



**United States
Department of
Agriculture**

Federal Crop
Insurance
Corporation

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DATE: April 27, 2006

TO: Board of Directors
Federal Crop Insurance Corporation

FROM: Eldon Gould /s/
Manager

SUBJECT: Manager's Report
Exhibit No. 2844

This memorandum serves as the Manager's Report to the Board of Directors (Board), Federal Crop Insurance Corporation (FCIC), for the April 27, 2006 meeting. The report relates to program issues as outlined below:

Program Issues:

Mitigating Declining Yields Update – Two separate development contracts are underway on solutions to declining Actual Production History (APH) yields due to successive years of crop losses. Science Applications International Corporation (SAIC) and AgriLogic, Inc. continue their research and development efforts.

Pasture, Rangeland, and Forage Update – On January 18, 2006, the FCIC Board approved two proposals for pilot programs, effective for the 2007 crop year. RMA and Grazingland Management Systems, Inc. are working on educational materials, final program materials and processing systems development for implementation of the pilot programs. RMA provided all approved insurance providers (AIPs) the opportunity to provide comment to the draft policies. The Agency plans to release all program materials to AIPs on or before June 1, 2006, and then will follow-up with a training session for all AIPs and RMA personnel. RMA continues to work with the contractor on the remaining contract, which is estimated to come before the FCIC Board in the summer of 2006 for consideration of independent expert review.

Livestock Program Evaluation Contract Awarded – The livestock evaluation contract work by Watts and Associates is underway. Listening Sessions were held in March of 2006, and completion is scheduled for October 2006. The contractor will consider the following: 1) the history of the livestock programs; 2) review of rating and pricing methodologies; 3) market performance and producer acceptance; and 4) interviews with the submitters of the livestock plans of insurance.

Quality Adjustment – The Agency continues to meet with producers and producer groups to explain quality adjustment procedures and seek improvements and ways to limit fraud, waste, and abuse. RMA plans to meet with the North Dakota Grain Growers Association

in Bismarck, ND, in May of 2006 to further these discussions.

Soybean Rust – RMA continues to be an integral part in the USDA Soybean Rust working groups. RMA participates in the regularly scheduled and ad hoc conference calls, and attends meetings with other government personnel, producers and producer groups. The RMA Administrator has provided a recorded introduction to a DVD intended to educate producers and others on the upcoming documentation tool for soybean producers. In addition, RMA has produced a video news release reminding producers of the need for records to confirm that good farming practices were used throughout the growing season.

Mycotoxins – The Agency is part of the USDA mycotoxins working group and continues to meet with producers and producer groups to explain mycotoxin procedures and U.S. Food and Drug Administration requirements. On April 19, 2006, RMA met with other government personnel, AIPs, crop insurance agents, producers and producer groups in Bettendorf, IA. At the meeting, all parties furthered these discussions and sought ways for improving current procedures and understanding of these procedures.

Comprehensive Cotton Program Evaluation – RMA released a *Statement of Work* through *GovWorks* soliciting proposals to evaluate the current cotton program and to deliver a long-term strategy for improving the performance of the cotton program. The Agency completed the technical evaluations of the five proposals received, which were forwarded to *GovWorks* on March 7, 2006. Currently, RMA is awaiting notice of award.

Request for Applications (RFA), Research and Development Risk Management Research Partnerships Announcement – Applications will be solicited for the development of non-insurance risk management tools that will be utilized by agricultural producers to assist them in mitigating the risks inherent in agricultural production. Approximately \$4 million is available to fund an undetermined number of partnerships for Fiscal Year (FY) 2006. The research objectives for this RFA are in priority order: 1) develop risk management tools that would provide producers facing reduced water allocations with the information needed to manage these reductions; 2) develop tools to assist producers (including livestock) in finding alternative products, techniques or strategies related to disease management; 3) to develop tools for better managing agricultural pests under various farming practices; and 4) to develop tools encouraging self-protection for production agricultural enterprises vulnerable to losses due to terrorism. The application period will be for 60 days after publication of the RFA. All awards and agreements will be completed no later than September 30, 2006.

