



**United States  
Department of  
Agriculture**

Federal Crop  
Insurance  
Corporation

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DATE: June 25, 2008

TO: Board of Directors  
Federal Crop Insurance Corporation

FROM: Eldon Gould /signed/  
Manager

SUBJECT: Manager's Report  
Exhibit No. 2943

This memorandum serves as the Manager's Report to the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board), for the June 25, 2008, meeting. This report relates to program issues as outlined below:

**Program Issues:**

On June 2, 2008, RMA released the Livestock Gross Margin insurance for Dairy Cattle (LGM-Dairy) for the 2009 Livestock Reinsurance Year. The first sales closing date for LGM-Dairy is August 27, 2008. Currently, the LGM-Dairy policy and materials are available on the Risk Management Agency's (RMA) Web site.

The producers in the following States will be eligible for LGM-Dairy insurance: Arizona, Colorado, Connecticut, Delaware, Illinois, Indiana, Iowa, Kansas, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New York, North Dakota, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Dakota, Texas, Utah, Vermont, West Virginia, Wisconsin, and Wyoming.

**Regulatory Update:**

**Combination Regulation Update**

Publication of the final rule is on hold pending the resolution of certain issues within RMA's automation systems.

**Catastrophic Risk Protection (CAT) Endorsement Group Risk Plan Common Policy**

Because of the Food, Conservation, and Energy Act of 2008 (Farm Bill), the final rule for CAT administrative fees will increase producer premium payments from \$100 per crop per county to \$300 per crop per county. This change will take effect beginning with the 2009 crop year for crop insurance programs with a contract change date of June 30, 2008, or later.

### **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 and is targeted for the 2010 crop year.

### **Grape and Table Grape Crop Provisions**

On February 29, 2008, the Grape and Table Grape Crop Provisions proposed rule was published in the *Federal Register*. The public comment period for the proposed rule ended on April 29, 2008. The rule proposed several changes requested by grape producers and the grape industry and is targeted for the 2010 crop year.

### **Coverage Enhancement Option (CEO)**

Currently, the final rule is in Product Management's concurrence process. The final rule will convert the pilot program to a permanent program option. It is targeted for the 2009 crop year. CEO is only available for Texas citrus trees at this time.

### **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 in Product Management's concurrence and is targeted for the 2009 crop year.

### **Dry Peas**

On March 18, 2008, the proposed rule public comment period ended. The rule proposes to provide coverage for fall-planted, dry peas and allow those who are insured 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:**

#### **Midwest Flood Damage Update**

Currently, the Regional Offices are reporting flood and excess moisture damage in the states of Minnesota, Iowa, Illinois, Indiana, Ohio, Missouri, and Nebraska. The offices are working with the local media and attending grower meetings to discuss prevented planting, late planting options, and replant provisions of the policies.

#### **South Dakota**

South Dakota, like many parts of the Midwest, has experienced abnormally wet weather this spring planting season. As of June 8, an estimated 95 percent of corn and 79 percent of soybeans had been planted. During a typical year, 99 percent of corn would be planted and 87 percent of soybeans.

#### **California Water**

After the driest spring in more than 80 years, water districts are rationing water in order to provide minimum water supply to water users for June through August. The Central Valley Project (CVP) and

the State Water Project (SWP) are two water delivery systems in California that provide irrigation water to over 1.6 million acres of farmland. The U.S. Bureau of Reclamation's CVP provides water to agricultural land located south of the Delta along the west side of Central Valley in the counties of San Joaquin, Stanislaus, Merced, Fresno, Kings, Santa Clara, and San Benito. The California Department of Water Resources' SWP provides water to irrigated farmland. The majority of these acres are located in the San Joaquin Valley counties of Kern, Kings, and Tulare. Governor Schwarzenegger recently declared an emergency drought condition in the State to address water shortages. Both projects have announced reduced water allocation amounts. Prevented planting and production losses are anticipated to affect spring-planted and perennial crops.

### **Arkansas Wheat**

Arkansas' planted wheat acres have been forecasted at 970,000. 23,000 to 50,000 acres were destroyed due to spring flooding, which is less than originally estimated. Officials expect the yield for the remaining 840,000 acres to be estimated at 56 bushels/acre for harvest. The crop is maturing one to two weeks later than normal due to earlier, cool, wet weather. This will delay soybean planting on planned double crop acreage. As of June 10, approximately 23,000 acres of wheat had been indemnified due to all causes of loss.

