



**United States
Department of
Agriculture**

Federal Crop
Insurance
Corporation

1400 Independence
Avenue, SW
Stop 0801
Washington, DC
20250-0801

DATE: February 7, 2008

TO: Board of Directors
Federal Crop Insurance Corporation

FROM: Eldon Gould /signed/
Manager

SUBJECT: Manager's Report
Exhibit No. 2928

This memorandum serves as the Manager's Report to the Board of Directors (Board), Federal Crop Insurance Corporation (FCIC), for the February 7, 2008 meeting. The report relates to program issues as outlined below:

Program Issues:

Pasture, Rangeland, Forage-Fifth Rainfall Index (PRF-RI) Interval Results – In January 2008, the results of the fifth Index Interval for the PRF Rainfall Index pilot area were released. RMA and its contractor followed standard operating procedures for validating the data at the end of the Index Interval prior to release. USDA's Farm Service Agency (FSA) County Offices are utilized in the standard operating procedures when potential anomalies are identified as a basis to review the results at a local level. Also during this interval period, the FSA County Offices reported the PRF-RI results appeared reasonable given the conditions in their local area during the Index Interval timeframe.

The rainfall index does not explicitly predict forage on a given producer's operation. Instead, the index simply utilizes a NOAA precipitation data set for the area, which is correlated with forage production. The rainfall index measures the precipitation over the given 2-month interval for a specified grid, declared by the producer, relative to a long-term average for the same interval and grid. The time period for Index Interval V is from October 1 to November 30.

Tables 1 and 2, below, summarize the PRF-RI results through Index Interval V and provides PRF-RI results through Index Interval V by state. The estimated Loss Ratio through Index Interval 5 is .35 for all states.

Interval	Average Coverage Level	Net Acres Insured	Liability	Premium	Indemnity*	Loss Ratio
I	81%	3,142,275.19	\$43,786,242	\$ 9,456,176	\$ 812,341	0.09
II	82%	5,963,816.87	\$82,631,495	\$ 12,980,051	\$ 307,048	0.02
III	81%	3,891,793.56	\$51,762,350	\$ 8,362,032	\$ 1,299,879	0.16
IV	82%	4,995,714.81	\$67,512,335	\$ 13,281,943	\$ 1,124,030	0.08
V	81%	3,248,336.27	\$42,509,931	\$ 9,638,270	\$ 19,103,587	1.98
VI	81%	3,297,952.81	\$39,583,462	\$ 10,229,550	N/A	N/A
Total	81%	24,539,889.51	\$327,785,815	\$ 63,948,022	\$ 22,646,885	0.35

Table 1

State	State Code	Interval	Average Coverage Level	Net Acres Insured	Liability	Premium	Indemnity	Loss Ratio
CO	8	I	85%	284,011	\$5,092,173	\$1,160,413	\$477,740	0.41
CO	8	II	84%	653,579	\$8,707,247	\$1,166,600	\$17,012	0.01
CO	8	III	84%	451,547	\$6,043,308	\$647,558	\$380,244	0.59
CO	8	IV	84%	210,762	\$3,931,367	\$541,176	\$198,443	0.37
CO	8	V	83%	242,148	\$2,992,874	\$763,567	\$1,679,745	2.20
CO	8	VI	85%	222,068	\$2,958,204	\$626,816	N/A	N/A
ID	16	I	71%	43,022	\$5,121,622	\$459,931	\$750	0.00
ID	16	II	73%	61,809	\$3,906,906	\$414,519	\$143,012	0.35
ID	16	III	72%	118,811	\$3,342,767	\$437,601	\$126,360	0.29
ID	16	IV	76%	18,144	\$453,912	\$82,807	\$1,684	0.02
ID	16	V	70%	12,313	\$1,888,331	\$191,755	\$0	0.00
ID	16	VI	70%	67,073	\$603,663	\$81,001	N/A	N/A
ND	38	I	87%	153,776	\$2,281,384	\$447,820	\$20	0.00
ND	38	II	87%	336,098	\$4,461,486	\$727,511	\$35,167	0.05
ND	38	III	87%	378,980	\$4,931,730	\$543,645	\$782,996	1.44
ND	38	IV	87%	195,085	\$2,538,296	\$404,238	\$417,215	1.03
ND	38	V	87%	103,315	\$1,501,764	\$398,458	\$468,969	1.18
ND	38	VI	86%	111,724	\$1,591,228	\$278,977	N/A	N/A
PA	42	I	90%	43	\$16,661	\$1,513	\$0	0.00
PA	42	II	77%	425	\$102,072	\$4,296	\$6,638	1.55
PA	42	III	81%	1,009	\$147,094	\$8,794	\$7,366	0.84
PA	42	IV	84%	664	\$66,297	\$5,358	\$0	0.00
PA	42	V	80%	88	\$17,942	\$1,941	\$0	0.00
PA	42	VI	90%	43	\$16,661	\$1,646	N/A	N/A
SC	45	I	90%	495	\$47,542	\$4,593	\$13,564	2.95
SC	45	II	89%	1,010	\$73,430	\$9,165	\$35,526	3.88
SC	45	III	89%	532	\$30,917	\$3,931	\$932	0.24
SC	45	IV	84%	43	\$8,106	\$713	\$4,365	6.12
TX	48	I	80%	2,660,928	\$31,226,860	\$7,381,906	\$320,267	0.04
TX	48	II	82%	4,910,896	\$65,380,354	\$10,657,960	\$69,693	0.01