Request for Applications (RFA) Approved – The Risk Management Education (RME) Division 2006 RFA has been approved and published. This year, the RFA will only be open for 45 days. The major changes made to the RFA include: 1) limiting the use of project funds for salaries and benefits to 25 percent of the total amount of the award; 2) judging all previous grantees on past performance; and 3) allowing applicants more flexibility on the required tasks they must perform to conduct a successful education program. For the first time since the implementation of this program, grantees will be able to submit their applications electronically via *Grants.gov*. However, hard copy applications will still be accepted via U.S. mail.

New Florida Fruit Tree Pilot Crop Insurance Program – A new Florida Fruit Tree (FFT) crop insurance program was approved for the 2007 crop year that will cover citrus and tropical trees with the sales closing date of May 24, 2006. However, due to changes to the Asiatic Citrus Canker eradication procedures administered by the USDA's Animal and Plant Health Inspection Service (APHIS) and the state of Florida, the new program was modified prior to implementation. The Florida Department of Agriculture, APHIS and producer groups will be developing the new canker management program over the next few months. Some uncertainty remains about the new canker management program, and thus will require close monitoring by RMA to keep the new FFT policy functioning properly in a somewhat changing environment.

Overall, the new policy for FFT provides improvements that will help producers better cope with hurricane and freeze. RMA is actively working with AHPIS to address the canker eradication issues. Recently, the Agency has provided newsletter information to Florida Citrus Mutual into helping advise and inform producers of the new policy.

Regulatory Update:

Combination Regulation – The proposed rule has cleared Departmental review, the Secretary's office and the Office of Budget and Program Analysis (OBPA). The rule is currently with Office of Management and Budget (OMB). Representatives of the Product Development Division (PDD) briefed OMB on the contents of the rule on March 7, 2006. The proposed rule combines the existing APH, Crop Revenue Coverage (CRC), Income Protection (IP), Indexed Income Protection (IIP) and Revenue Assurance (RA) plans of insurance into one consolidated plan of insurance, effective for the 2009 crop year.

Peanut Crop Provisions – On March 27, 2006, the public comment period for the proposed rule on peanut crop provisions ended. The proposed rule was published on January 25, 2006. RMA is preparing responses to the comments as part of the final rule process. The rule updates the peanut crop provisions to be consistent with the elimination of the peanut quota program, makes peanut unit crop provisions consistent with other crop provisions, and provides for insuring peanuts based on a contract price. The regulation is targeted to be effective for the 2007 crop year.

Mint Crop Provisions – On February 6, 2006, the proposed rule on mint crop provisions was published in the *Federal Register* for public comment. The rule converts the mint program from a pilot program to a permanent program. The final rule is targeted to be effective for the 2008 crop year.

Northern Potato Crop Provisions and Southern Potato Crop Provisions – On January 5, 2006, the proposed rule was sent to the Office of General Counsel (OGC) for review and approval. The proposed rule would make changes to the Storage Coverage Endorsement and in determining production to count for claims purposes. The changes are targeted toward improving program integrity. The final rule is targeted to be effective for the 2008 crop year.

Almond and Walnut Crop Provisions – On March 21, 2006, the proposed rule was published in the *Federal Register* for public comment. The rule would reduce the age requirements for almond and

walnut trees for crop insurance purposes. The final rule is targeted to be effective for the 2008 crop year.

Mustard Pilot Crop Provisions – The Billings Regional Office (RO) has worked closely with the Spokane Regional Office, the Research and Evaluation Division and the Product Development Division to revise and rewrite the Mustard Pilot Crop Provisions since the FCIC Board approved its conversion to a permanent program in July of 2004. A revised draft of the Mustard Crop Provisions was forwarded to the Product Development Division for its internal concurrence and a review by OGC for legal sufficiency.

Dry Pea Crop Provisions – The Billings RO has worked with the Spokane RO, the Research and Evaluation Division and the Product Development Division to revise and rewrite the Dry Pea Crop Provisions. A revised draft of the Dry Pea Crop Provisions was forwarded to the Product Development Division for its internal concurrence and a review by OGC for legal sufficiency.

Plan of Operations – RMA's Reinsurance Services Division (RSD) is performing its initial review of Plans of Operation submitted by insurance providers for the 2007 reinsurance year to begin July 1, 2006. The deadline for submission was April 3, 2006.