### **Standard Reinsurance Agreement (SRA) and Livestock Price Reinsurance Agreement (LPRA) Mandatory Amendments**

RMA's Reinsurance Services Division (RSD) is issuing a Mandatory Amendment for both the SRA and LPRA. This amendment would revise the 2008 Agreements to implement the required changes in the Farm Bill. The changes would take effect beginning with the 2009 reinsurance year. The AIPs will be required to sign the Amendment prior to July 1, 2008, which is the beginning of the 2009 reinsurance year. RSD will also issue a Mandatory Amendment for the Corporation De Seguros Agricolas (CSA) Farm Insurance Corporation of Puerto Rico Agreement for the 2009 reinsurance year, which begins April 1, 2009.

### **Loss Adjuster Licensing**

On June 1, RMA met with the National Association of Insurance Commissioners (NAIC) Crop Insurance Working Group (CIWG). Both parties agreed there is a need for procedure changes to include crop-adjuster, proficiency tests for those states requiring crop adjusters to obtain a Property & Casualty license. The CIWG voted unanimously to coordinate with RMA to bring uniformity to multi-peril crop adjuster licensing across all states. RMA has drafted a proposed SRA amendment, currently under review, which will modify state-loss-adjuster, licensing requirements for crop insurance adjusters.

### **Premium Reduction Plans (PRP)**

The Farm Bill withdraws RMA's authority to administer PRP. Therefore, PRP will not be available for the 2009 and future reinsurance years, and was not available for the 2007 reinsurance year because of language in the 2006 appropriations bill. For the 2006 reinsurance year, eight companies requested eligibility to offer PRP. Companies had between February 17, 2007 and December 31, 2007 to request eligibility. One company was approved by RMA to pay a PRP discount for the 2006 reinsurance year. PRP is available for the 2008 reinsurance year. RMA determined that five companies were eligible to offer PRP for the 2008 reinsurance year.

### **Risk Management Services Update**

The Risk Management Services Division (RMSD) continues to work with the AIPs and the nursery industry to address program concerns noted in Large Claim Reviews and in the recent Office of the Inspector General audit on the Hurricane Indemnity Program. RMA and National Crop Insurance Services participated in a nursery-training program in Florida the week of June 9, 2008. RMSD and Valdosta RO representatives also visited the Florida Nursery Growers and Landscape Association (FNGLA) while in Florida. Ben Bolusky, FNGLA President, offered to sponsor a meeting with Florida nursery growers to address their questions regarding documentation required to support their Plant Inventory Value Reports.

### **2008 Risk Management Education Partnership and Cooperative Agreement**

The Risk Management Education Division (RMED) re-announced the Delaware Targeted States program due to not having an application score high enough to warrant being funded. The deadline for the submission was COB on June 12, 2008.

RMED is working on the notification and negotiation process for the Small Session and Targeted States programs. There are tentatively 34 small session projects and 15 Targeted States projects to be funded this year. Due to funding cuts in the new Farm Bill, under Section 522(d) of the Act, RMED will not fund any projects under the Commodity Partnerships for Risk Management Education Program for fiscal year 2008. RMED anticipates having all Small Session and Targeted States agreements ready for the Associate Administrator's signature no later than August 15, 2008.

### **Information Technology Update**

In December 2007, RMA suspended the development and implementation of the new business processing system, commonly referred to as eWA, due to funding constraints. The new Farm Bill has provided the funding to continue this effort. RMA is regenerating the project team, reorganizing the project, and bringing the plans into compliance with the new Farm Bill requirements. RMA expects to be fully staffed and to resume work on system requirements and design within the next few months. RMA has also begun to plan for stabilizing the existing systems so they will last for the duration of the reengineering effort.

### **Compliance:**

#### **Improper Payment Information Act Reporting**

In May, RMA reported its full 3-year improper payment estimate as 4.7 percent of indemnities paid. Errors on policies reviewed for the 2006 crop year increased to 7.1 percent, driving the overall numbers up compared to the results of the first 2 years. However, RMA noted in its report to the Department that the original estimate was 5 percent, so the actual 3-year observed-error-rate was within the estimate. This rate is significantly lower than error rates generally ascribed to the Property and Casualty Industry, which are generally between 10 and 20 percent.

## National Program Operations Reviews (NPOR)

RMA's Compliance offices have begun conducting entrance conferences with the AIPs who are scheduled for 2007 crop year NPORs.