State	State Code	Interval	Average Coverage Level	Net Acres Insured	Liability	Premium	Indemnity	Loss Ratio
TX	48	III	81%	2,940,915	\$37,266,534	\$6,720,503	\$1,981	0.00
TX	48	IV	82%	4,571,017	\$60,514,357	\$12,247,651	\$502,323	0.04
TX	48	V	80%	2,890,472	\$36,109,020	\$8,282,549	\$16,954,873	2.05
TX	48	VI	81%	2,897,044	\$34,413,706	\$9,241,110	N/A	N/A

**Please note: The Indemnities reflect RMA estimates based on the current book or business and final grid indices reported. The PRF-RI Index Interval VI period will end January 31, 2008.*

Table 2

Livestock Risk Protection-Lamb Update - On September 17, 2007, the sales of the Livestock Risk Protection-Lamb (LRP-Lamb) began sales. To date, LRP-Lamb has sold 240 endorsements providing price protection for 284,401 head of lambs. The table below shows by state the sales, premium, and liability. The end of the first coverage period was December 17, 2007. The 13-week endorsement has been the most popular.

Livestock Risk Protection-Lambs Summary of Business
(as of January 16, 2008)

State	Endorsements Earning Premium	Endorsements Indemnified	Number of Head	Liability	Total Premium	Subsidy	Indemnity	Loss Ratio
CALIFORNIA	6	0	26,700	\$4,005,474	\$82,616	\$10,740	\$0	0
COLORADO	74	5	132,953	\$20,083,142	\$403,823	\$52,501	\$3,925	0.01
IOWA	22	1	9,139	\$1,405,023	\$29,908	\$3,890	\$36	0
IDAHO	5	0	6,050	\$918,393	\$18,340	\$2,385	\$0	0
KANSAS	3	0	540	\$73,827	\$1,474	\$191	\$0	0
MINNESOTA	15	0	7,699	\$1,148,944	\$24,775	\$3,222	\$0	0
MONTANA	3	0	2,350	\$348,257	\$8,262	\$1,074	\$0	0
NORTH DAKOTA	7	2	5,170	\$733,316	\$21,418	\$2,785	\$495	0.02
NEBRASKA	1	1	800	\$112,291	\$2,242	\$291	\$448	0.2
OHIO	0	0	0	\$0	\$0	\$0	\$0	0
OREGON	7	0	8,200	\$1,298,257	\$35,545	\$4,620	\$0	0
SOUTH DAKOTA	50	3	36,327	\$5,067,909	\$104,691	\$13,609	\$714	0.01
TEXAS	29	0	32,108	\$4,605,635	\$95,546	\$12,423	\$0	0
UTAH	4	1	5,250	\$795,772	\$15,891	\$2,066	\$91	0.01
WEST VIRGINIA	1	1	50	\$5,015	\$100	\$13	\$15	0.15
WYOMING	13	0	11,065	\$1,653,533	\$34,614	\$4,501	\$0	0
United States Total	240	14	284,401	\$42,254,788	\$879,245	\$114,311	\$5,724	0.01