Sharing Information With Others – RSD has stepped up its efforts to share information concerning companies, agents and loss adjusters with the National Association of Insurance Commissioners (NAIC). RMA will receive electronic files with companies' statutory financial statements and is invited to accompany NAIC on company examinations. In return, RMA will be sending disciplinary information to NAIC and is inviting NAIC to accompany RMA on financial reviews.

RSD Issues Informational Memorandum – On March 9, 2006, RSD issued an Informational Memorandum titled *Guidance Regarding Premium Reduction Plan Advertising*. The memorandum clarifies Premium Reduction Plan (PRP) advertising that is permissible under the PRP interim rule. This memorandum has had a significant impact on reducing complaints of misleading advertising.

2006 Plan of Operations Due to Crop 1 and Farm Bureau Mutual Merger – On March 14, 2006, RSD completed its evaluation of the revised 2006 Plan of Operations by Occidental following the purchase of Crop1 Insurance Direct by Farm Bureau Mutual Insurance Company. RMA approved the latest revisions. Under the revised plans, approved by RMA, Farm Bureau Mutual has withdrawn its SRA for the 2006 crop year, but the company continues to hold a Livestock Price Reinsurance Agreement. Occidental is eligible for PRP in 21 states for crop insurance only. Farm Bureau Mutual is eligible for PRP on livestock policies only in five states.

Community Outreach and Assistance Partnerships Applications – On March 22, 2006, RMA announced the availability of nearly \$5 million for partnership agreements to fund outreach projects that “provide information and training to women, limited resource, socially disadvantaged and other traditionally under served producers.” The closing date for applications is May 1, 2006.

Program Highlights/Announcements:

Future Farmers of America (FFA) – The 10 winners of the ninth annual FFA Risk Management

Strategies Writing Contest have been announced. The winners were selected from a pool of 235 participants. FFA members were challenged to apply risk management principles to their own farming operations, and then write about their experiences in a 1000-word or less essay. The winners and their advisors will receive an all-expense paid trip to Washington, DC from May 3-7, 2006. During their visit, they will visit USDA and their respective Members of Congress. This year's essay contest winners are:

- **Sierra Simpson** – Timberlake FFA (Kremlin, OK)
- **Angie Bushong** – Hitchcock-Tulare FFA (Tulare, SD)
- **Caleb Alexander** – Garden City FFA (Garden City, KS)
- **Emily Arkfeld** – Lourdes Central Catholic FFA (Dunbar, NE)
- **Troy Kimmel** – New Raymer FFA (Stoneham, CO)
- **Kate Wheeldon** – Schuyler FFA (Schuyler, NE)
- **Monty Brown** – Canton FFA (Canton, OK)
- **Jeffrey C. Bridges** – Grapeland FFA (Grapeland, TX)
- **Alexandria Henry** – Alma FFA (Elwell, MI)
- **James Lyons** – Scott County FFA (Georgetown, KY)

In addition, the RMA Administrator recently hosted FFA Central Region National Vice President Anita Estes, a sophomore at the University of Nebraska. On March 21, 2006, Estes shadowed Administrator Gould as part of a national officers' program, participating in discussions regarding upcoming RMA programs and the need for reliable management of risk in commercial agricultural endeavors.

Continued Drought in New Mexico, Oklahoma, and Texas – There have been recent scattered showers across parts of the New Mexico, Oklahoma and Texas region, but they were not drought breakers by any means. There have been many wildfires causing extensive damage to structures and crops. In addition, the wildfires have killed several thousand head of livestock. The extreme fire danger in this region remains a concern to all rural and urban residents. In addition, most of this region has been short of rainfall for the past several months. The lingering drought continues to spread across this region, while the fire danger risk increases. All outdoor burning and activities (welding, fireworks, open flame grilling, etc.) that may cause a fire have been banned until further notice.

Additionally, the extreme drought is having an effect on the winter wheat with some producers already turning in claims. The drought continues to worsen each day because there is no significant amount of rain. There will be a great deal of prevented planting situations across the region due to the drought. RMA's Oklahoma City RO continues to receive questions about prevented planting, wheat appraisals and how they are administered.

