



**United States
Department of
Agriculture**

Federal Crop
Insurance
Corporation

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DATE: July 26, 2007

TO: Board of Directors
Federal Crop Insurance Corporation

FROM: Eldon Gould /signed/
Manager

SUBJECT: Manager's Report
Exhibit No. 2906

This memorandum serves as the Manager's Report to the Board of Directors (Board), Federal Crop Insurance Corporation (FCIC), for the July 26, 2007 meeting. The report relates to program issues as outlined below:

Program Issues:

Sweet Potato Pilot Monitoring Report – On July 12, the Sweet Potato Pilot Annual Monitoring report was received from Watts and Associates. Currently, RMA is reviewing the report's recommendations to make any necessary program changes for the 2008 crop year.

Group Risk Protection (GRP) Rangeland Pilot Program – Producers in Montana have expressed concern over the USDA's National Agricultural Statistics Service (NASS) data that formed the basis for 2006 payment triggers for the GRP Rangeland Pilot Program. NASS has reiterated that the data used was correct, but expressed their intention to collect more information for the 2007 crop year to address producer concerns. RMA is currently in the process of initiating a program evaluation for GRP Rangeland. Results of the evaluation will be considered for the 2009 crop year.

Regulatory Update:

Combination Regulation Update – The Product Administration and Standards Division (PASD) in conjunction with Office of General Counsel (OGC) has completed their review of the final rule. PASD has resolved concerns from the initial review and received OGC's final approval, and is now moving forward for USDA review. The final rule is to be effective for the 2009 crop year.

Mustard Crop Provisions – The final rule for mustard crop provisions is in PASD's concurrence process. The mustard pilot crop insurance program would become a permanent program. The final rule is targeted for the 2008 crop year.

Cabbage Crop Provisions – The proposed rule comment period ended and PASD is in the final rule process of responding to the public comments. The final rule would convert 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 – The proposed rule cleared Product Management's (PM) concurrence process. The proposed will be forwarded to OGC for review and approval. The final rule is targeted for the 2009 crop year.

Fresh Market Sweet Corn – PASD is working with OGC to resolve their issues with the final rule. The final rule is targeted for the 2008 crop year for counties with a November 30, 2007 contract change date.

Northern Potato Crop Provisions and the Central and Southern Potato Crop Provisions – The final rule cleared PM's concurrence process and is being forwarded to OGC for review and approval. The rule makes changes to the Storage Coverage Endorsement and the process for determining production to count for claim purposes intended to improve program integrity and address audit recommendations. The final rule is targeted for the 2008 crop year for the Northern Potato Crop Provisions and the 2009 crop year for the Central and Southern Potato Crop Provisions.

Millet Crop Provisions – PASD is working with OGC to incorporate their edits into the final rule. The final rule removes the indemnity reductions for unharvested acreage that has caused producer concern for several years. The final rule is targeted for the 2008 crop year.

Florida Citrus Fruit – On November 27, 2006, the public comment period for the proposed rule for Florida Citrus Fruit ended. The proposed rule clarifies insurable citrus crops and provides coverage for wind damage on fresh fruit when in conjunction with a hurricane or tornado. Due to issues raised by public comments to the proposed rule, RMA conducted additional analysis. However, the final rule is in PASD's concurrence process. The final rule is targeted for the 2009 crop year.

Coverage Enhancement Option (CEO) – On June 6, 2007, the proposed rule was published in the *Federal Register*, which would convert the pilot program to a permanent program option. The final rule is targeted for the 2009 crop year. On a side note, CEO is only offered in Texas for citrus trees.

Cultivated Wild Rice – On June 6, 2007, the proposed rule published in the *Federal Register*, which would convert the cultivated wild rice program from a pilot program to a permanent program. The final rule is targeted for the 2009 crop year.

Contracted Tobacco – On June 23, 2007, the proposed rule public comment period ended for Contracted Tobacco. The proposed rule rewrites and renames the current Guaranteed Tobacco Crop Provisions to the Contracted Tobacco Crop Provisions reflecting the elimination of tobacco quotas. In addition, the proposed rule eliminates the Quota Tobacco Crop Provisions. The final rule is targeted for the 2009 crop year.

Dry Pea – Currently, The proposed rule is in PM's concurrence process. The proposed rule provides coverage for fall planted dry peas and allows insureds to select different coverage levels and price

election percentages by dry pea type.

