United States Department of Agriculture

Federal Crop Insurance Corporation

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TO: Board of Directors June 14, 2001

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

Minute Exhibit No 2036
Board Meeting of 6/14/01

SUBJECT: Board Memorandum No. 608
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 June 14, 2001, meeting. The report relates to both program and administrative issues as outlined below:

1. Summary of Business 2000/2001 (as of 06/11/01)

a. **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 1,320,412 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 4.8 million acres. The 2000 liability represents an increase of more than ten percent from 1999.

b. **Preliminary Summary of Business, 2001:** Although the bulk of spring acreage reports have yet to be filed, FCIC is expecting the new premium subsidy to assist producers in obtaining higher levels of coverage this year. The current Summary Report for 2001 indicates that 280,521 crop policies have reported premium covering almost 45 million acres. Liability is over $9.8 billion and over $124 million has been paid out for 2001 crop losses to date.

c. **Current Loss Assessment:** 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 June 11, 2001 is attached.

2. <u>Program Issues</u>:

Follow-up items from the March 29, 2001, Board Meeting

a. **<u>Update on Organic Farming Written Agreements</u>**: For the 2001 crop year, RMA authorized the use of written agreements to insure crops grown under organic farming production practices. This provision began for crops with a March 15, 2001, sales closing date. RMA Regional Offices received requests for the coverage of organic farming from 110 producers, covering a wide range of crops. Most of the requests came from the Midwest and Northern Plains.

RMA will contract with the Economic Research Service to conduct a study on organic farming. RMA is proceeding to make necessary regulatory changes by amending the Basic Provisions to the crop insurance policy.

b. **<u>Update on Crop Revenue Coverage – Durum Wheat</u>**: On April 20, 2001, Acceptance Insurance Companies submitted revisions to the Crop Revenue Coverage (CRC) for the 2002 crop year in accordance with section 508(h) of the Federal Crop Insurance Act. In this submission, one change is to remove the separate price discovery mechanism for durum wheat so that there will not be a separate price under the CRC policy for durum wheat for the 2002 and succeeding crop years.

Durum wheat was insurable under CRC in 15 North Dakota counties and by written agreement in adjoining counties for the 2000 and 2001 crop years. A key element in providing this coverage was the establishment of a base price. The CRC Commodity Exchange Endorsement - Wheat (CEEW) defined the base price for durum wheat as the February average daily settlement price for the harvest year's Minneapolis Grain Exchange (MGE) September durum wheat futures contract.

A minimum of 15 daily prices must be included in the average and each daily price must have a minimum of 25 open interest contracts. The MGE September durum wheat futures contract and the MGE July durum wheat futures contract for the 2001 crop year failed to fulfill the minimum requirements specified in the CEEW to establish a CRC base price for durum wheat. Since the minimum requirements were not met, no CRC base price for durum wheat could be determined for the 2001 crop year.

c. **Update on Southern Minnesota Sugar Beets:** On March 2, 2001, RMA issued Manager’s bulletin MGR-01-010 to address damage to sugar beet crops affected by drought, freeze, and other natural perils. RMA was notified in January that a freeze occurred on October 6 - 10, 2000, in southern Minnesota which included the counties of Big Stone, Brown, Chippewa, Kandyohi, Lac Qui Parle, McLeod, Meeker, Nicollet, Pope, Redwood, Renville, Sibley, Stearns, Stevens, Swift, and Yellow Medicine.

After harvesting, the sugar beets were delivered to a farmer-owned cooperative for processing. Samples of each load of sugar beets were cut and tested to determine whether damage had occurred. At the time the sugar beets were delivered to the cooperative, there was no visible freeze damage. The sugar beets were placed in piles, as customary, after being weighed and tested to await processing.

Unseasonably warm temperatures occurred in southern Minnesota after the freeze. According to USDA sugar beet experts, freezing and thawing of drought-stressed sugar beets causes accelerated tissue cell damage and sugar loss. Damaged tissues became susceptible to microorganisms that greatly increased the decomposition of sucrose, reducing sugar content levels or destroying the beets entirely.

