



**United States  
Department of  
Agriculture**

Federal Crop  
Insurance  
Corporation

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DATE: January 13, 2005

TO: Board of Directors  
Federal Crop Insurance Corporation

FROM: Ross J. Davidson, Jr. /signed/  
Manager

SUBJECT: Board Memorandum No. 790  
Manager's Report

This memorandum serves as the Manager's Report to the Board of Directors (Board), Federal Crop Insurance Corporation (FCIC), for the January 13, 2005 meeting. The report relates to program issues as outlined below:

**Program Issues:**

**Pasture/Rangeland and Forage Update** – Progress continues on each of the contracts for the development of new insurance plans for Pasture, Rangeland, Forage, and Hay.

AgriLogic, Inc. continues work on the Precipitation Index Project. The contractor met twice with the Pasture Rangeland Forage (PRF) Core Group during the week of December 6-10, 2004 to go over the rating and pricing for the project and to discuss other issues identified during development.

Grazingland Management Systems (GMS) was in Kansas City on December 16, 2004 to give a presentation on the Pasture, Rangeland, and Forage Rainfall Index. The material presented included data for actuarial analysis, insurance policy and pricing methodology. GMS provided a second presentation and similar information on January 11, 2005 for its Normalized Difference Vegetative Index (NDVI) contract. GMS was awarded two separate development contracts.

Watts and Associates continue to progress well and are ahead of schedule. This contractor is still in the research phase of the project and is identifying appropriate proxy crops in the pilot areas, working with its NDVI data and clip plot data. Based on the progress made thus far, it is possible Watts and Associates will provide its first deliverable a few weeks early.

The contracts developed by Agrilogic, Inc. and GMS are targeted for crop year 2006 implementation, while the Watts and Associates contract is scheduled for crop year 2007.

**Soybean Rust** – Asian soybean rust (*Phakopsora pachyrhizi*) is a fungal disease that can quickly defoliate plants and reduce pod set, pod fill, seed quality and yield. Researchers at the National Plant Germplasm and Biotechnology Laboratory in Beltsville, MD have confirmed that samples collected in the states of Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, Missouri, South Carolina and Tennessee have tested positive for soybean rust. Soybean rust, a disease spread primarily by wind-borne spores, was first discovered in Louisiana.

RMA is participating in the National Soybean Rust Working Group. Members include at least one

extension plant pathologist from each soybean state, as well as other representatives from State, Federal, and commodity organizations with an interest in soybean rust. The group was formed last year to prepare for the arrival of soybean rust by keeping State, commodity, and Federal interests informed of the recent activity related to soybean rust. The working group meets by teleconference bimonthly.

RMA has posted its soybean rust position on the RMA Website. On December 9 and 30, 2004, RMA stated that unavoidable loss of production due to plant disease (including soybean rust) is a covered peril unless there are sufficient control measures available, but the insured elected not to use them. The current recognized good farming practices for soybeans generally should not be an issue as soybean rust is not a soil borne disease and rotation of crops would not be effective for control. It will be necessary to determine if adequate amounts of approved chemicals were available at the time of an outbreak, if adequate amounts were available, and whether application was timely to achieve optimum control regardless of the cost involved.

Producers are responsible to keep informed of soybean rust outbreaks in their area. RMA expects producers to take recommended measures to control or prevent the disease impact if an outbreak is anticipated or already in the area. Producers should work with their insurance companies and crop insurance agent as well as document their actions including any advice or counsel from local or recognized extension personnel or other agronomic experts. RMA requires all insured producers to carry out good farming practices. RMA and insurance providers expect soybean producers to take prudent control actions similar to what those producers would take if insurance were not available.

RMA is continually gathering up-to-date information and data regarding the spread and appropriate management of soybean rust. The Agency monitors and participates as necessary in discussions among State and Federal agriculture agencies regarding preventative and control measures. RMA holds a bi-weekly conference call with all Regional Office Directors to discuss their direct contact with local State and Federal agriculture officials to obtain any updated information or developments in the spread and control of the disease. RMA continues to hold internal discussions to assess current and future program impacts.

#### **Regulatory Update:**

**Combination Regulation** – A proposed rule that will combine the existing Actual Production History (APH), Crop Revenue Coverage, Income Protection, and Revenue Assurance plans of insurance into one consolidated regulation has been prepared and is ready for legal review pending a policy decision currently under consideration.

**Nursery Crop Provisions** – The Nursery Proposed Rule comment period ended on November 22, 2004. Responses to the comments are being finalized. Concurrence within Research and Development is expected to begin during the week of January 10, 2005 prior to forwarding for final legal review. Approximately 22 individuals or entities provided over 130 comments, some of which were quite technical and detailed in nature. The Final Rule is planned for implementation for the 2006 crop year.

**Guaranteed and Quota Tobacco Crop Provisions** – Because of the elimination of the Tobacco Quota Marketing Regulations, the Guaranteed and Quota Tobacco Crop Provisions (which provide burley tobacco insurance) will be revised and combined into a single policy. This will remove all references to quota and provide for insurance of all tobacco based on APH. Proposed rules will be prepared for publication in the Federal Register during this fiscal year.