Several Large GRIP Corn Claims in Hartley County, TX – The Oklahoma City RO has been notified of several large GRIP claims in Hartley County based on the new provisions allowing RMA

the option to participate in claims with a liability exceeding \$500,000. The RO has elected to participate in the loss adjustment process for some of these claims. The 2005 crop year GRIP liability in Hartley County was \$53,755,262. In addition, there were 67 GRIP policies earning premium for 2005 crop year. In contrast, there were 12 corn GRIP policies earning premium for the 2004 crop year, with \$3,747,638 that was paid out in indemnities and a loss ratio of 3.97. Several inquiries about the GRIP program provisions in Hartley County have been received and the Southern Risk Compliance Office is aware of this issue.

Excessive Moisture in North Dakota and South Dakota – Fast melting winter snow and wet spring weather in the eastern part of the Dakotas has raised the possibility of increased prevented planting acreage during the spring planting season. Topsoil moisture is rated at a 19 percent surplus and 17 percent surplus, respectively, in North and South Dakota as we enter the 2006 planting season. In North Dakota, there have been between 300,000 and 2 million acres of prevented planting each year in the last consecutive 10-year period. This 10-year period coincides with the addition of prevented planting coverage to the Common Crop Policy provisions and the updated crop provisions. With the combinations of the snow rapidly melting and precipitation, some fields are being flooded. The proposed language in the upcoming Combo policy should mitigate some of the suspected abuse that has taken place over the last several years.

North Dakota and Minnesota Flooding – Above normal precipitation, from fall 2005 and into this spring, has caused significant amount of acreage to be underwater in the eastern North Dakota and western Minnesota region. The Red River of the North is flooding and is anticipated to crest in and around the Grand Forks area. It is anticipated that this will translate into conditions being too wet to plant for a significant amount of acreage in both states. Thus, it is anticipated that 800,000 acres in North Dakota and 100,000 acres in Minnesota will be claimed as prevented planting.

Electronic Written Agreements (eWA) Project – The eWA Investment supports the replacement of current legacy systems and methodologies. It also consists of the enterprise architecture and platform necessary to support the processes and store current and historical data.

Currently, the eWA project team is finalizing detailed requirements for the Actuarial Filing Systems (AFS) and Written Agreement (Exceptions) Processing systems. Requirement Sessions with the project team were held during the weeks of March 27 and April 10, 2006 in Kansas City for AFS. Additional meetings are planned for the weeks of April 24, 2006 in Spokane, WA, and Kansas City, MO for the exceptions processes. Detailed requirements gathering for the Data Acceptance System (DAS), Corporate Reporting and the Reinsurance Accounting System are expected to start in late July or early August of 2006.

Kickoff of the design and implementation phase of the project is dependent on the recomplete of RMA and FCIC's Information Technology (IT) contract. The new contract is scheduled to be in place in the summer of 2006. Although formal project plans for this phase are dependent on the new contract, RMA anticipates a phased in implementation for the eWA project beginning with AFS in January 2008, effective for the 2009 crop year.

The eWA Investment project leadership team is as follows:

- Project Sponsor - Byron Anderson, Associate Administrator
- Chief Information Officer (CIO) - Vondie O’Conner, CIO
- Project Manager - Dave Paul, Regional Director
- Project Steering Committee:
 - Denise Hoffmann, Director Actuarial Division – Chair
 - Dave Paul, Regional Director
 - Kathy Tiefel, Assistant Project Manager
 - Mike Alston, Regional Director
 - Cornell Webb, Compliance
 - Jacques Malebranche, GSA Acquisition Manager

IT Contracts Status – The IT integration contract that provides most contracted IT services for RMA and FCIC was scheduled to end May 2006, but the contract has been extended by up to three months. The contract is being offered again for RMA by the General Services Administration (GSA), which contracts for much of the IT services for Federal government. Due diligence meetings with prospective contractors were held in Kansas City the week of April 10, 2006. The new IT integration contract is scheduled to be in place in July or August of 2006.

The data mining/data warehousing contract with Tarleton State University Center for Agricultural Excellence (CAE) was scheduled to end on August 31, 2006. However, an extension of up to six months is anticipated. The preparations to re-offer the data mining/data warehousing contract have already begun, and an award for a new contract is expected in late 2006.

Compliance:

National Operations Reviews (NOR) – RMA Compliance has only seven final policy findings remaining to be issued out of the 300 random policies (2004) selected for the 2005 NOR reviews. These policy reviews help assess the insurance providers’ adherence to the Standard Reinsurance Agreement (SRA), quality control guidelines and RMA’s approved policies and procedures. The Agency conducts random policy reviews during the NOR in order to report an error rate to OMB under the requirements of the Improper Payments Information Act of 2002. This will result in a change to the error rate reported for 2004 using the random contract reviews required under Manual 14 and the 2004 SRA. RMA has been conducting these reviews using draft procedures and anticipates issuing the NOR procedures in May of 2006.