Insurance providers were informed that sugar beet losses resulting from the freeze and thaw which occurred in southern Minnesota would be reinsurable. However, National Crop Insurance Services (NCIS), a trade organization that represents all approved insurance providers, as well as two approved insurance providers domiciled in Kansas, have filed suit in United States District Court in Kansas City seeking to be held harmless for the payment of any claims.

RMA has met with NCIS and the affected insurance providers in an effort to provide reasonable support to ensure that losses are paid in accordance with the terms of the policy and court precedence.

Certain insurance providers have also requested financial relief under the Standard Reinsurance Agreement. RMA has also met with the processor and producers to discuss their views on the losses that occurred.

A second bulletin, Manager's Bulletin MGR-01-010.1 dated June 4, 2001 (copy attached), was issued outlining certain factual information regarding the commingled sugar beet production.

In light of the pending lawsuit, RMA employees have been instructed by the Office of General Counsel not to discuss the matter outside of the Department.

d. **Statement of Work for Prevented Planting Study Update**: A Statement of Work was prepared and forwarded to the contracting officials the week of May 14, 2001, for solicitation of bids from parties interested in conducting this study.

New Program Issues after the March 29, 2001, Board Meeting

e. **Adjusted Gross Revenue (AGR) Pilot Program:** For 2001 a number of changes were made to the Adjusted Gross Revenue (AGR) pilot program. The program was expanded into six additional states and a significant number of counties. Expansion was based upon requests received by April 1, 2000, interest in an area, and whether sufficient data could be gathered for underwriting and rating. AGR is now available in 17 states and 214 counties. Preliminary reports as of May 15 indicate 554 policies have been sold for 2001. Farm data has been reported for 423 of these policies that indicate $152,156,295 of total liability and $6,900,691 total premium (prior to subsidy). Assuming four commodities per policy, this is equivalent to 2,216 individual crop policies. RMA has received a number of requests from Congressional offices, State Departments of Agriculture, and other interested parties for 2002 crop year expansion into areas serviced by four RMA regional offices. However, at this time RMA does not plan further expansion until the current program and recent changes can be evaluated.

f. **Upper Midwest Sunflower Quality Issues:** RMA has been informed that producers in North Dakota have filed suit against insurance providers because their sunflower crop insurance policies did not adequately cover quality discounts received for dark roast and sclerotinia affecting their 1999 crop. Producers did receive deep discounts from the elevators for sunflowers impacted by these conditions and the crop insurance policy only covered part of the associated losses.

Sclerotinia is a disease associated with a mold that causes the sunflower seeds to clump and can destroy and otherwise materially impact the quality of the sunflower kernel itself. Dark roast is a condition that is observed when the kernels are processed. Sclerotinia and other defects can cause the kernels to roast dark and hard making them unsuitable for human consumption and significantly reducing the value of the seeds.

In 1999 and 2000, confectionary sunflower production affected by sclerotinia and dark roast conditions resulted in significant financial losses for producers. However, such losses were not generally covered by the sunflower crop insurance provisions which at the time only provided quality adjustment for test weight and kernel damage. In most instances, the sclerotinia masses have been classified by official graders as foreign material because the clumping causes the mass to pass over a riddle used to separate large foreign material. Dark roast is not covered at all under the Crop Provisions as it is a contracted factor and is not included under the U.S. commodity standards for sunflowers.

The National Sunflower Association recommended, and RMA established, sclerotinia quality discount factors in the Crop Provisions effective for the 2001 crop year. These new factors are consistent with the discounts offered by the Farm Service Agency (FSA) for sunflowers placed under its loan program. Additionally, the Grain Inspection, Packers & Stockyards Administration has agreed to provide a sclerotinia factor on grade certificates issued under the Agricultural Marketing Act, which governs the processed commodity standards.