Table 3

Regulatory Update:

Combination Regulation Update – On December 2007, the final rule cleared the Office of Management and Budget (OMB) and now publication of the final rule is on hold pending the funding of the Risk Management Agency's automation systems and initiatives. The final rule is targeted to be effective for the 2010 crop year, but remains subject to the needed automated systems funding for implementation.

Mustard Crop Provisions – Currently, the Product Administration and Standards Division (PASD) is reviewing the Office of General Counsel's (OGC) edits to the final rule. The final rule converts the mustard pilot crop insurance program to a permanent program. The final rule is targeted for the 2009 crop year.

Cabbage Crop Provisions – The final rule is in the Product Administration and Standards Division (PASD) for review and approval. The final rule converts the cabbage pilot crop insurance program to a permanent program. The final rule is targeted for the 2009 crop year.

Grape and Table Grape Crop Provisions – Currently, PASD is reviewing OGC's edits to the proposed rule. The final rule is targeted for the 2010 crop year.

Northern Potato Crop Provisions and the Central and Southern Potato Crop Provisions – On October 31, 2007, the final rule was published in the *Federal Register*. The rule makes changes to the Storage Coverage Endorsement and the process for determining production to count for claims purposes intended to improve program integrity and address audit recommendations. The final rule is in effect for the 2008 crop year for the Northern Potato Crop Provisions and the 2009 crop year for the Central and Southern Potato Crop Provisions.

Florida Citrus Fruit – During the week of January 20, 2008, the Florida Citrus Fruit Final Rule was published in the in the *Federal Register*. The final rule clarifies insurable citrus crops and provides coverage for wind damage on fresh fruit when in conjunction with a hurricane or tornado. The rule is effective for the 2009 crop year.

Coverage Enhancement Option (CEO) – On August 6, 2007, the public comment period to the proposed rule ended. PASD has prepared responses to the public comments and the final rule is in Product Management's concurrence process. The proposed rule converts the pilot program to a permanent program option in follow up to previous Board action. The final rule is targeted for the 2009 crop year. Currently, CEO is offered for only Texas citrus trees.

Cultivated Wild Rice – PASD is reviewing OGC's edits to the final rule. The final rule converts the cultivated wild rice pilot crop insurance to a permanent program. The final rule is targeted for the 2009 crop year.

Tobacco – On July 23, 2007, the public comment period to the proposed rule ended, and PASD is preparing responses to the comments. The proposed rule rewrites and renames the current Guaranteed Tobacco Crop Provisions to the Tobacco Crop Provisions reflecting the elimination of tobacco quotas.

In addition, the proposed rule eliminates the Quota Tobacco Crop Provisions. The final rule is being drafted by PASD and is targeted for the 2009 crop year.

Dry Pea – On January 18, 2008, the proposed rule for the dry pea crop provisions was published in the *Federal Register*. The rule proposes to provide coverage for fall planted dry peas and allow insured's to select different coverage levels and price election percentages by dry pea type. The final rule is targeted for the 2009 crop year.

Program Highlights/Announcements:

eWA Project Update – In December of 2007, RMA suspended the development and implementation of the new business processing system commonly referred to as eWA. This decision also meant postponing the release of the new COMBO product indefinitely. We regretted the necessity to do this, but as we have always known, adequate funding for this project has been our greatest risk. Although the President's 2008 fiscal year budget request included a participation fee to fund this project, we have been unable to obtain the necessary legislation or appropriations from Congress. Documentation on work to date will be retained so that the effort put into this project will not be completely lost. If in the future RMA receives adequate funding to allow for the continuation of eWA, we will use this documentation to the extent possible.