RMA announced the review schedule for 2006 at the recent NCIC National Claims Manager’s Conference. The Compliance offices will conduct Operations Reviews of the following companies:

- Dallas – *Rain and Hail*
- Davis – *Crop USA*
- Indianapolis – *Country mutual*
- Kansas City – *ProAg*
- Raleigh – *American Agricultural*
- St. Paul – *Farmers Crop Insurance Alliance (closeout)*

The 2005 random policy selection occurred during the week of April 17, 2006. By waiting until this date, RMA expected to see some Group Risk Plan and Group Risk Income Protection indemnities in the selection pool available as part of the review population. Due to recent concerns raised regarding these products, Compliance will assess over the summer of 2006 if a special review on these products is necessary.

OIG Audits – OIG has initiated or will shortly initiate the following audits relative to RMA:

- Audit 50701-2-KC USDA Homeland Security Initiatives and Directives
- Audit 05601-11-At, Risk Management Agency's Compliance Activities
- Audit 05099-111-KC, Monitoring the Financial Condition of RMA's Reinsured Companies
- Audit 05099-112-KC, Contracting for Services Under ARPA
- Audit 05099-113-KC, Review of Asian Soybean Rust Claims
- Audit 05601-14-TE, Group Risk Crop Insurance
- 2006 Financial Statements Audit

However, RMA continues to remind OIG that the number of audits conducted on the Agency appears to be disproportionate to the rest of USDA, given RMA's size and resources available to assist OIG during its reviews.

New General Accountability Office (GAO) Assignment – RMA received a February 3, 2006 memorandum, advising that GAO is planning to conduct a new audit entitled *Insurance Risks from Climate Change*. RMA has been designated as the lead USDA agency for this audit that will look at historical losses, expectations and the perceived risk of climate change. RMA Research and Development has been designated the point of contact for the Agency for this audit.

GAO Report on Fraud, Waste and Abuse – The draft *Statement of Action* for this report has received RMA, Farm Service Agency (FSA), OGC and OBPA approval. In addition, the draft has been delivered to OIG for final review and signature by the Secretary of Agriculture. The statement is consistent with those actions RMA previously indicated were in process, including:

- Adjusting the producer spot-check list procedures to permit FSA to review fall seeded crops for the following year as opposed to the current year, which was ineffective. RMA discussed the possibility of separating the data mining algorithms for the fall and spring, but determined that essential data would be excluded in the process. FSA has stated that without additional resources, it will be unable to perform 100 percent of the designated growing season inspections.
- Distributing to each AIP the listing of its policyholders whose tax identification numbers or shareholders with substantial beneficial interests did not reconcile with FSA's permitted entity file. RMA will formally require the AIPs to review the discrepancies under Appendix IV and report the results.

- Finalizing a quality control program for the AIPs intended to help RMA assess the effectiveness of the quality controls used by the AIPs. Also, RMA Compliance will continue to test AIP quality control programs during scheduled national operations reviews.
- Finalizing the ARPA-implemented sanctions regulations as soon as OGC has completed its review of the current draft. RMA informed GAO that the lack of these regulations had not hindered RMA from using the statutory authority to sanction some producers. However, getting the regulations in place should help improve the overall sanctions process.

Annual Report to Congress – The *2003 Crop Year Compliance Annual Report to Congress* was delivered to Congress and can be found on the RMA website (<http://www.rma.usda.gov/>). The report shows a continuing trend to identify and control errors and abuse. Additionally, the report demonstrates gains from the use of data mining, new technologies and increased sanctions to identify anomalous program results and exclude violators from the program. The 2005 SRA builds on these results by incorporating data mining into the selection of policies reviewed by the companies as part of their quality control requirements.

Wentworth Agricultural Insurance Agency Investigation – RMA Compliance in Kansas City continues to address the criminal and civil aspects of this case. Companies have nearly completed corrective actions and RMA has received some feedback from affected producers who are unhappy about the size of the determined indemnity overpayments and premium understatements under the court-approved process.

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