Dark roast testing and discounts have yet to be established for either FSA or RMA programs. RMA has committed to elected representatives and sunflower growers to continue to assess the possibility of offering a discount for dark roast in the future.

g. **<u>County and Crop Expansion and Actuarial Revisions, i.e.,</u>**

practices, types and varieties: The Agricultural Risk Protection Act of 2000 (ARPA) has had an impact on the manner in which the Corporation conducts its business in relation to county crop program expansion and making program changes to existing county crop programs. Section 505(e) of the Act requires the Board to establish procedures under which any policy or plan of insurance, as well as any related material or modification of such a policy or plan of insurance, to be offered shall be subject to independent review. The Office of General Counsel has opined that in situations where a policy or plan of insurance is expanded into a new county, even if the terms of the policy are unchanged, the actuarial and underwriting materials are new. Therefore, these changes must be subject to expert review. As a result, on April 13, 2001, RMA’s county expansion program was suspended beginning with the June 30 filings. The suspension will remain in effect until procedures have been put into effect to comply with the new requirements. Additionally, due to the increasing number of water and energy related issues that are impacting the crop insurance program, field authority to add irrigated or non-irrigated practice to an existing county program has been terminated for the remainder of the 2002 filing season. This will be covered in the new procedures for county crop expansion.

h. **Maryland Crop Insurance Subsidy Program**: A Memorandum of Understanding (MOU) has been entered into between the United States Department of Agriculture, FCIC, the State of Maryland, and approved insurance providers with respect to the implementation of the 2002 Maryland Crop Subsidy Program.

Governor Paris Glendening included $550,000 in his 2002 budget to assist Maryland agricultural producers in obtaining federally subsidized crop insurance for 2002 spring-planted crops. The Maryland Crop Insurance Subsidy Program was enacted by the Maryland General Assembly last year and signed into law by Governor Glendening authorizing payments for producers eligible to participate in the Federal Crop Insurance Program.

The state funds will be available to reduce premium costs up to $2 per acre. The actual amount of the state subsidy will depend on the number of Maryland producers who take advantage of the program. To be eligible, a Maryland producer must obtain a crop insurance policy through their local agent.

Maryland is a leader in ensuring that farmers have the tools they need to better manage their risk. This additional subsidy could provide the extra margin of support needed to convince under-insured or uninsured farmers to acquire a higher level of protection over what they would otherwise purchase.

Pennsylvania implemented a similar program subsidizing 10 percent of a producer's total premium, including administrative fees for crop years 2000 and 2001. Participation in Pennsylvania for crop year 2001 has increased 65 percent.

Recently, the State of Washington inquired about a Crop Insurance Assistance program to encourage their producers to obtain crop insurance or increase their coverage.

3. Administrative Issues:

a. **Telephone Calling Cards**: Telephone calling cards will be distributed to the private sector Board members at the June Board meeting. These cards are to be returned to the federal government via the Board Secretary when a private sector Board member no longer serves on the Board.

b. **FCIC 2000 Fiscal Year Financial Statements:** FCIC has prepared audited financial statements for over 15 years. The U.S. General Accounting Office audited or contracted for the audit until the Chief Financial Officers (CFO) Act of 1990. The CFO Act transferred responsibility for federal agency audits to the Office of Inspector General (OIG) of each agency. OIG has contracted with Big Five accounting firms to perform the audits of FCIC, including Arthur Anderson and KPMG Peat Marwick. KPMG has conducted the FCIC audit for the past 5 fiscal years. FCIC has received clean audit opinions for the past 11 fiscal years. Included in the annual financial statement report are a Management Discussion and Analysis (MD&A), Principal Statements, Notes to the Financial Statements, Required Supplementary Stewardship Information, and Required Supplementary Information.

The MD&A contains a narrative of FCIC's mission and organizational structure, and a discussion and analysis of the financial statements, systems, controls, legal compliance, and performance. The MD&A also includes a historical narrative about

FCIC and the impact of various legislation on it. It also includes a background on the crop insurance program and details the major activities of FCIC and its organizational structure.