Biotech Yield Endorsement (BYE) – On January 3, 2008, RMA released the pilot *Biotech Yield Endorsement (BYE)* related materials and instructions to approved insurance providers for the 2008 crop year. The BYE is available in the states of Illinois, Indiana, Iowa, and Minnesota. Approved Insurance Providers have until February 15, 2008 to advise RMA of their election to offer the BYE premium rate reduction for the 2008 crop year.

American Growers in Washington Adjusted Gross Revenue (AGR) Cases - The final determinations from recent National Appeals Division (NAD) Hearings on four American Growers AGR claims were posted to the NAD website on December 10. The hearing officer ruled in RMA's favor and the results show a taxpayer savings of over \$9.2M. The NAD final determinations show that AGR policy and procedure are sound concerning the issues that were disputed particularly expected values on the intended commodity report and actual value not received for sold commodities. The claimants have requested a director's review of the NAD decision. The decision is expect by Tuesday, February 5, 2008. Below is a summary of the case.

Summary: Olsen & Carr

Total 2001 and 2002 Demanded: \$9,876,752

RMA and NAD Affirmed Total: \$604,080

Taxpayer Savings: \$9,272,672

In addition to the Administrative review, the claimants (Olsen and Carr) requested (through US District Court) the application of Collateral Estoppel because the issues in the appeal were addressed [in their minds] in a binding arbitration. The AUSA, OGC, and RMA Spokane Regional Office Director participated in a Hearing for Motion for Summary Judgment and a Motion to Vacate Arbitration Awards in U.S. District Court in Yakima, Washington on January 23. The judge indicated

that within 14 days, there would be a decision on the motions.

FY 2008 Request For Applications (RFA) – On January 22, 2008, the FY 2008 Request for Applications announcements for Targeted States, Commodity Partnerships, and Commodity Partnerships Small Sessions were published in the *Federal Register*. The application window will be open for 60 days in which the application due date/time is by 5 p.m. (ET) on Monday, March 24. Again, this year, RMA seeks special emphasis topics by regional office for the Commodity Partnerships program. RMA will conduct the application panel review meeting by the end of May 2008.

FFA Risk Management Writing Contest –The RMA sponsored FFA Risk Management Writing Contest kicked off at the National Convention last fall 2007 in Indianapolis, Indiana. This year’s deadline was January 31, 2008. A panel of reviewers will review the top 33 essays by mid-February. Following this process, FFA plans to announce the 10 National winners the week of March 24. The 10 National winners will be recognized by RMA in Washington, DC on May 1, and May 2, 2008.

Loss Adjuster Licensing - On December 3, 2007, RMA presented information to the Producer Licensing Working Group of the National Association of Insurance Commissioners (NAIC) concerning the problems RMA and the crop insurance industry have had with inconsistent State requirements for crop loss adjuster licensing requirements. RMA anticipates providing additional information at the NAIC meetings in March 2008. RMA is working closely with the NAIC Crop Insurance Working Group, NCIS, and industry representatives in exploring options to establish State crop loss adjuster licensing uniformity that will mitigate this problem.

Federal-State Rebating Initiative - On December 17, 2007, together with state insurance departments, RMA launched an initiative aimed at sharing information in situations that would potentially violate Federal or State rebating prohibitions. The initiative comes in response to a growing number of complaints and allegations of illegal rebates tied to Federal crop insurance. A description of this initiative is found in Manager’s Bulletin MGR-07-009 *State and Federal Rebating Enforcement Initiative* and in letters to Assigned Insurance Providers (AIP) from RMA and a group of state insurance departments. Through this initiative, RMA has pledged to:

- Notify the affected State when a Federal crop insurance rebating complaint or allegation is received;
- Provide background information on relevant past rebating investigations and findings;
- Share specialized tools that assist in the identification of potential rebating (such as those developed from RMA’s data mining capability);
- Share information with affected States regarding RMA’s understanding of the operation of complex schemes designed to circumvent rebating prohibitions;
- Take appropriate actions when violators of the respective laws are identified; and
- Inform the affected State of the assessment of penalties or sanctions to a rebating violator.

