account balances. We also asked it to develop potential alternatives to the current PRIP insurance account. Its results are included in our report.
CHAPTER 2
FINDINGS

INSURED ASSET DATA

We found that USACE headquarters cannot determine the exact value (or number) of insured PRIP assets from existing automated accounting reports. COEMIS 3017C reports show that the total year-end book value of all PRIP assets rose from $555 million in FY82 to $822 million in FY92. However, those reports include uninsured assets and do not contain individual asset values or counts.

Even at the local level, information on the value of insured PRIP assets is elusive. Our data call submissions came in different forms (handwritten, printed, and electronic) and were generated from different sources [many locations do not use the COEMIS insurance schedules (Report 65T)]. Some submissions contained obvious errors, which we were able to resolve and correct. We deleted assets that were fully depreciated (to avoid overstating the number and total initial cost of insured assets) but included grouped items (which affected item counts but did not affect the dollar totals).

We believe that the statistics compiled from the data call present an accurate picture of insured PRIP assets at that time. Table 2-1 summarizes the data call information and also presents COEMIS 3017C report data on total PRIP assets.

INSURANCE ACCOUNT DATA

We found that insurance account transactions are not linked to asset categories in the Revolving Fund reports produced by COEMIS. The income (insurance charges) generated by a category of assets, therefore, cannot be compared to the expenses (losses or damages) generated by that same category of assets, preventing USACE from calculating experience-based, asset-type-specific insurance rates. We also found several instances in which transactions had been posted to the wrong subaccount. While that incorrect posting does not affect the ending balance for the account as a whole, it distorts subaccount balances and further hampers analysis of the data.
TABLE 2-1
FY91 (YEAR-END) PRIP ASSET DATA

<table>
<thead>
<tr>
<th>Asset type</th>
<th>Number of insured assets (data call)</th>
<th>Book cost of insured assets (data call)</th>
<th>Book value of insured assets (data call)</th>
<th>Book value of all assets (COEMIS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structures</td>
<td>793</td>
<td>$183.2</td>
<td>$124.4</td>
<td>$161.1</td>
</tr>
<tr>
<td>Aircraft</td>
<td>1</td>
<td>0.9</td>
<td>0.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Dredges</td>
<td>12</td>
<td>168.0</td>
<td>134.1</td>
<td>244.7</td>
</tr>
<tr>
<td>Other floating plant</td>
<td>1,272</td>
<td>213.3</td>
<td>121.7</td>
<td>147.0</td>
</tr>
<tr>
<td>Mobile land plant</td>
<td>4,325</td>
<td>85.1</td>
<td>46.6</td>
<td>50.5</td>
</tr>
<tr>
<td>Fixed land plant</td>
<td>2,285</td>
<td>192.7</td>
<td>110.3</td>
<td>149.4</td>
</tr>
<tr>
<td>Tools, office furniture, &amp;</td>
<td>1,278</td>
<td>65.5</td>
<td>36.7</td>
<td>44.1</td>
</tr>
<tr>
<td>equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>9,966</td>
<td><strong>$908.8</strong></td>
<td><strong>$573.9</strong></td>
<td><strong>$797.4</strong></td>
</tr>
</tbody>
</table>

Note: "Book cost" equals initial cost plus additions and betterments; "book value" equals book cost minus accumulated depreciation; "all assets" include leased assets and assets not in service; all dollar amounts are in millions; totals exclude land; columns may not total exactly because of rounding.

Table 2-2 presents historical (USACE-wide) PRIP insurance account trial balances. Expenses, although highly volatile and potentially understated (we were told that some small losses go unreported), have generally been much lower than income. As a result, the ending balance has grown rapidly. It should be noted that FY92 income is somewhat misleading; the effects of the rate cut were offset by $2.9 million in legal settlement proceeds, another $0.6 million in balance adjustments (delayed crediting of FY91 transfers), and apparent delays in implementing the new rates.