Program Highlights/Announcements:

Texas, Oklahoma, Kansas, and Missouri Flood Update - For the last couple of weeks, flooding has occurred in certain parts of Texas, Oklahoma, Kansas, and Missouri. The following are the major crops affected by the floods: 1) corn, 2) grain sorghum, 3) soybeans, 4) wheat, 5) oats, 6) pasture, rangeland, and forage, 7) cotton. As of right now, the total liability in the affected acres of the four states hit by the flooding is \$503.1 million.

RMA Administrator Speaks to Hispanic Group: On June 25, 2007, RMA Administrator spoke at the 2007 USDA E. (Kika) de la Garza Fellowship Orientation for the Hispanic Serving Institutions National Program in Washington, DC. At the event, the Administrator provided an agency briefing on crop insurance related issues.

RMA Associate Administrator to Speaks at Insurance Company Open House: On July 19, RMA Associate Administrator spoke at the NAU County Insurance Company Open House in Ramsey, MN. There, he addressed issues related to the agency's crop insurance program.

Wheat Yields Affected by Heat: In late May and early June, parts of Central and Eastern Washington, Northern Oregon, and Northern Idaho experienced a heat wave that is reportedly stressing this year's wheat crop. Temperatures climbed up to the mid-90's, which caught the wheat at the wrong stage of development. Damage done by the high temperatures is unknown at this time. However, this week's cool down has helped the wheat, especially at higher elevations. RMA continues to monitor the wheat situation.

RMA Participates in Aerial Tour of Flooded Areas of Eastern North Dakota: During the week of June 25, 2007, RMA participated in an aerial tour of flooded areas in eastern North Dakota [before emergency meetings] with impacted farmers from the counties of Milnor and Devils Lake. The North Dakota Department of Agriculture sponsored the aerial tour and meetings. The purpose of the aerial tour and meetings was to view the damage caused to crops by recent heavy rain and flooding in the eastern portion of state as well as hear concerns from farmers dealing with the impact to their crops. The tour included US Senators Byron Dorgan (D-ND) and Kent Conrad (D-ND) and Representative Pomeroy (D-ND) as well as Governor John Hoeven (R-ND). The RMA Billings Regional Office continues to monitor the heavy rainfall and flooding in the region.

Soybean Rust in Louisiana -As of June 29, 2007, Asian soybean rust (ASR) has been confirmed in soybeans in one sentinel plot in each of three Louisiana parishes. Also, ASR has been confirmed on kudzu in two other parishes. No confirmation of ASR on soybeans has been reported in these parishes and there has been no confirmation of ASR on soybeans outside of the three sentinel plots. However, there have been false rumors of ASR in other areas of Louisiana.

Swaths of West Feeling Parched - The Pacific Northwest from a drought and irrigation standpoint has gone from reasonable early in the season to not so reasonable currently. Oregon and Idaho particularly are enduring below average stream flows. In Oregon for example, the overall water

forecast for the irrigation season is about 40 percent below earlier projections. In addition, the snow melted about two to three weeks earlier than normal and irrigation started earlier. Also, dry and record heat conditions are starting to have an adverse affect on spring planted dryland crops across the region. Several fires have consumed thousands of acres of wheat and rangeland across the region. There is no rainfall or reprieve from the heat in sight even in the extended weather forecasts. RMA continues to monitor the situation in the affected areas.

Risk Management Education Division (RMED) Panels -

- 1) During the week of June 4, 2007, RMED held its review panel on potential awards in Raleigh, NC. RMED anticipates having all initial phone calls to potential awardees made by July 20. Negotiations with potential awardees will begin on the week of July 23. Given the budget timeframe for completion of all agreements, RMED anticipates having all agreements done and signed by potential awardees no later than August 29. RMED is looking to fund approximately 107 projects.
- 2) On May 18, 2007, RMED re-announced the funding opportunity for Maine Targeted State due to RMA not receiving complete and valid application packages for the State of Maine. Two applications were received under the re-announcement. On July 12, 2007, a review panel was held to evaluate the 2 applications.
- 3) On June 20, 2007, RMED re-announced the funding opportunity for Utah as a targeted state. One application has been received under the re-announcement and a review panel will be held later in July to evaluate the application.