The principal statements include the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing. FCIC's principal statements are prepared on a comparative basis, reporting financial information for fiscal year 2000 compared to fiscal year 1999. The Balance Sheet shows FCIC's financial position as of a specific time (i.e., as of September 30, 2000 and 1999). The Balance Sheet records FCIC's assets, liabilities, and net position. The Statement of Net Costs shows the components of FCIC's net operating costs for the reporting period. The Statement of Net Cost reports FCIC's total program costs less exchange revenue (producer paid premium and administrative fees). The Statement of Changes in Net Position reports FCIC's beginning net position, the items which caused net position to change during the reporting period, and the ending net position. The Statement of Changes in Net Position records FCIC's net cost of operations, financing sources including appropriations and transfers for EFA premium discount, and the decrease or increase in unexpended appropriations, along with the beginning and ending net position amounts. The Statement of Budgetary Resources records FCIC's budgetary resources (appropriations, collections, unobligated balance from the previous period, etc.), the status of budgetary resources (obligated, unobligated, etc.), and the net outlays for the fiscal year. The Statement of Budgetary Resources also provides information about how FCIC's budgetary resources were made available along with their status at the end of the reporting period. The Statement of Financing reconciles the Statement of Net Cost information with the Statement of Budgetary Resources. The accrual based measures used in the Statement of Net Cost differ from the obligation based measures used in the Statement of Budgetary Resources. Certain items, such as accounts receivable from the public, are not considered budgetary resources and some items such as depreciation expense are treated differently since the entire cost of an asset is obligated on the Statement of Budgetary Resources but is costed over the useful life of the asset on the Statement of Net Cost.

The Notes to the Financial Statements include additional disclosures such as FCIC significant accounting policies and additional detail disclosures of specific line items on the principal statements. The Required Supplementary Stewardship Information details RMA’s investment in Risk Management Education since this program represents an investment in Human Capital which is intended to increase or maintain national economic productive capacity. The Required Supplementary Information includes additional disclosures of FCIC’s intragovernmental activity (business within the federal government). Examples of FCIC’s intragovernmental activity are the administrative services agreement with the FSA and the various computer contracts with the General Services Administration.

Also included in the FCIC financial statements are the Independent Auditors’ Report on Consolidated Financial Statements (the auditors’ opinion), Independent Auditors’ Report on Internal Control Over Financial Reporting, and the Independent Auditors’ Report on Compliance With Laws and Regulations. Any major findings made by the auditors are listed in these reports.

The financial statements report for fiscal year 2000 (Report No. 05401-1-Hq, dated February 2001), is attached.

c. **Status of Fiscal Year 2001 Funding:**

i. **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 administrative and operating expenses such as salaries, benefits, travel, training, office supplies, equipment, etc., of the Agency. Of the budget authority, $41.1 million is allocated to payroll costs and the remaining $24.5 million is allocated to all other costs.

As of March 31, 2001, RMA has incurred $25,954,192 in obligations, a rate of 40 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 20 percent. This obligation rate is low when compared to 50 percent of the fiscal year has expired. However, the low rate is attributed to several large contracts not recorded as obligations due to ongoing negotiation of terms of the contracts. These contracts were recorded as obligations in May 2001. In addition, the $4,000,000 administrative service agreement with FSA to carry out the administrative functions of RMA was recorded as an obligation in April 2001. The contracts and the administrative service agreement will show as obligations in the next status report.

Overall, we project over $500,000 in funds will be available for allocation. This is due to vacant political appointee positions, internally filling some vacant positions and an extensive recruitment process which is underway. Any salary lapse realized will be used to fund some initiatives and requirements recommended at the beginning of the fiscal year. Planned funding initiatives include allocating additional travel funds to Cost Centers to fully meet the administrative requirements of ARPA, providing additional funds for automated data processing requirements, funding employee development training on Change and Managing Change and writing statements of work for contractual agreements.

ii. **Agricultural Risk Protection Act (ARPA) Fiscal Year 2001 Status of Funds Report**: The budget authority for the ARPA mandates is $67,500,000. As of June 5, 2001, budget execution activity includes commitments and/or obligations of $14,430,287 and the transfer of $5,000,000 in budget authority to the Cooperative State Research, Education, and Extension Service (CSREES). The remaining balance available is $48,069,713.