**Actual Production History Regulations** – A proposed rule is also being prepared to modify and update the APH regulations that are codified at 7 CFR, part 400, subpart G. This regulation requires updating to conform to basic provision changes and to provide clarifications.

**Program Highlights/Announcements:**

**Risk Management Partnership Agreements** – The Risk Management Education (RME) Division has completed all entrance conferences with the Fiscal Year 2004 awardees. A face-to-face meeting with representatives of these partnership/cooperative agreements along with mandatory civil rights training was held December 1-2, 2004. The RME Division is currently closing out the Fiscal Year 2003 partnership/cooperative agreements. A Request for Proposals using Fiscal Year 2005 funds for partnership/cooperative agreements will be published in the Federal Register tentatively in February 2005.

**Group Risk Plan (GRP) Rangeland Pilot Program** – On October 28, 2004, the Board approved the termination of the existing GRP Rangeland Pilot Program and approved a new GRP Rangeland Pilot Program. The new program will be piloted in the original 12 Montana GRP Rangeland Pilot counties plus an additional 27 Montana and 10 Wyoming counties. The major improvements to the program include changes to the rating methodology and changes in the methodology used to establish the payment trigger to more accurately reflect rangeland conditions. On December 16, 2004, RMA issued Informational Memorandum R&D 04-056; New GRP Rangeland Pilot Program Materials.

**Sweet Potato Pilot Program** – On October 28, 2004, the Board approved the termination of the existing Sweet Potato Pilot Program and approved a new Sweet Potato Pilot Program. The pilot program areas are within Louisiana (8 Parishes), North Carolina (13 counties) and South Carolina (1 county). The new program includes improvements in the underwriting and loss adjustment procedures. On December 16, 2004, Informational Memorandum R&D 04-057; subject: “New Sweet Potato Pilot Program Materials” was issued. The memorandum announced that the program materials for the new Sweet Potato Pilot Program for the 2005 crop year were available on the RMA website.

**Compliance:**

**Operations Review Progress** – RMA continues to work with the Office of the Chief Financial Officer to have the Agency’s Fiscal Year 2005 plan for Improper Payments approved. The 2005 Company Operations Review schedule is set and the offices are proceeding with their assignments. These reviews will be routinely performed on SRA holders and will be used to provide the necessary data to establish a program error rate. The Office of Management and Budget (OMB) will also use the review results as reported by RMA to satisfy the statutory requirements of the Improper Payments Act. These reviews assess insurance providers’ adherence to the SRA, quality control guidelines and RMA approved policies and procedures. The intent is to review all participating companies over the next three years, although the continuing decline in resources may impact the schedule.

**American Growers Update** – RMA is preparing for the possibility of future liquidation of American Growers. Upon liquidation, RMA would assume control over all the federally reinsured policies that were the responsibility of the company for the 2002 crop year and prior. This would include policies that remained on IGF Insurance, Inc. that were assumed by American Growers. As a result of liquidation and the subsequent “cut-through” to Federal control, producers who were indebted to Growers for Federally reinsured premiums and indemnities would become indebted to the Federal government.

The USDA, Office of Inspector General for Audit (OIG) and the Government Accountability Office (GAO) have completed their respective audits of the American Growers failure. GAO has issued its final report and RMA has responded to the related recommendations. RMA has already implemented several of the GAO recommendations and is currently seeking to enter into confidentiality and data sharing agreements with the states in accordance with the recommendations. The OIG discussion draft has not yet been received.

The current cost to the federal government for the failure of Growers currently stands at approximately \$41.6 million with minimal outputs still accruing to the cost of the run-off. Some recovery of residual assets is expected to offset this amount as the closeout is accomplished.

**Annual Report to Congress** – The 2002 Crop Year Compliance Annual Report to Congress is pending the Secretary’s signature and will be published thereafter. The report shows continuing gains against waste, fraud and abuse from the use of data mining and remote sensing to identify anomalous program results. The SRA for 2005 will build on these results by incorporating data mining into the selection of policies that will be reviewed by the companies as part of their quality control requirements. The Compliance Office’s work toward a final draft of the 2003 Annual Report is on schedule.

**Data Mining Report Results Sent to Companies** – The Compliance Offices are completing their assessment of the accuracy and validation of the “McP III” report. The “McP III report” identifies policies where a comparison of past claims and APH data indicated that claim production data was not used to establish the APH as required by procedure for the following year(s). On October 10, 2004, the Compliance Office notified the companies that as a result of data mining, RMA had identified potential debt on approximately 14,000 policy units. The notification also contained a request to hold policy records for these units beyond the three-year record retention requirement, if applicable. Although the request did not require the companies to review these policies, several companies have initiated reviews to determine the extent of the problem and preclude potentially incorrect payments on crop year 2004 claims. Some companies have already notified RMA of certain procedures that account for the discrepancies, confirming the fact that data mining results identify anomalous data, but still require review to determine whether or not an error exists for the policy.