



United States
Department of
Agriculture

Federal Crop
Insurance
Corporation

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TO: Board of Directors

August 22, 2001

FROM: Phyllis W. Honor /s/ *Phyllis W. Honor*
Acting Manager

SUBJECT: Board Memorandum No. 622
Combination Acting Manager's/Deputy Manager's Report

This memorandum serves as a combination Manager's and Deputy Manager's report to the Board of Directors (Board), Federal Crop Insurance Corporation (FCIC), for the August 22, 2001, meeting. This is an abbreviated report that only covers some of the more important program and administrative issues as outlined below:

1. **Summary of Business 2000/2001 (as of 08/12/01)**

1. **Summary of Business, 2000:** The 2000 book of business and program participation numbers are complete at this time with only late and corrected claims continuing to create minor changes in the crop year statistics. To date, nearly \$34.3 billion dollars in liability have been reported on more than 205 million acres of crop land representing 1,319,167 crop policies. Indemnities in the amount of nearly \$2.54 billion have been paid out to date. Acreage insured under additional coverage policies increased by about 14 million acres between 1999 and 2000, while catastrophic risk protection insurance (CAT) acres decreased by about 4.6 million acres. The 2000 liability represents an increase of more than ten percent from 1999.
- b. **Summary of Business, 2001:** The bulk of program acreage reports have been filed and liability should remain fairly static for the remainder of the year. As expected, new premium subsidies assisted producers in obtaining higher levels of coverage this year. The current Summary Report for 2001 indicates that 1,081,064 crop policies have reported premium covering almost 172.5 million acres. Liability is over \$30.3 billion and over \$459 million has been paid out for 2001 crop losses to date.
- c. **Current Loss Assessment:** The Risk Management Agency (RMA) is maintaining a strategy of monitoring loss situations closely as they develop to ensure uniformity between insurance providers and equal treatment of policyholders. This strategy includes a continuing emphasis on all parties to the crop insurance program of the need to assess requests for policy and procedural changes for their impact on the larger program issues including funding, actuarial soundness, simplification, and the contractual obligations between FCIC, insurance providers, and producers.

The National Summary of Business Report for August 12, 2001 is attached.

2. Program Issues

Agricultural Risk Protection Act (ARPA) Fiscal Year 2001 Status: The budget authority for the ARPA implementation in FY 2001 is \$67,500,000 which includes the transfer of \$5,000,000 to Cooperative State Research, Education, and Extension Service (CSREES). Because of uncertainty regarding obligation of funds under sections 131 and 132, this report does not contain information on status of funds. There is a very large volume of contracts and agreements currently being processed for approval and obligation which causes frequent changes in fund balances. Funds available are considered to be sufficient to cover anticipated needs. The staff has been working very hard to implement our new expanded responsibilities. A detailed report on obligations will be provided in October after the end of the fiscal year.

- a. **Section 121 Program Compliance and Integrity:** RMA is charged with implementing section 121 of ARPA. RMA Risk Compliance has been working closely with the FSA on five implementation teams. Each team is implementing a section of the legislation. The areas the teams are addressing are: Consultation with FSA State Committees, Training of FSA personnel, Claims Audit, Fraud Referrals and Data Reconciliation. The

teams focused their work on developing internal communications and procedures for the two agencies to work together at the field level. The two agencies developed a Coordinated Plan for Implementation signed by Secretary Glickman on January 12, 2001, as required by ARPA.

The teams have continued to direct their efforts toward the activities identified in the Coordinated Plan. FSA personnel have been trained, a procedural handbook has been issued and the reconciliation of RMA and FSA data is in process. RMA 2000 crop year indemnity information was compared to FSA disaster payment information and the results were referred to RMA Regional Compliance offices. This resulted in 1,220 referrals of which 557 have been resolved and 267 have been referred to insurance companies for follow up. The Data Reconciliation Team is in the process of preparing for the reconciliation of 2001 crop year information and they have developed a proposal for the 2002 crop year.

Funds provided under this section have been used to cover the costs of a cooperative agreement for data mining, system configuration for data reconciliation and training of FSA personnel. A detailed report on the accomplishments of the teams and results will be provided in October after the end of the fiscal year.