Conflict of Interest Disclosure Guidance – On January 7, Conflict of Interest Disclosure Guidance was issued to the industry as Managers Bulletin MGR-08-001. To develop this guidance, RMA conducted a “Vulnerabilities Analysis” to determine which conflict of interest situations posed the

greatest potential threats to program integrity. Also, RMA sought extensive input from the industry and government oversight bodies. Many alternatives were considered as to how to sufficiently address RMA and oversight concerns regarding the potential for fraud and abuse related to conflict of interest while still ensuring that the disclosure process is not administratively burdensome. MGR-08-001 is the result of this extensive development effort. It requires that company employees, agents, and loss adjusters respond to 11 questions concerning their relationships with policyholders to identify where reportable conflicts of interest situations exist. It also includes a table that identifies which conflict of interest situations reported through answers to the disclosure questions: (a) are specifically prohibited by the Standard Reinsurance Agreement; (b) require a mandatory review; or (c) require further evaluation by the company to determine whether a conflict of interest review should be conducted. MGR-08-001 is expected to establish a workable process for disclosure that will address RMA and Office of Inspector General concerns regarding conflict of interest and potential program abuse.

Company Profitability and the Farm Bill - In the development of the new Farm Bill, Congress has been keenly interested in the subject of crop insurance company profitability. During House Ag hearings this summer, the Government Accounting Office (GAO) and Dr. Art Barnaby, from Kansas State University, each made presentations regarding company profitability. There was a significant difference in the conclusions drawn from the two analyses. Since then, Congressional staff has been examining this issue in significant detail to gain a better understanding of the profitability of the crop insurance industry in comparison to other lines of insurance including the methodologies used by various analysts to measure insurance company profitability. RMA has been providing the Congressional staff with substantial information on the crop insurance program, various measurements of historical profitability, and critiques of the methodology used in certain analyses. From the profitability information and opinions it has received from a broad range of sources, Congress is considering a number of Farm Bill provisions that would affect the financial terms of the Standard Reinsurance Agreement.

AIP requirement to sign non-disclosure statement before gaining access to Comprehensive Information Management System (CIMS) - It is anticipated CIMS will be available for AIP use later this spring. In order to gain access to CIMS information, an AIP and its agents and loss adjusters will be required to sign a Non-disclosure statement certifying that they will use all personally identifiable information they collect only for the designated purposes and will ensure that all data is kept confidential. This is required under the Privacy Act to protect the personally identifiable information contained in the CIMS system. RMA expects to issue a Managers Bulletin that will establish this requirement and provide appropriate guidance for AIPs concerning their compliance with the non-disclosure requirement.

Privacy Act Notice to Agents and Loss Adjusters - The Government Accountability Office (GAO) recently reviewed RMA's compliance with the Privacy Act while performing a review of Federal data mining efforts. One facet of the GAO review was to ascertain whether all crop insurance program participants were receiving proper Privacy Act notification. The purpose of Privacy Act notification is to make all program participants aware of who will have access to any personally identifiable information they provide and how that information will be used. It was determined that RMA currently has sufficient Privacy Act guidance as it relates to producers. GAO's review, however, determined that RMA had not issued guidance to AIPs on ensuring that agents and loss adjuster

receive proper Privacy Act notification for information they might provide. Therefore, RMA has been directed to issue Privacy Act notification guidance to AIPs for agents and loss adjusters. RMA is developing two separate Privacy Act statements, which AIPs will be required to provide to its agents and loss adjusters, respectively. An upcoming Managers Bulletin will explain the requirement, provide the required Privacy Act statements, and provide guidance regarding AIP compliance with the requirement.

Pilot Programs

Group Risk Plan (GRP) Rangeland – A contract for an evaluation of the GRP Rangeland Pilot Program has been awarded to Agrilogic. A kick-off meeting was held to initiate the project on January 23, 2008. The evaluation is currently scheduled to be completed in 2008 Fiscal Year. On a separate note, RMA has received 40 appeals to the National Appeals Division regarding the payment yields issued by RMA for the 2006 crop year.