ACCOUNT BALANCES AND CATASTROPHIC EXPOSURE

Given this history, it is easy to see how USACE concluded that an insurance account balance of over $40 million was excessive and that a rate reduction was justified. However, historical expenses should not be the primary basis for evaluating insurance reserves. It is more important to consider the "maximum potential loss" (MPL) or the "probable maximum loss" (PML).
TABLE 2-2
PRIP INSURANCE ACCOUNT TRIAL BALANCES
($ Millions)

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>Expenses (debits)</th>
<th>Income (credits)</th>
<th>Ending balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984</td>
<td>−1.6</td>
<td>6.9</td>
<td>11.9</td>
</tr>
<tr>
<td>1985</td>
<td>−0.6</td>
<td>6.5</td>
<td>17.8</td>
</tr>
<tr>
<td>1986</td>
<td>−0.7</td>
<td>6.7</td>
<td>23.7</td>
</tr>
<tr>
<td>1987</td>
<td>−1.1</td>
<td>6.9</td>
<td>29.6</td>
</tr>
<tr>
<td>1988</td>
<td>−0.8</td>
<td>6.6</td>
<td>35.4</td>
</tr>
<tr>
<td>1989</td>
<td>−1.5</td>
<td>7.0</td>
<td>40.9</td>
</tr>
<tr>
<td>1990</td>
<td>−0.7</td>
<td>6.7</td>
<td>46.9</td>
</tr>
<tr>
<td>1991</td>
<td>−9.8</td>
<td>7.1</td>
<td>44.2</td>
</tr>
<tr>
<td>1992</td>
<td>−1.2</td>
<td>6.6</td>
<td>49.5</td>
</tr>
</tbody>
</table>

Note: All dollar amounts are in millions; numbers may not total exactly because of rounding.

The largest single insured PRIP asset as of 30 September 1991 had a book value of about $85 million. The MPL is higher, however, because of the risk of several assets being totally destroyed by a single peril in a single event (earthquake, hurricane, etc.). We have assumed an MPL of $125 million based on the available data.

A different — and arguably more realistic — estimate of USACE's catastrophic exposure is the PML, which takes into account physical protection systems and possible salvage value. An accurate PML determination would require a physical engineering appraisal. Without such an inspection, we have used insurance industry guidelines and made an educated guess that the PML would be 40 percent of the MPL, or $50 million. Thus, we believe that the PRIP insurance program runs the risk of a single loss that would exceed the total current (or projected) fund balance.

CATASTROPHIC AND REPLACEMENT COST FUNDING

Corps of Engineers projects and activities usually pay three charges relating to PRIP assets. Insurance covers book value; depreciation covers the difference between
book value and initial cost; and plant replacement increment covers the difference between initial cost and replacement cost.

From an accounting standpoint, the combined effect of these three charges is to repay the Revolving Fund for an asset's total replacement cost. However, revenues from depreciation and plant replacement increment charges are typically used for current year PRIP acquisitions. Therefore, funds to replace a lost asset may not be available regardless of whether the insurance account balance is sufficient to cover book value. This problem is mitigated by three factors: (1) some assets are not replaced at all, (2) some assets are replaced by less expensive items, and (3) some assets are not replaced instantly as specifications and/or designs must be prepared.

We found no explicit policy and considerable disagreement on how USACE would pay for catastrophic losses (in excess of the insurance account balance) and/or the difference between book value and replacement cost. Assuming that the asset was to be replaced, USACE could ask Congress for additional funds. However, Congress might object to such a request, arguing that USACE had collected sufficient funds through the three PRIP charges but had chosen to use them for other purposes. Any additional funds might therefore have to come from internal sources, and that could present a serious problem.

OTHER TYPES AND SOURCES OF INSURANCE

One issue we considered was the need for explicit replacement cost insurance, since the PRIP insurance program only covers an asset's current book value. Although, as noted above, we believe that the availability of replacement cost funds poses a potential problem, we also believe that the current PRIP accounting system (with its three related charges) precludes the need for explicit replacement cost coverage. We also considered other types of insurance (liability, loss of use) but found no apparent interest among PRIP managers in such coverages.