Program Compliance and Integrity is limited to budget authority of $9 million. Of the budget authority, $7,221,969 has been committed and/or obligated leaving an available balance of $1,778,031.

Research and Development budget authority is $30 million. Of the $30 million, $10 million is allocated to reimbursement of research and development costs related to policies approved by the Board under section 508(h) and $20 million is slated for contracting, development and maintenance of insurance products. As of June 5, 2001, a total of $6,060,880 has been committed or obligated against the $20 million leaving a remaining balance of

$13,939,120.

Pilot Programs: Livestock Programs budget authority is $10 million. As of April 2001, no spending documents have been processed. The full $10 million remains available.

Education & Risk Management Assistance is limited to budget authority of $10 million. Of the $10 million, $5 million was designated for RMA to enter into partnership with CSREES. Budget authority of $5 million was transferred to CSREES on March 29, 2001. Of the $5 million remaining, a total of $2,218,437 has been processed in commitments or obligations leaving an available balance of $2,781,563.

Policy Consideration and Implementation, which includes funding for expert reviews under section 508(e) of the Act, budget authority of $3.5 million. As of June 5, 2001, $511,742 has been committed or obligated leaving an available balance of $2,988,258.

Storage and Management: Livestock and Poultry Waste is limited to budget authority of $5 million. As of April 2001, no spending documents have been processed. The full $5 million remains available.

d. **RMA Training Initiatives**

i. **Leadership Development Program:** This program provides promising future leaders with the tools and knowledge to fill the impending "retirement gap" in the agency. The program began in May 2000, with a total of 15 participants, and will run for 18 months. It is taught by the McDonough School of Business at Georgetown University. Additional developmental assignments outside the classroom, generally lasting from two to four weeks, are being used to obtain work experience in other functional areas in the agency. The program has proven applicability to the Agency's mission and the participant's specific jobs.

ii. **Distance Learning:** RMA uses leading edge distance learning technology to develop satellite/video conferences, videotaped training, and online courses. An example of a course is the Dairy Options Pilot Program (DOPP) online course for dairy producers entitled "Managing Dairy Price Risk." Program Support Staff (PSS) facilitated the process for the Risk Management Education (RME) Division to develop this course in order to fulfill the RME legislative mandate to inform the public on risk management issues, specifically producers. Course completion certifies producers to participate in DOPP. Future online courses are planned to provide a profile of the agency for all employees and to facilitate Compliance training required by ARPA.

Using the same distance learning technology, PSS also maintains a library of off-the-shelf online courses. This library provides RMA employees with up-to-date information on new software that we use. There are 20 new Microsoft courses available to RMA employees including: Access, Word, PowerPoint, Excel, and GroupWise.

All RMA employees have access to take three American Institute for Chartered Property Casualty Underwriter/Insurance Institute of America (AICPCU/IIA) courses on Risk Management issues. Over 50 percent of RMA employees have completed the first course, "Insurance Essentials," with a passing grade of 70 or above. The two newest courses, "Introduction to Risk Management" and "Risk Management for Insurance Professionals," are just coming online and are now open for registration.

iii. **Administrative Training:** In conjunction with the USDA Graduate School, RMA recently offered administrative assistants and secretaries training to update their skills and enhance their abilities. Several workshops were conducted on the following subjects: Problem Solving, Project Management, RMA Training Plan, Participant's short and long range training goals, cultural, management analysis, General Mediation Skills (influencing without authority), and administrative and budget issues.

e. **Office of Management and Budget (OMB) Circular A-76 Data Call**: This administration has initiated government-wide reforms that will improve functioning of government and achieve efficiencies in operations. One of these initiatives is expanding public-private or direct conversion competitions. For fiscal year 2002, OMB has mandated that agencies develop a plan that identifies the functions and locations of at least 5 percent of the positions listed on the Federal Activities Inventory Reform (FAIR) Act inventory of commercial functions that will be competed. Future competitions could include up to one-half of the federal positions listed on the inventory.

RMA has a long history of moving program operations to the private sector. Because of this, RMA senior management is taking a comprehensive organizational approach to outsourcing the functions that Congress and others have identified. This approach will let us target potential functions and operations that are more efficient to offer for competition as a group as opposed to a piecemeal approach of taking individual functions and competing them.