Quarantine Endorsement – A contract to develop program materials for a quarantine endorsement was awarded to Watts and Associates on December 20, 2007. The program materials are being developed for the California Citrus Dollar and California Avocado programs initially.

GRP NAD Appeals - RMA has received 18 appeals to the National Appeals Division regarding final county yields and payment yields issued for Group Risk and Group Risk Income Protection programs for cotton, corn, and wheat. At issue in all cases is RMA's authority to change either final payment yield or final county yield. One appeal was withdrawn, all others remain in process.

Compliance:

Ongoing Investigations/Audits/Sanctions Update – On December 21, 2007, the Department of Justice (DOJ) filed Criminal Information documents against six North Carolina tobacco producers in expectation of future plea agreements. The Criminal Information against the six cites their participation in activities designed to defraud the Federal Crop Insurance Corporation and their insurance companies by hiding tobacco production and selling it under another person's identity. RMA anticipates that these are the first of many actions against a large number of tobacco producers and others who were involved in creating insurance losses by shifting tobacco production to other entities. This case has also resulted in the suspension of an agent and a loss adjuster based on evidence previously provided by DOJ. RMA has identified the shifting of tobacco production between optional units and entities as a significant vulnerability to the crop insurance program.

National Program Operations Reviews (NPOR) – Compliance continues to work on wrapping up the 2006 NPOR policy reviews and reports and prepare for the 2007 reviews. Compliance has previously announced the NPOR's for 2007 as follows:

RO code	AIP Name	Compliance Office
AB	ARMtech Insurance Services	WRCO - Davis, CA
AU	CGB Diversified Services	MRCO – Indianapolis, IN
EF	Rural Community Insurance Services	ERCO – Raleigh, NC
GA	Great American Insurance Company	SRCO – Dallas, TX
NA	NAU Country Insurance Company	NRCO – Minneapolis, MN
PL	Producers Agriculture Insurance Company	CRCO – Kansas City, MO

Compliance continues to monitor findings from last year’s NPORs and one Approved Insurance Provider’s progress in resolving internal control and other organizational issues. Compliance is working closely with Reinsurance Services Division to validate this provider’s corrective actions.

By completing the 2006 reports, RMA will finalize the three-year Improper Payments review cycle. This will provide RMA with the first full program error rate since it began the NPOR process. Due to some unanticipated corrective actions, RMA expects to report the final 3-year program error rate sometime in February 2008.

Update GAO Report on Fraud, Waste, and Abuse – This audit provided recommendations to RMA as to how we could improve compliance efforts. RMA agreed in principle with most of the GAO recommendations and agreed to proceed on the following items:

- 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. Farm Service Agency has stated that without additional resources, it will be unable to perform 100 percent of the designated growing season inspections.

Status - Complete

- 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 in the future.

Status – Overdue.

- Finalizing a quality control program for the AIPs intended to help RMA assess the effectiveness of the quality controls used by the AIPs. In addition, RMA Compliance will

continue to test AIP quality control programs during scheduled national operations reviews.

Status – In Progress.

- On April 30, 2007, companies were required to have all their quality control inspections electronically submitted to RMA on “Type 57” records. In the initial review of the data, Compliance identified processing errors that appear to have corrupted some of the data and we are continuing the testing of the data. RMA continues to work on this issue.
- 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.
- The proposed rule to amend the *General Administrative Regulations, Administrative Remedies for Non-Compliance* provisions published in the Federal Register on May 18, 2007, with the comment period ending on June 18, 2007. Compliance has reviewed the comments to the proposed regulation and forwarded the final rule to OGC for clearance. RMA received 17 comments within the comment period. The proposed rule and the comments received are now available online at www.regulations.gov under the Federal Crop Insurance Corporation.

Staffing and Resources – Due to a number of unanticipated retirements in the Compliance Regional Offices, overall Compliance personnel numbers could be short by as many as 12 staff positions by the end of March 2008. Compliance is seeking candidates through routine and alternative-hiring venues, such as the career and summer intern programs in to order to fill these vacancies as quickly as possible.

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