Finally, we looked at the possibility of using other (i.e., commercial) sources for some – or all – of USACE's PRIP insurance needs. Although self-insurance is a long-standing USACE (and U.S. Government) policy, we found that it need not be a fatal obstacle to acquiring commercial insurance. The results of our legal research are presented in the appendix.
CHAPTER 3
RECOMMENDATIONS

INSURANCE COVERAGE

We believe that USACE has five generic options for insuring its PRIP assets. Tradeoffs exist among these options with respect to the source and adequacy of catastrophic coverage and funding, the required insurance account balances (and associated opportunity costs), the total cost of insurance, and the amount of change (if any) required. In this chapter, we first describe the five options and then present our recommendations.

Description of Options

Option 1 is to use the existing program to cover both normal and catastrophic losses; it represents the status quo. Its primary advantage would be simplicity since no immediate changes would be required. Its disadvantages are the need to maintain a large account balance and to accept the uncertainty of the availability of full catastrophic and replacement cost funding.

Option 2 is to use the existing program to cover normal losses and rely upon noninsurance sources to cover catastrophic losses. USACE would officially specify an outside source (e.g., Congress), which had formally agreed to fund catastrophic losses, and would modify Engineering Regulation 37-2-10 accordingly. The advantages of this option are that the insurance account balance could be substantially reduced and that no other immediate changes would be required. The primary disadvantage is any uncertainty associated with noninsurance sources of catastrophic funding.

Option 3 is to use the existing program to cover normal losses and obtain commercial insurance to cover catastrophic losses. USACE would essentially self-insure a “deductible” amount of normal losses (i.e., a maximum amount per incident and/or per year) under its existing program (without changing rates in the short run) and would obtain commercial coverage for losses exceeding that deductible. Among its advantages are that it would reduce the required insurance account balance, simplify the determination of target account balances (since the
maximum potential expenses would be known), and increase USACE's ability to customize its insurance coverage. The disadvantages are that the total cost of PRIP insurance could increase (see below) and that the acquisition of commercial insurance would require some effort since it represents a change from traditional USACE policies and practices.

Option 4 is to obtain commercial insurance to cover both normal and catastrophic losses; i.e., USACE would obtain all insurance for its PRIP assets from commercial sources. This option has the advantages of not requiring an insurance account and maximizing insurance flexibility. Its disadvantages are that both basic and catastrophic commercial insurance would have to be acquired, the total cost of PRIP insurance would probably increase (see below), the current PRIP accounting system would probably have to be modified, and USACE would lose considerable control.

Option 5 is to eliminate all formal insurance, funding normal losses out of operating expenses and relying upon other sources (as in Option 2) to fund catastrophic losses. The advantages include freeing up the entire insurance account balance and maximizing fairness (since each project or activity would only be charged for its own losses and damages). The disadvantages include the need to change PRIP accounting, the uncertain availability of funds to pay for normal losses (or the need to use funds intended for other purposes), and the uncertain willingness/ability of Congress (or other sources) to fund catastrophic losses.

Cost Implications

Each of these five options has different implications for the cost of insurance (defined either in terms of charges collected or expenses paid). Some of these implications are hard to quantify, since the precise costs of several options will depend upon various parameters (deductibles, etc.). However, Options 2 and 5 would essentially cost the same as Option 1, and some basic conclusions can be drawn about Options 3 and 4.

We assumed a total replacement cost of $1.2 billion (based on a total book value of $600 million) for the insured assets. We also assumed rates equal to 0.06 percent of replacement cost (based on sample quotations with a $5 million annual deductible). This implies that the additional annual premiums for commercial catastrophic coverage would be about $0.7 million for Options 3 and 4.
However, it is important to remember that rates would have to be temporarily increased after catastrophic losses under Option 1 to rebuild the insurance account on a dollar-for-dollar basis. For example, if USACE incurs $15 million in catastrophic losses every 10 years (which is consistent with FY83 - FY92 experience), the true annual cost of catastrophic self-insurance would be $1.5 million.

Therefore, Option 3 could end up saving USACE up to $1 million per year (or more) in the long run. Under Option 4, we believe that any catastrophic insurance savings would be more than offset by higher basic insurance costs, since commercial insurers would probably charge higher rates to cover their administrative costs, profits, and risk.