In view of RMA contracting out most of its functions over the past few years, and since the passage of ARPA further requires more outsourcing of functions, RMA has identified areas listed on the 2000 Fair Act inventory that have potential to meet the requirements for competition. The RMA Management Team is currently performing an initial assessment of each of the identified units with the idea of selecting one for the competition process.

f. **RMA's Website**: *Farm Journal* recently reported that nearly two-thirds of U.S. producers now have Internet access. Anticipating this trend, the RMA website was relaunched in October 1999 to make the site more useful to the general public as well as crop insurance companies. News items were brought to the front page, a search engine and navigation bar was added and the pages were redesigned to have a common look and feel. New tools were gradually added, including the Premium Calculator (our first completely online application) and the new Summary of Business Online.

Since its relaunch, site traffic has increased dramatically. The total number of pages viewed monthly are up 212 percent, the number of monthly hits are up 975 percent, and the total number of users are up 275 percent. In March 2001, we had nearly 2.5 million hits, nearly 450,000 page views, and 54,500 visitor sessions. Foreign user statistics have consistently shown that Japan, Canada, the

United Kingdom, Australia, and Mexico are our top visitors (comprising over 700 user session monthly for these five alone). (An example of the Website Monthly Performance Report is attached.)

This past month, the web team worked to review and make the top 20 pages compliant (except for online applications) with section 508 of the Rehabilitation Act for a report to the CIO and the Congress. All new and updated pages and applications must be compliant by June 21, 2001. Since the website currently has over 100,000 pages that are maintained by hand, this will be a continuing effort.

Recent internal studies on workplace communications have indicated that internal communications across the agency are not optimal. As a result, the web team is revamping the RMA intranet (internal) site. Intranets are recognized as one of the most valuable avenues of communication in a large, geographically dispersed organization. However, according to Booz, Allen & Hamilton, “to make the tool valuable, you need content that people want to read. It needs to be fresh every month. The technical capability can be built, but without quality content the program will fail.”

Development and maintenance of the new site involves all RMA offices. The new site was reviewed by RMA management on May 31 (roll-out is scheduled for August 1) and will contain elements such as:

1. A wide range of services and information of practical use to Federal employees.
2. An online, employee-updated, agency phone book.
3. **Field Office Features:** Our Staff, Issues Center, Office Publications, How Do I?, Calendar, Staff News, What's New, Office Information (hours, map, local time and weather).

After the intranet rollout, the team will focus on reviewing agency applications and web pages for usability (including section 508 compliance) based on current user interface design and information architecture theory. Applications and web pages should be created to meet user’s needs, accommodate their limitations, and provide the right user-centered experience. RMA will be reviewing proposals from vendors in the specialties of human factors cognitive engineering, software ergonomics, and engineering psychology.

As of January 2001, RMA began posting all Board meeting documents on its web. These documents can be found at http://www.rma.usda.gov/aboutrma/fcic/

4. Status Report on Implementation of ARPA - UPDATE

a. **Risk Compliance Report on ARPA Section 121**: 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. It was presented to the crop insurance industry on January 18, 2001.

The ARPA teams were then expanded to include company participants. On March 1, 2001, the RMA and FSA team leaders met with the company participants to brief them in detail on the work done to date by the teams. On March 28-29, the designated FSA State office points of contact were trained in Kansas City on the RMA compliance and oversight process. This included the Consultation, Referrals and Claims Audit procedures developed by the teams. The procedures were incorporated into a handbook and distributed April 4, 2001. Training of the FSA county offices in loss adjustment also began in April. By June 22, all 2,500 FSA county office personnel will be trained in the classroom portion of crop insurance loss adjustment procedure.

