



**United States
Department of
Agriculture**

Federal Crop
Insurance
Corporation

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DATE: January 18, 2006

TO: Board of Directors
Federal Crop Insurance Corporation

FROM: Eldon Gould /signed/
Manager

SUBJECT: Manager's Report
Exhibit No. 2831

This memorandum serves as the Manager's Report to the Board of Directors (Board), Federal Crop Insurance Corporation (FCIC), for the January 18, 2006 meeting. The report relates to program issues as outlined below:

Program Issues:

Missouri River/Pallid Sturgeon Issue – The U.S. Army Corps of Engineers has scheduled two spring pulses from the Gavins Point Dam in an effort to mimic the natural river rise and encourage spawning of the endangered pallid sturgeon. The area involved is the Missouri River flood plain from Omaha, NE (in the north) to St. Louis, MO to the south and east. There would be two "pulses" or spring rises in the river level. The pulses would be accomplished by letting water out of Gavins Point Dam located on the Nebraska and South Dakota border.

The first pulse is projected to occur in March 2006, and may have little impact on RMA. No spring crops would be planted. There is very little winter wheat planted for harvest in the Missouri River bottom, and what little there is, almost none is insured. The second pulse, projected to occur in May 2006, could impact spring planted crops that will have just been planted, will be in the process of being planted, or will possibly be prevented from being planted. The primary crops that could be impacted by these pulses are corn and soybeans.

Of most concern is the possibility that these pulses might occur during very high river levels, at or near flood stage, or that large storms occur after the release. In this situation, these small pulses could be just enough to cause flooding and/or ponding problems by closing off flood gates and internal drainage through the levees. Or, the pulses could contribute to even greater flooding problems. In that case, it becomes difficult to determine how much of a loss could be attributed to actual flooding and how much was induced by release of water from Gavins Point Dam.

According to data obtained at the November public meetings hosted by the Corps of

Engineers, the spring pulse would raise the river level at Nebraska City, NE by 1.5 feet. This same rise would raise the river level at Kansas City by 0.7 feet. To put this in perspective, the flood stage at Nebraska City is 18 feet. As of January 11, 2006, the current gauge reading is just under the six foot mark. Another example is in Boonville, MO, which is further east of Kansas City. The rise there would be less than 0.7 feet. The flood stage for the city is 21 feet. The current water level is at the 4.13 foot mark.

According to the Project Engineer, neither pulse will occur unless the reading on the first day of each month (March and May 2006) is at 36.5 million acre feet (MAF) of combined storage in the six storage reservoirs in the Missouri River Mainstem Storage System. The six reservoirs in that region include: Fort Peck, Garrison, Oahe, Big Bend, Fort Randall and Gavins Point. Currently, the combined storage is 36 MAF, which is down .3 MAF since November 15, 2005.

Based on current conditions, these minor pulses would have very little bearing on flooding in the Missouri River bottom. Impacts of the March pulse on insured crops should be negligible. In addition, the impacts of the May pulse should be small for 2006. There are all-time low storage levels in the upper main stem reservoirs and near all-time low stream flows currently in the lower Missouri River. Overall, raising the river levels to the point projected should not have an impact on insured crops beyond that of normal losses. The Corps of Engineers previously performed navigational releases to supplement low river levels that had no effect on crop insurance.

Mitigating Declining Yields Update – There are two separate development contracts underway on solutions to declining Actual Production History (APH) yields due to successive years of crop losses. In November and December of 2005, Science Applications International Corporation (SAIC) and AgriLogic, Inc. presented to RMA an overview of their research and development efforts so far.

SAIC, which is developing an indexed yield program, completed the development of long-term yield trends and premium rates in December for corn. Similar work for soybeans, cotton, and wheat will soon be completed. Approximately nine states are being proposed for the initial pilot program for corn, soybeans and cotton.

AgriLogic is developing alternatives to the current APH yield measures (yield floor and yield plug) for annual crops and analyzing applicability for perennial crops. The feasibility study is targeted to encompass the states of Kansas, Nebraska, Ohio and Washington. Currently, listening sessions are scheduled for late winter or early spring with producers, agents and companies in the four targeted states.

Pasture/Rangeland and Forage Update – RMA's four contracts for research and development of new and potentially innovative crop insurance programs for pasture, rangeland and forage continue to progress in various stages. At the August 2005 FCIC Board meeting, two proposals were approved for independent expert review. RMA and Grazingland Management Systems, Inc. prepared responses to the independent expert reviewers for the Board's consideration. If approved by the Board, the pilot program could begin in late 2006, providing that all final program materials, educational efforts and processing systems development are completed in advance of the initial sales closing date. The Agency continues to work with the contractors on the remaining two contracts. One additional contract is estimated to come before the Board within the next 2-3 months for consideration of independent expert review.

Livestock Program Evaluation Contract Awarded – On December 23, 2005, the livestock evaluation contract was awarded to Watts and Associates. The evaluation will be completed in approximately six months. 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.

Regulatory Update:

Combination Regulation – On December 15, 2005, the proposed rule was approved by the RMA Administrator and has been forwarded for Departmental review and approval. 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. The Final Rule is targeted to be effective for the 2008 crop year.

Fiscal Year (FY) 2004 Agreement Close-Out – The Risk Management Education Division (RMED) staff is reviewing final project reports from partners. The close-out process has begun for the FY 2004 agreements, which ended September 30, 2005.

