



**United States
Department of
Agriculture**

Federal Crop
Insurance
Corporation

1400 Independence
Avenue, SW
Stop 0801
Washington, DC
20250-0801

DATE: July 13, 2006

TO: Board of Directors
Federal Crop Insurance Corporation

FROM: Eldon Gould /signed/
Manager

SUBJECT: Manager's Report
Exhibit No. 2850

This memorandum serves as the Manager's Report to the Board of Directors (Board), Federal Crop Insurance Corporation (FCIC), for the July 13, 2006 meeting. The report relates to program issues as outlined below:

Program Issues:

Mitigating Declining Yields Update – Two separate development contracts are underway on solutions to declining Actual Production History (APH) yields due to successive years of crop losses. Science Applications International Corporation (SAIC) and AgriLogic, Inc. continue their research and development efforts.

- SAIC is developing an indexed yield approach where grower yields are stabilized by combining them with long-term trends developed from historical county average yield data. Approximately nine states are being proposed for the initial pilot program for corn, soybeans, cotton and wheat. On June 16, 2006, SAIC presented RMA with phase one deliverable on their proposal to mitigate the effect of low yields. Currently RMA is in the process of reviewing the deliverable.
- AgriLogic, Inc. is developing several approaches to limit year-to-year decreases in a grower's APH. The limits will depend on the grower's individual yield history, choice of coverage level, and, potentially, choice of unit structure. These approaches will be applicable to annual crops and may be applicable for perennial crops. AgriLogic's last producer listening session was held on June 21, 2006.

The targeted implementation of the first phase is for the 2008 crop year, which is subject to approval by the FCIC Board of Directors.

Premium Reduction Plan (PRP) - For the 2006 reinsurance year, eight insurance companies are eligible for the opportunity to offer PRP. Eligibility to offer PRP does not necessarily mean that a company will request to pay or be approved by RMA to pay a discount. Such determinations, if any, are made after the reinsurance year is complete. As signed into law, the 2006 Agriculture Appropriations bill prohibited RMA from

administering PRP for the 2007 reinsurance year. Language regarding a similar prohibition for the 2008 reinsurance year has been inserted into the 2007 Agriculture Appropriations bill. The 2007 Agriculture Appropriations bill has been passed by the US House and awaits consideration by the full US Senate.

Pasture, Rangeland, and Forage (PFR) Update – On January 18, 2006, the FCIC Board approved two proposals for pilot programs, effective for the 2007 crop year. RMA and Grazingland Management Systems, Inc. are finalizing the educational materials, program materials and processing systems development for implementation of the pilot programs. RMA released all final draft program materials to AIPs the week of June 5, 2006. Also, a training session for all AIPs and RMA personnel is scheduled for July 20, 2006, in Kansas City, Missouri. In addition, RMA continues to work with the contractor on the remaining contract, which is estimated to come before the FCIC Board for consideration by independent expert review.

Livestock Program Evaluation Contract Awarded – The livestock evaluation contract work by Watts and Associates is underway. On March 2006, listening sessions began and completion of the sessions is scheduled for October 2006. 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.

Quality Adjustment –RMA has been meeting with producers and producer groups to explain quality adjustment procedures and seek improvements and ways to limit fraud, waste, and abuse. In May 2006, RMA met with the various North Dakota Grain Growers Associations, elected officials' representatives, and insurance agents in Bismarck, ND to further these discussions.

Soybean Rust – RMA continues to be an integral part in the USDA Soybean Rust working groups. Also, the agency participates in the regular ad hoc conference calls and attends meetings with other government personnel, producers, and producer groups. RMA Administrator Gould has provided a recorded introduction to a DVD intended to educate producers and others on the upcoming documentation tool for soybean producers. In addition, the agency has produced a video news release reminding producers of the need for records to confirm that good farming practices were used throughout the growing season.

Comprehensive Cotton Program Evaluation – A contract for a comprehensive evaluation of the current cotton program was awarded to Sumaria Systems, Inc. on May 19, 2006. The objective of the contracted evaluation is to develop a long-term strategy for improving the performance of the cotton program. A kick-off meeting with Sumaria was held on June 27, 2006.

Experience Based Producer Discount – Presently, a contract to develop an experience-based producer discount that was awarded to Signal Solutions Inc., is nearing completion. The goal of the discount would be to provide discounts to producers that have historically better experience than their peers do within the county. In addition, the discount will be a loss ratio index that is based on a comparison of historical loss ratios of an individual insured producer for a given time period and relative to the loss ratio of all producers of the same crop in the county for the same time period.