The reconciliation of RMA and FSA data from the FSA 2000 Crop Year Disaster Assistance program is currently underway. So far this year, 837 referrals from the current data reconciliation process are being investigated by RMA Compliance offices. Last year, Risk Compliance investigated 484 referrals from data reconciliation of the FSA Disaster Assistance program. Procedures to automate the process will be developed later in the year. The team developed a proposed expanded process for the reconciliation of 2001 crop year data and a draft long term implementation plan for the 2002 crop year and beyond. A list of 600 high risk producers was developed using data mining techniques and has been provided to the FSA county offices from the Risk Compliance offices for use in identifying potential fraud and abuse. It is expected that more high risk producers will be identified and referred. Risk Compliance offices are starting to receive fraud referrals from FSA using the new procedure.

The new Claims Audit process is underway with 1,600 policies being reviewed by the companies. Beginning in June, RMA will audit the company reviews using the FSA county office resources when needed.

b. **Contracting Skills-Research and Development (Update):** Research and Development (R&D) continues to implement a comprehensive training program to provide a series of classes on contracting skills that will assist in meeting the new ARPA mandate of accomplishing research and development of new policies through contracts and partnerships. Since numerous R&D staff members will be serving in the role of Contracting Officer's Technical Representative (COTR), we are taking actions to equip the workforce with the knowledge and skills necessary to be successful in this new culture and way of doing business. A number of classes have already been held during the past year: Introduction to Contracting, Contract Administration, Contracting Officer's Technical Representative Course, Project Management, Cost Estimating, and Task Order Contracting. Four additional classes are scheduled before the end of the fiscal year: Executive Procurement Overview, Developing Performance-Based Statements of Work, Source Selection, and Best Value Contracting. These classes will give staff and supervisors the knowledge and skills to continue moving forward in developing contract vehicles to implement ARPA. The training provided to date has significantly enhanced our ability to accomplish tasks by contracts and partnerships. While most of the training addresses needs specific to the contracting process, relevant knowledge, skills, and tools (project management software, manuals, etc.) are also being applied to partnership vehicles.

5. **ARPA Contracting Expenditures for Fiscal Year 2001:**

a. **Sec 131 Reimbursements**: $10,000,000 - This 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). The draft regulation is in Departmental clearance. 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.

b. **Sec 131 - ARPA Contracting and Partnership Expenditures for Fiscal Year 2001 -R&D/Risk Management Education Contracting and Partnerships**: $20,000,000 - $2,000,000 of this amount was assigned to RME to use to enter partnerships to provide training to producers on risk management tools. Of the funds earmarked for RME for Fiscal Year 2001, about $400,000 have been obligated. The remainder is for R&D program research, development, and evaluation.

Four contractors were awarded contracts in early February 2001 to participate as a "pool" to compete for the awarding of work to be performed on a number of tasks for the research and development of risk management programs and strategies for producers: AgriLogic, Inc.; IGF Holdings, Inc.; National Crop Insurance Services, Inc.; and Watts & Associates, Inc.

c. **Sec 121 Program Compliance**: $9,000,000 - $5,000,000 has been spent on a cooperative agreement with Tarleton State University, Texas and the remainder is being spent on data reconciliation between RMA and FSA data, and for training of FSA personnel for Risk Compliance assistance.

d. **<u>Sec 133 Risk Management Education and Risk Management Assistance</u>**: $10,000,000 - $5,000,000 of the total authorized for risk management education for FY 2001 has been transferred from the FCIC fund to CSREES for a competitive grants program. Another $5,000,000 is being used by RMA to establish a crop insurance education and information program in 15 underserved states designated by the Secretary. To date, about $1.3 million has been obligated. Another $900,000 in projects are currently under consideration. ARPA provides RMA with $10 million per year from the FCIC fund for risk management education. Of this amount, $5 million was transferred to CSREES for risk management education competitive grants. RMA is to use the remaining $5 million to establish a program under which crop insurance education is provided to producers in underserved states. Shortly after ARPA passed, Secretary Glickman identified the 15 underserved states: Maine, Vermont, New Hampshire, Massachusetts, Rhode Island, Connecticut, New York, New Jersey, Pennsylvania, Maryland, Delaware, West Virginia, Nevada, Utah and Wyoming. A five-year strategic and 1 year action plan outlining the direction and focus of risk management education activities for these 15 underserved states was approved in late-2000. These documents outline the general goals, scope, and content of this education program. Implementation of the plan is progressing steadily. Numerous partners are assisting RMA in implementing this plan. A cooperative agreement between RMA and the Connecticut State Department of Agriculture is an important example of an effective partnership to benefit farmers. Other state departments of agriculture are using the Connecticut project as a model to develop proposals for their respective states. An immediate goal is to prepare now to reach producers with a significant educational effort in late-2001 early-2002. Other supportive projects are underway or in the review process. An agricultural management assistance program to the 15 underserved states is also a feature of section 133 of ARPA. This $10 million per year program, with funds from CCC, is being implemented with a joint effort of RMA, NRCS, and AMS. To date, RMA has used nearly $500,000 to share the farmer-paid cost of Adjusted Gross Revenue insurance. The rest of the funding for FY 2001 will be used by RMA's partnering agencies for conservation and organic transition cost sharing programs.