FY 2005 Agreements – First quarter progress reports are being reviewed and quarterly progress conference calls are being conducted with the respective regional office, partners and RMED staff.

FFA Risk Management Writing Contest – The RMA-sponsored FFA Risk Management Writing Contest was kicked off at the National Convention in the Fall of 2005. The deadline for essay submissions is January 31, 2006. A panel of reviewers will be assembled to review the top 30 essays around mid-February 2006. The top 10 winners will be recognized by RMA this May at an event in their honor.

FY 2006 Request For Applications (RFA) – The FY 2006 RFA announcements for Targeted States, Commodity Partnerships and Commodity Partnerships Small Sessions are in the final draft stage. RMED anticipates the announcements to be published in the Federal Register by mid February, pending receipt of clarifications from Office of the General Council (OGC) General Law Division. In addition, RMED will post the funding opportunities on *grants.gov*. The applicants will be able to apply electronically for the first time..

Program Highlights/Announcements:

Conflict of Interest Disclosure – Reinsurance Services Division (RSD) is preparing draft guidance to approved insurance providers regarding the disclosure of conflict of interest information by employees, agents and loss adjusters. The draft will be circulated to the Office of Inspector General, insurance providers and agent associations for comment before issuing the final version.

Mergers of Approved Insurance Providers – Late last year, Great American purchased Farmers Crop Insurance Alliance, which is the Managing General Agent for Farmers Alliance Mutual Insurance Company. Farmers Alliance will continue to operate as a policy issuing company for Great American until all policies are transferred to Great American. In a separate development, Farm Bureau Mutual

Insurance Company announced its intention to buy Crop1 Insurance Direct, the Managing General Agent for Occidental Fire and Casualty Insurance Company. RSD is working with all of these companies to ensure compliance with all Federal regulations and that all FCIC policyholders affected by these transactions will continue to receive proper service.

Texas and Oklahoma Drought – The extreme fire danger in this region is a concern to all rural and urban residents and will be until there is a break in the continuing drought. Several areas are short of rainfall for the past six months. The drought continues to spread while the fire danger risk increases. All outdoor burning and activities (welding, fireworks, etc.) that may cause a fire are banned until further notice.

The extreme drought is having an effect on the winter wheat, with some producers already turning in claims. If the drought continues, prevented planting will be a big issue in the region.

During some of the wildfires, some cotton modules were burned. Producers would like to have this production to count toward their approved APH yields. The Research and Development (R&D) Division is looking at this issue, and RMA believes there needs to be a way to count this production toward the APH.

Compliance:

General Accountability Office (GAO) Report on Waste, Fraud, and Abuse – The draft *Statement of Action* for this report has received RMA, Farm Service Agency (FSA) and OGC approval, and has been sent for review to the Office of Budget and Program Analysis. 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 flatly 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 the Trivalent project that is intended to help RMA assess the quality controls used by the companies. 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.

Compliance in the News – Since the airing of the National Public Radio (NPR) series on the Agency's fraud, waste and abuse program last November, RMA Compliance and the work of the Strategic Data Acquisition and Analysis staff has garnered favorable press reports. A few stories have been written about various program violation investigations that were assisted by data mining and satellite imaging and the use of these tools in general to assist with program compliance. Most recent was a January 10, 2006 Associated Press story about how USDA uses satellite images to monitor farming operations. (Attached)

National Operations Reviews (NOR) – RMA Compliance is in the process of completing NOR reports on four insurance providers for 2005. These providers include Great American, Hartford, NAU Country and Rural Community. The Kansas City Compliance Office issued a NOR report on Farm Bureau Mutual Insurance Company on August 29, 2005. RMA has committed to reviewing all approved insurance providers once every three years. These reviews assess insurance providers' adherence to the Standard Reinsurance Agreement (SRA), quality control guidelines and RMA's approved policies and procedures. RMA conducts random policy reviews during the NOR in order to report an error rate to the Office of Management and Budget (OMB) under the requirements of the Improper Payments Act. In addition, the Agency has reported an error rate for 2004 using the random contract reviews required under Manual 14. Compliance has been conducting these reviews using draft procedures. With an eye toward completing the first round of reviews for 2005, RMA anticipates that it will be able to finalize the NOR procedures before the end of the year.

Annual Report to Congress – The *2003 Crop Year Compliance Annual Report to Congress* is at the USDA graphics department for final typesetting. Then, the final report will make one last round for review, concurrence and the Secretary's signature. The report shows a continuing trend to identify and control fraud, waste 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 – At the request of the U.S. Attorney in charge of the civil side of this case, RMA Compliance staff agreed to meet on January 11, 2006 with producers adversely impacted by this investigation, to show them the evidence used to determine that their individual APH yields were incorrect. RMA previously sent letters to the companies indicating actions required to maintain reinsurance on these and other affected policies. 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. The Agency made or is making certain changes to the data acceptance system to accommodate the required APH adjustments. Overall, RMA continues to be optimistic about a reasonable conclusion to the civil litigation in the near future.

RMA continues to assist the Office of the Inspector General (OIG) in a criminal/civil investigation of the Wentworth Agricultural Insurance Agency. The OIG initiated the investigation based on RMA reviews that identified the appearance of fraud, waste and abuse in the crop insurance policies serviced by Wentworth. The central issue surrounds allegations that APH databases had been falsified over a

number of years to increase producers' indemnities. The U.S. Attorney's office and OIG continue to review the evidence for this case with RMA and the impacted AIPs assisting to resolve this matter.

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