New Florida Fruit Tree Pilot Crop Insurance Program – May 24, 2006 was the sales closing date for the new Florida Fruit Tree (FFT) crop insurance program. The USDA’s Animal and Plant Health Inspection Service, Florida’s Department of Agriculture, and producer groups continue to work on a new Asiatic Citrus Canker management program. Due to the uncertainty surrounding the new canker management program, RMA will continue to monitor the evolving situation to keep the new FFT policy functioning properly. Overall, the new policy for FFT provides improvements that will help producers better cope with hurricane and freeze. In addition, RMA is actively working with AHPIS to address the canker eradication issues.

Regulatory Update:

Onion Policy Changes – RMA’s Spokane and Davis Regional Offices (ROs) are collaborating with the Product Administration and Standards Division (PASD) in Kansas City, Missouri to provide recommended changes on the Special Provisions of Insurance and the Onion Crop Insurance Provisions. The recommendations were submitted to PASD through Insurance Services for improvements to these policies including end of insurance period dates, stage guarantees, and other items. The targeted implementation is the 2007 crop year for recommended SPOI Statements and the 2009 crop year for the crop provision changes.

Stonefruit Policy Changes - Several RMA ROs including the Spokane and Davis Offices are collaborating with the Product Administration and Standards Division in Kansas City to provide recommended changes on stonefruit crops (Fresh Peaches, Plums, etc.). The recommendations were recently submitted to PASD through RMA Insurance Services for these policies. The targeted implementation is for the 2008 or 2009 crop year.

Mustard Pilot Crop Provisions – Recently, RMA’s Billings and Spokane ROs has worked closely with the PASD in Kansas City to revise and rewrite the Mustard Pilot Crop Provisions since the FCIC Board approved its conversion to a permanent program in July of 2004. A revised draft of the Mustard Crop Provisions was forwarded to PASD for internal concurrence and a review by OGC for legal sufficiency. The final rule is targeted to be effective for the 2008 crop year.

Dry Pea Crop Provisions – RMA’s Billings and Spokane ROs has worked closely with the PASD in Kansas City Office to revise and rewrite the Dry Pea Crop Provisions. A revised draft of the Dry Pea Crop Provisions was forwarded to the PASD and is currently going through the internal concurrence process by the Deputy Administrator for Research and Development. The projected implementation is set for the 2009 crop year.

Grape and Table Grape Crop Provisions – Several of the RMA ROs are collaborating with the PASD in Kansas City to revise and rewrite the Grape and Table Grape Crop Provisions. A revised draft of these two crop provisions is currently going through the internal concurrence process by the Deputy Administrator for Research and Development. The projected implementation is for the 2008 crop year.

Combination Regulation Update – On July 14, 2006, the proposed “Combo” regulation will be published in the *Federal Register*. 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, effective for the 2009 crop year.

Peanut Crop Provisions – On March 27, 2006, the public comment period for the proposed rule on peanut crop provisions ended. RMA is prepared responses to the comments as part of the final rule process. The final rule was sent to OGC for review and approval on June 15, 2006. The rule updates the peanut crop provisions to be consistent with the elimination of the peanut quota program, makes peanut unit crop provisions consistent with other crop provisions, and provides for insuring peanuts based on a contract price. The regulation is targeted to be effective for the 2007 crop year.

Mint Crop Provisions – On April 24, 2006, the public comment period for the proposed rule on the mint crop provisions ended. RMA is preparing responses to the comments as part of the final rule process. The rule converts the mint program from a pilot program to a permanent program. The final rule is targeted to be effective for the 2008 crop year.

Northern Potato Crop Provisions and Southern Potato Crop Provisions – On January 5, 2006, the proposed rule was sent to OGC for review and approval. The PASD is working with OGC to resolve their issues and concerns. The proposed rule would make changes to the Storage Coverage Endorsement and in determining production to count for claims purposes. The changes are targeted toward improving program integrity. The final rule is targeted to be effective for the 2008 crop year.

Almond and Walnut Crop Provisions – On May 22, 2006, the public comment period for the almond and walnut proposed rule ended. RMA is preparing responses to the comments as part of the final rule process. The rule will reduce the age requirements for almond and walnut trees for crop insurance purposes. The final rule is targeted to be effective for the 2008 crop year.

Millet Crop Provisions – Currently, the proposed rule is in PM's concurrence process. The proposed rule would remove the indemnity reductions for unharvested acreage. The final rule is targeted to be effective for the 2008 crop year.