e. **<u>Sec 142 Board Reviews</u>**: $3,500,000 - $250,000 has been committed ($125,000 for the independent review of the Crop Revenue Coverage Wheat revisions approved by the Board on March 10, 2001, and $125,000 for the independent review of the Revenue Assurance Program revisions approved by the Board on May 30, 2001). This money is available for expert reviews and certain implementation costs; however, no funds have been obligated this year.

f. **<u>Sec 225 Livestock and Poultry Waste</u>**: $5,000,000 - A cooperative agreement will obligate $1,704,824 of the $5,000,000 allocation for this project when approved. The $1.7 million study will describe livestock and poultry handling and storage systems, failures in these systems and the associated costs. The study will also 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.

6. **<u>Upcoming Issues - 2001 Crop Year</u>**

a. **<u>Cooperative Selling</u>**: On June 30, 2000, the Standard Reinsurance Agreement was amended to incorporate section 1508(b)(5)(B) of the Federal Crop Insurance Act, as amended by the Agricultural Risk Protection Act of 2000 ("Act"). Under section 1508(b)(5)(B) of the Act, if permitted by state law, a cooperative or trade association that receives a payment from an insurance provider, may return all or part of the payment to policyholders who purchase catastrophic risk protection insurance (CAT) or additional coverage in those states where the practice is permitted. Under similar arrangements, CAT fees may also be paid on behalf of policyholders, but only in those states where rebating is now permitted by state law, and in adjoining states, if the trade association or cooperative also operates in the adjoining states.

Legal clearance was obtained on a recently drafted Manager's Bulletin which should be issued in the near future.

b. **<u>Energy Issues-Irrigation Water and Power Shortages</u>**: RMA has been asked about the administration of the crop insurance program where irrigation water has been cut off or curtailed for the 2001 crop year. The most dramatic example to date is in the

Klamath Basin in Oregon and California where producers were told on April 6, 2001, that traditionally available irrigation water would not be forthcoming this year. The cut off has impacted some 1,400 producers in the region and a lesser number of policyholders.

Prevented planting coverage is part of the crop insurance policy and is available on insurable crops in the impacted counties, except forage production and nursery. Producers receive a reduced indemnity (which can be different for each crop) if they are prevented from planting due to an insured cause of loss.

The insurance company must determine whether producers qualify for prevented planting under the terms of the policy and the individual producers circumstances. RMA will continue to monitor loss adjustment activities in the area and will provide any necessary guidance to the insurance companies in executing its role as program administrator.

Producers who have purchased insurance for their 2001 crops and who are impacted by announcements regarding the availability of irrigation water should review the policy and contact their crop insurance agent. RMA has been working with producer groups and other interested parties to identify the issues associated with irrigation water and power shortages for the coming crop year across the country. RMA will soon issue a national bulletin to address insuring and indemnifying producers who are impacted by these potential shortages.

Attachments

- National Summary of Business Report dated June 11, 2001
- Manager's Bulletin MGR-01-010.1 dated June 4, 2001 on Sugar Beets
- Financial Statements Report for Fiscal Year 2000 (Report No. 05401-1-Hq, dated February 2001)
- Website Monthly Performance Report