Rate Implications

Under Options 1, 2, and 3, we believe that the current PRIP insurance rates should be maintained for the next few years. The recent rate reduction appears to have been justified and of the appropriate magnitude, and the data limitations referred to in Chapter 2 mean that USACE has no statistical basis for fine-tuning these rates. Under Options 3 and 4, commercial insurance premiums will also have to be paid, either by incorporating them into the existing PRIP charge or by adding a second charge. Rates would also have to be increased (at least temporarily) under Options 1, 2, and 5 to rebuild the account balance if significant losses occur.

Account Balance Implications

The various options also have different implications for the required insurance account balance. Under Option 1, we recommend that the current balance of about $50 million be maintained; this equals our PML estimate. Under Option 2, we recommend that the account balance be reduced to about $20 million; this allows for 2 consecutive years of losses at maximum historical levels. Under Option 3, the required account balance would depend upon USACE’s choice of per-claim and/or per-year deductibles, but is likely to be between $10 million and $20 million. Finally, under Options 4 and 5 the insurance account could be eliminated entirely.

The issue of how to use funds freed up from the insurance account is complex. Some uses, such as paying non-PRIP bills, may not be legal (since the funds came from specific appropriations). Other uses, such as paying for ongoing insurance charges, may not be equitable (should funds collected from past projects be used to...
subsidize present/future projects?). Nevertheless, although we recognize that a sudden windfall of $30 million to $50 million could create political problems, we believe that reducing/eliminating the insurance account would be advantageous to USACE.

Recommended Option

The characteristics of our five options are summarized in Table 3-1. We believe that the benefits of commercial insurance for catastrophic losses (improved coverage, availability of replacement cost funding, reduced risk and uncertainty, increased flexibility, and lower required account balance) would outweigh the additional cost and nontrivial effort. On the other hand, we believe that commercial insurance for normal losses would not be cost-effective and that abandoning explicit insurance altogether would be too risky.

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Option 1</th>
<th>Option 2</th>
<th>Option 3</th>
<th>Option 4</th>
<th>Option 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source of basic coverage</td>
<td>USACE (PRIP)</td>
<td>USACE (PRIP)</td>
<td>USACE (PRIP)</td>
<td>Commercial</td>
<td>None (Expensed)</td>
</tr>
<tr>
<td>Source of catastrophic coverage</td>
<td>USACE (PRIP)</td>
<td>None (Congress?)</td>
<td>Commercial</td>
<td>Commercial</td>
<td>None (Congress?)</td>
</tr>
<tr>
<td>Annual insurance income (cost)</td>
<td>$2.5M – $3.0M  (based on FY92 rates and asset values)</td>
<td>Same as Option 1</td>
<td>Higher than Option 1 by &lt;$1M (depends upon details)</td>
<td>Higher than Option 3 (depends upon details)</td>
<td>Zero (assumes sufficient cash)</td>
</tr>
<tr>
<td>Annual insurance expenses (in-house)</td>
<td>$2.0M – $2.5M  (based on historical averages)</td>
<td>Same as Option 1</td>
<td>Lower than Option 1 (depends upon details)</td>
<td>Zero (depends upon details)</td>
<td>Same as Option 1</td>
</tr>
<tr>
<td>Required account balance</td>
<td>$50M (current)</td>
<td>$20M</td>
<td>$10M – $20M (depends upon details)</td>
<td>None</td>
<td>None (assumes sufficient cash)</td>
</tr>
</tbody>
</table>

We therefore recommend that USACE adopt Option 3. To facilitate accounting, to maximize savings, and to minimize implementation effort, a single commercial insurance policy should be obtained centrally by USACE headquarters. The details
of this policy (deductibles, limits, etc.) should be worked out with the help of an independent insurance consultant or broker.

The approval process for acquiring commercial insurance is viewed by some USACE personnel as a prohibitive obstacle. However, the magnitude of this obstacle should be thoroughly investigated, not just assumed. If Option 3 does turn out to be infeasible, then we recommend staying with the status quo (Option 1) for now.