- b. **Section 131 a. Reimbursements for Research:** Before funds can be disbursed, this section requires a regulation describing the process and requirements for reimbursement of costs for products or plans of insurance approved by the Board under section 508(h). Recently passed legislation authorized the RMA to use an expedited rule-making process to issue the regulation as an interim final rule. The Submission of Policies, Provisions of Policies and Rates of Premium Regulation (7 CFR part 400, subpart V) was published in the Federal Register and comments were incorporated into that rule. The interim final rule regulation has cleared the Department and is currently pending clearance by the Office of Management and Budget. Once the regulation is final, reimbursements will be contingent upon submitting companies making requests for reimbursement and then subsequently receiving approval from the FCIC Board. RMA has drafted internal procedures for obligating funds. We will provide a detailed report on total reimbursement costs in October after the end of the fiscal year.

Section 131 b. Contracting and Partnership Expenditures for Fiscal Year 2001 -R&D/Risk Management Education Contracting and

Partnerships Funds provided under this section have been used to enter into partnerships to provide training to producers on risk management tools and for contracts for program research, development, and evaluation. We will provide a detailed list of partnerships and contracts in October after the end of the fiscal year.

- c. **Section 132 Pilot Programs: Livestock Programs:** Funds provided under this section are to be used to cover the cost of new risk management programs for livestock. RMA has two proposals currently under consideration; however, they have not reached the stage where funds can be obligated.
- d. **Section 133 Risk Management Education and Risk Management Assistance:** Funds under this section have been used by RMA to establish a crop insurance education and information program in 15 underserved states designated by the Secretary. RMA has established a cooperative agreement with one state to provide risk management education programs and training for producers in that state. RMA is currently working on cooperative agreements with several other states. A detailed report will be provided in October after the end of the fiscal year.
- e. **Section 142 Policy Consideration and Implementation:** Funds under this section cover the costs of independent reviews of proposals submitted to the Board and certain implementation costs. The Board has been very active and a number of proposals have been referred for independent review. Some proposals have been reviewed twice due to the complexity of the product and changes required as a result of the concerns raised by reviewers and the Board. Several proposals are currently under going review. A detailed report on results and costs will be provided in October after the end of the fiscal year.
- f. **Section 225 Livestock and Poultry Waste:** RMA has awarded a cooperative agreement to study livestock and poultry handling and storage systems and to identify existing market-oriented mechanisms that may be applied to assist producers to better manage the handling and storage of animal waste and mitigate environmental damages caused by system failures. We are also working on an agreement to study other avenues to address the problem.

3. **Administrative Issues**

- a. **Status of Fiscal Year 2001 Funding - Administrative and Operating**

Expenses: Fiscal Year 2001 Status of Funds Report: RMA's fiscal year 2001 budget authority is \$65,561,447. These funds cover the Agency's administrative and operating expenses such as salaries, benefits, travel, training, office supplies, equipment, etc. This fiscal year \$41.1 million was allocated for payroll and related costs and the remaining \$24.5 million was allocated to over all other costs.

As of August 21, 2001, RMA had obligations and commitments that totaled over \$55 million dollars which is 85 percent of the budget authority. The obligation rate for salaries and benefits is in line with the percentage of the fiscal year expired. For all other expenses, the obligation rate is about 50 percent.

We anticipate that about \$500,000 will be available for allocation to cost centers to cover unfunded requests. These funds are available because of vacant political appointee positions, internally filling some vacant positions and the lengthy and time consuming recruitment process which leaves positions vacant for long periods of time. These funds will be used to cover a variety of expenses such as travel, training, A-76 training, equipment and supplies. A final report on fiscal year activity will be provided in October 2001 after the end of the fiscal year.

- b. **Upcoming Industry Meeting:** We are currently planning to have a meeting with the insurance industry the week of September 17, 2001, in Kansas City. The meeting will serve as an update on the activities that have taken place since our last meeting in January 2001. FSA will participate in the meeting.
- c. **Office of Management and Budget (OMB) Circular A-76 Data Call Update:** The "Federal Activities Inventory Report Act of 1998," P.L.105-270 (the FAIR Act), requires Federal agencies to prepare and submit to OMB, by June 30 of each year, inventories of their commercial activities performed by Federal employees. OMB has also requested that agencies submit with their FAIR Act inventories, a separate report that lists the agency's inherently governmental positions. We have submitted our report as required and the senior staff attended a one-day training session on the overall process for implementing the requirements of A-76. OMB has identified FTE percentages for agencies that are subject to outsourcing in FY 2002 and FY 2003. We are in the process of developing an agency strategy for addressing the requirements.

Acting Manager's Report

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Attachment