Conflict of Interest Update – On May 14, 2007, RMA’s Reinsurance Services Division (RSD) circulated a third draft Manager’s Bulletin to provide guidance to AIP’s regarding *Conflict of Interest* disclosures by company employees, agents, and loss adjusters. The draft incorporated changes from comments submitted by the crop insurance industry from an earlier draft. Companies provided comments to the latest draft at a Program Integrity conference sponsored by National Crop Insurance Services held on May 22, 2007 in Overland Park, Kansas.

Coordination with National Association of Insurance Commissioners - Currently, RSD is coordinating several program issues with the National Association of Insurance Commissioners and these issues include rebating by cooperatives and loss adjuster licensing. These issues were discussed at a meeting of the Crop Insurance Working Group at the NAIC Spring Meeting in San Francisco, CA.

Evaluation of Plans of Operation - On June 29, 2007, RMA completed its annual Plan of Operations review process for companies requesting to write insurance for the 2008 reinsurance year (RY). For the 2008 RY, RMA approved 16 companies for a Standard Reinsurance Agreement (SRA) and 9 companies to write livestock insurance under the Livestock Price Reinsurance Agreement (LPRA). RSD determined that a company wishing to enter the program for the first time lacked the financial and operational resources to be approved for an SRA or LPRA. RSD concluded that four companies are eligible for the opportunity to offer the Premium Reduction Plan (PRP) for the 2008 RY.

Small Value Crops – Recently, Watts and Associates presented their final report on the feasibility of establishing a weather based insurance product for crops with market values below \$50 million dollars. RMA is proceeding with the development of the product.

Compliance:

National Program Operations Reviews (NPOR) – The Compliance staff continues to administer the findings and actions associated with last year’s NPORs, and are fully engaged in the field with the current NPOR’s reviewing 2006 policies and company operations.

From last year’s NPORs, one Approved Insurance Provider has significant issues to resolve resulting from the identification of internal control and other organizational issues. Compliance is working closely with Reinsurance Services Division to resolve the issues with the company.

For the current round of reviews, up to 75 percent of the Compliance staff reviewers will be in the field during July and August conducting interviews and reviewing 2006 claims on randomly selected policies. These policy reviews help assess the insurance providers’ adherence to the Standard Reinsurance Agreement (SRA), quality control guidelines and approved policies and procedures. RMA conducts random policy reviews during the NPOR to report an error rate to Office of Management and Budget Analysis (OMB) under the requirements of the Improper Payments Information Act of 2002. On May 25, 2007, RMA reported a 2-year program error rate of 2.68 percentage based upon the 600 randomly policy reviews conducted to date.

The Compliance offices are currently conducting the 2007 NPOR’s for the companies noted:

- Dallas – *John Deere*
- Davis – *Farmers Mutual Hail of Iowa*
- Indianapolis – *Agriserve*
- Kansas City – *Heartland*
- Raleigh – *Agro National*
- St. Paul – *Farm Bureau Mutual*

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 all 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 at some point in time.

Status – The Farm Service Agency did not add “Taxpayer Identification Number Data Mining by RMA” to its routine use listing under the Privacy Act as expected. Subsequently, until FSA completes this task, RMA cannot use FSA entity information to implement the GAO recommendation.

- 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 – RMA continues to work on this recommendation. 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. RMA is working to correct the problem and will ask the companies to resubmit their 2006 crop year review information when complete.

- 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.

Status – 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 is in the process of reviewing the comments to the proposed regulation. 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.

Ongoing Investigations/Audits/Sanctions Update –

- Compliance has agreed to work with OIG Audit to validate certain nursery policy findings in advance of the auditors issuing the ‘discussion draft’ audit. OIG has identified major discrepancies with certain policies that had claims associated with *Hurricane Katrina*. RMA is in the process of issuing additional oversight and control guidance to the companies for the 2007/2008 crop year because of OIG’s stated preliminary findings.
- Compliance Special Investigators have been working with the U.S. Attorneys in Texas and Oklahoma to recover funds from producers who claimed peanut crop insurance losses due to drought for the 2000 crop year and subsequently sued and received class action compensation from DOW Chemical for the same losses. Although the monetary recoveries have been limited, RMA hopes to notify to producers that these kinds of activities will not be tolerated.

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