Whichever option is selected, we recommend reviewing all aspects of the PRIP insurance program (asset base, rates, fund balances, commercial/catastrophic coverage, etc.) every 3 to 5 years. We also recommend that unless asset-type-specific expense data can be developed (see below), USACE adopt a single rate for all insured assets; this would be simpler and potentially fairer.

CLARIFICATION OF OVERALL PRIP INSURANCE PHILOSOPHY

We have assumed that the PRIP insurance program is intended to cover both normal and catastrophic losses. However, we recognize the existence of an alternative philosophy — namely, that USACE should only self-insure against normal losses and damages with Congress deciding on a case-by-case basis what to do about catastrophic losses (and providing funding where applicable).

Given this important difference of opinion, we recommend that USACE and Congress agree upon and codify the overall PRIP insurance philosophy. This step is critical if USACE wants to pursue Option 2, but it is desirable even if USACE wants to pursue a different option (in fact, we believe that this clarification should occur before a final decision is made regarding any of the options).

DATA COLLECTION AND REPORTING

Finally, we believe that USACE should improve PRIP insurance data collection and reporting regardless of which coverage option it selects. In particular, we recommend that USACE take the following actions:

- Once the Corps of Engineers Financial Management System is implemented, develop an annual data base (in electronic format, if possible) containing the type, initial cost, current book value, and estimated replacement cost of each insured asset
- Encourage the adoption of standardized PRIP asset accounting in the field and at headquarters
- Develop the capability to link individual – and aggregate – PRIP insurance account transactions with the appropriate asset accounts.

These changes will improve USACE's ability to determine insurance program size and growth, maximum potential or probable losses, actual loss experience, and rates.

SUMMARY

The PRIP insurance program needs to be more aggressively managed and monitored, and improved data collection and reporting are a key step toward that goal. Although the recent rate cuts appear to have been appropriate, catastrophic coverage has not been adequately addressed. We have identified five options for rectifying that shortcoming and believe that the option of obtaining commercial insurance against catastrophic losses is the best choice for USACE. Finally, we think that USACE should plan on regular periodic reviews of all aspects of the PRIP insurance program.
APPENDIX

U.S. GOVERNMENT SELF-INSURANCE RULE

BACKGROUND

We were repeatedly told that the U.S. Government is a self-insurer. We therefore reviewed relevant statutes and relevant decisions of the United States Comptroller General regarding the question of the U.S. Army Corps of Engineers (USACE) acquiring commercial insurance to partly or wholly supplant its existing revolving fund self-insurance program.

In some instances the Government buys or pays for insurance; examples are the Federal Employees Health Benefits Program and the Federal Employees Group Life Insurance. Federal agencies have also used commercial sources for workers compensation and related risks at major transportation projects. Other examples are cited in Part 28-3 of the Federal Acquisition Regulation, which gives guidance on when the Government will pay for insurance through private contractors.

A contractor normally procures insurance for a variety of risks as a matter of sound business practice. The cost of such insurance is part of the contractor's overhead and is reflected in its bid or proposal price. Since the risks covered are not direct risks to the Government, no legal objection exists to the Government indirectly paying for part of these insurance costs.

However, the Government is almost always a self-insurer in certain important areas, such as loss or damage to Government property or liability for the wrongful acts of its employees (sometimes called tort liability). That policy is so entrenched and has been followed for so long that it is considered by some to have the "force and effect" of law.

As far back as 1892, the first Comptroller of the Treasury advised the State Department of the self-insurance policy. The rationale for the rule is summarized in two later decisions of the Comptroller General:
The basic principle of fire, tornado, or other similar insurance is the lessening of the burden of individual losses by wider distribution thereof, and it is difficult to conceive of a person, corporation, or legal entity better prepared to carry insurance or sustain a loss than the United States Government [19 Comp. Gen. 798, 800 (1940)].

The magnitude of [the Government's] resources obviously makes it more advantageous for the Government to carry its own risks than to shift them to private insurers at rates sufficient to cover all losses, to pay their operating expenses, including agency or broker commissions, and to leave such insurers a profit [19 Comp. Gen. 211, 214 (1939)].