<u>RO code</u>	<u>AIP Name</u>	<u>Compliance Office</u>
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

### **Update: General Accounting Office (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 recommendations and agreed to proceed on the following items:

- Adjusting the producer spot-check list procedures to permit the Farm Service Agency (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.
- Compliance has completed the distribution to each AIP of 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 their results.
- FSA did not add *Taxpayer Identification Number Data Mining by RMA* to its routine use listing under the Privacy Act. Until FSA completes this task, RMA cannot use FSA entity information to implement the GAO recommendation. FSA released the draft Notice to the Office of the General Counsel (OGC) for formal review and concurrence on February 22, 2008. However, the notice was delayed due to language inserted in the 2008 Farm Bill that restricts the distribution of producer information under the Freedom of Information Act.
- RMA Compliance continues to finalize 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.

- On April 30, 2007, the AIPs 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. Compliance continues to test the data.
- Compliance is finalizing the Agricultural Risk Protection Act of 2000-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 were published in the Federal Register on May 18, 2007. The comment period ended 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](http://www.regulations.gov) under the Federal Crop Insurance Corporation.

### **FSA Crop Disaster Program Referrals**

As of June 16, 2008, there were 5316 Crop Disaster Program referrals for the 2005 through 2007 crop years from all FSA offices. Approximately half of these referrals are due to reported entity discrepancies between FSA and RMA. Producers often structure their operations to maximize FSA benefits, but fail to amend their entity structure on their crop insurance policy. In some cases, this can result in policy avoidance. The tables below show a breakdown of referrals by Regional Compliance Office and State.

### **FSA Crop Disaster Program Referrals:**

**Table 1: Northern Regional Compliance Office CDP Activity**

<b>State</b>	<b>2005 CY</b>	<b>2006 CY</b>	<b>2007 CY</b>	<b>Total</b>	<b>To Be Entered</b>	<b>Grand Total</b>
Iowa	10	9	20	39	0	39
Minnesota	27	39	67	133	70	203
Montana	6	25	11	42	97	139
North Dakota	51	65	27	143	159	302
South Dakota	24	90	54	168	19	187
Wisconsin	36	56	65	157	74	231
Wyoming	1	0	1	2	0	2
<b>Total</b>	<b>155</b>	<b>284</b>	<b>245</b>	<b>684</b>	<b>401</b>	<b>1,103</b>

**Table 2: Eastern Regional Compliance Office CDP Activity**

<b>State</b>	<b>2005 CY</b>	<b>2006 CY</b>	<b>2007 CY</b>	<b>Total</b>
Alabama	2	46	9	57
Delaware	13	11	16	40
Florida	2	2	10	14
Georgia	3	7	2	12
Maine	39	19	6	64
Maryland	10	13	39	62
New York	21	52	70	143
North Carolina	24	31	55	110
Pennsylvania	276	148	216	640
South Carolina	4	1	3	8
Virginia	39	32	81	151
West Virginia	1	2	9	12
<b>Total</b>	<b>434</b>	<b>364</b>	<b>515</b>	<b>1313</b>

**Table 3: Southern Regional Compliance Office CDP Activity**

<b>State</b>	<b>2005 CY</b>	<b>2006 CY</b>	<b>2007 CY</b>	<b>Total</b>
Arkansas	7	5	7	19
Kentucky	18	8	41	67
Louisiana	1	2	0	3
Mississippi	2	24	10	36
New Mexico	0	0	1	1
Oklahoma	33	80	131	244
Tennessee	7	0	5	12
Texas	74	272	57	403
<b>Total</b>	<b>142</b>	<b>391</b>	<b>252</b>	<b>785</b>

**Table 4: Western Regional Compliance Office CDP Activity**

<b>State</b>	<b>2005 CY</b>	<b>2006 CY</b>	<b>2007 CY</b>	<b>Total</b>
California	18	26	54	98
Idaho	124	78	119	321
Nevada	1	0	0	1
Oregon	6	0	0	6
Utah	0	0	1	1
Washington	16	14	10	40
<b>Total</b>	<b>165</b>	<b>118</b>	<b>184</b>	<b>467</b>

**Table 5: Midwest Regional Compliance Office CDP Activity**

<b>State</b>	<b>2005 CY</b>	<b>2006 CY</b>	<b>2007 CY</b>	<b>Total</b>
Illinois	19	11	27	57
Indiana	86	34	64	184
Michigan	50	29	61	140
Ohio	70	7	40	117
<b>Total</b>	<b>225</b>	<b>81</b>	<b>192</b>	<b>498</b>

**Table 6: Central Regional Compliance Office CDP Activity**

<b>State</b>	<b>2005 CY</b>	<b>2006 CY</b>	<b>2007 CY</b>	<b>Total</b>
Colorado	5	6	1	12
Kansas	149	268	388	805
Missouri	80	41	124	245
Nebraska	28	37	23	88
<b>Total</b>	<b>262</b>	<b>352</b>	<b>536</b>	<b>1,150</b>

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