This rule has been applied rather strictly since its inception. For example, a Federal employee traveling on official business who buys flight or trip cancellation insurance cannot be reimbursed from appropriated funds [58 Comp. Gen. 710 (1979)].

A more recent decision dealt with the Air Force's purchase of commercial insurance to protect property on loan from NASA. The Comptroller General found that the self-insurance rule applied to property loans between Federal agencies and that commercial insurance should not have been procured. Since the insurance had already been purchased in apparent good faith, the Comptroller General allowed the voucher to be paid but cautioned against similar purchases in the future [55 Comp. Gen. 1196 (1976)].

Consequently, the Government policy to self-insure is strong and clear. Since the self-insurance rule originated in policy considerations rather than statute, some nonstatutory exceptions to the policy have arisen. The standards for such exceptions were summarized in Comp. Gen. B-151876 (1964). Exceptions will be granted if one or more of the following conditions prevail:

- The economy sought by self-insurance would be defeated.
- Sound business practice indicates a savings can be effected.
- Services or benefits not otherwise available can be obtained.

Exceptions to the self-insurance rule may of course be authorized by statute. At least one Comptroller General decision has stated that "the absence of an express prohibition on insurance is not enough to authorize it; rather, specific statutory authority is required." [14 Comp. Dec. 836, 839 (1908); 19 Comp. Gen. 798, 800 (1940)]. That decision has caused some legal scholars to state the following:

...it is not sufficient authority to purchase commercial insurance simply because there is no law stating that the United States shall not insure its property, but rather, to constitute authority to purchase
insurance, there must be some law specifically authorizing it. 
*Principles of Federal Appropriations Law, U.S. General Accounting Office, 3-117 to 3-127*

Although legislation in this area is minimal, Congress has authorized the procurement of insurance in some instances and prohibited it in others. Also, the existence of statutory authority to buy insurance does not necessarily mean that it has to be exercised. In one particular instance, the Comptroller General recommended against the purchase of insurance although recognizing it was authorized by law. (The recommendation, however, was only advisory in nature.)

RECOMMENDATIONS

If USACE wishes to purchase commercial insurance for this purpose, it may take any of the following approaches:

- Purchase commercial insurance under a nonstatutory exception
- Advise the Comptroller General of its plan to purchase commercial insurance and ask for an advisory opinion on the plan's legality
- Request legislation from Congress to authorize the purchase of commercial insurance.

In our research, we uncovered only two nonstatutory exceptions to purchasing commercial insurance, and both occurred during wartime operations. While the Comptroller General obviously recognizes the nonstatutory exception to the Government's self-insurance policy, it is quite limited in its frequency and scope of application.

Insofar as the second approach is concerned, even though various agencies often request advisory opinions on questionable matters, the General Accounting Office (GAO) General Counsel (B-158766, 3 February 1977) noted that most exceptions to the self-insurance policy have been made by congressional action. Thus, we believe the Comptroller General would be reluctant to sanction the purchase of commercial insurance without congressional action although we believe the approach to be meritorious.

The third approach – request that Congress authorize the purchase of commercial insurance (assuming that cost savings and/or other benefits can be cited as justification) – has been used successfully in the past. For example, the Departments of Agriculture and State have both been granted authority to purchase
insurance covering the liability of employees for damages or injuries caused while operating Government vehicles in foreign countries (see 22 U.S.C. 2670(a) and 7 U.S.C. 2262). Such a request would not be difficult to present and could be made a part of the annual DoD Authorization/Appropriation Act. Although this may be the most time-consuming avenue, we believe that it is the most likely to succeed and is the best choice for addressing the self-insurance policy issue.
U.S. Army Corps of Engineers (USACE) projects and activities using Plant Replacement and Improvement Program (PRIP) fixed assets pay insurance charges. These charges are retained in a separate account to fund the repair or replacement of PRIP assets when they are damaged or lost. Although there are over $40 million in the PRIP insurance account, we found that USACE cannot be certain of adequate protection against catastrophic losses. We therefore recommend that USACE acquire commercial insurance covering such losses to supplement its current self-insurance program. We also recommend improved PRIP data collection and reporting to provide better information on insured assets and to support the calculation of asset-type-specific insurance rates.