Program Highlights/Announcements:

USDA Agriculture Energy Conference – From June 27 to June 28, 2006, USDA had an Agriculture Energy Conference that took place at the Kansas City Airport Hilton Hotel in Kansas City, Missouri. At the conference, USDA's Chief Economist and FCIC Board Chairman Dr. Keith Collins and RMA Administrator Eldon Gould talked about issues related to agriculture and energy. The overall purpose of the conference was "to examine risk management issues and strategies associated with the alternative energy production and use in agriculture sector as part of the comprehensive energy strategy." Nearly 140 people participated in the conference that was hosted by RMA and the USDA's Office of Energy Policy and New Uses. Also, sponsoring the conference was the Farm Foundation.

RMA Administrator Testifies in Front of US House of Representatives Agriculture Subcommittee in Washington DC - On June 15, RMA Administrator Eldon Gould testified before the US House of Representatives Agriculture Subcommittee on General Farm Commodities and Risk Management in Washington DC. Mr. Gould was part of a two-person initial panel in which they

discussed program integrity issues involving fraud, waste, and abuse. Joining Mr. Gould was Dr. Daniel Bertoni, Acting Director of the National Resources and Environment Division of the Government Accountability Office. Participating on a second three-person panel were the following: 1) Robert W. Parkerson, President of the National Crop Insurance Services, 2) Bert Little, Associate Vice President of Academic Research and Professor of Computer Science and Mathematics at Tarleton State University, and 3) Dr. Donald P. Brown, Chief Financial Officer of the Vega Imaging Solutions, LLC.

Soybean Rust Documentation Tool Launched - RMA continues to be an integral part in the USDA Soybean Rust working group. On June 5, 2006, USDA released a press release entitled *USDA Provides Documentations to Assist Producers with Asian Soybean Rust Prevention and Control*. This tool, available through the Internet (<http://www.sbrusa.net>) or a crop insurance agent, enables farmers to quickly and accurately record actions taken to prevent and treat any outbreak of soybean rust. Also, the newly developed Good Farming Practices Documentation Tool is a comprehensive one-stop shop for soybean producers to review all the available information on the prevention and control of Asian Soybean Rust. In addition, the agency has produced a video news release reminding producers of the need for records to confirm that good farming practices were used throughout the growing season.

RMA Releases 2007 Crop Insurance Handbook - On June 26, 2006, RMA released the 2007 Crop Insurance Handbook. The handbook contains underwriting rules for administering the crop insurance program for most crop policies reinsured by the Federal Crop Insurance Corporation. The primary changes to the handbook include the following: 1) incorporating new skip row cotton yield conversion factors and Data Acceptance System codes to identify the planting pattern and row width, 2) allowing married individuals who meet specific requirements to qualify for separate policies, and 3) to allow successor-in-interest policies for spouses and entity changes, in name only, to qualify to use Actual Production History (APH) non-actual, simple average and assigned yields of the previous entity.

National Association of Insurance Commissioners (NAIC) and RMA Agree on Information Sharing Efforts - RMA has stepped up its efforts to routinely share information regarding crop companies with the NAIC and is inviting state insurance department examiners to accompany RMA on financial reviews. In return, the agency has received various statutory financial information on companies and examination information.

FFA Contest Winners in DC – The 10 winners of the ninth annual FFA Risk Management Strategies Writing Contest have been announced. The winners were selected from a pool of 235 participants. FFA members were challenged to apply risk management principles to their own farming operations, and then write about their experiences in a 1000-word or less essay. The winners and their advisors received an all-expense paid trip to Washington, DC from May 3-7, 2006. During their visit, they visited with USDA Secretary Mike Johanns and RMA Administrator Eldon Gould along with their respective Members of Congress.

This year's essay contest winners are:

- **Sierra Simpson** – Timberlake FFA (Kremlin, OK)
- **Angie Bushong** – Hitchcock-Tulare FFA (Tulare, SD)

- **Caleb Alexander** – Garden City FFA (Garden City, KS)
- **Emily Arkfeld** – Lourdes Central Catholic FFA (Dunbar, NE)
- **Troy Kimmel** – New Raymer FFA (Stoneham, CO)
- **Kate Wheeldon** – Schuyler FFA (Schuyler, NE)
- **Monty Brown** – Canton FFA (Canton, OK)
- **Jeffrey C. Bridges** – Grapeland FFA (Grapeland, TX)
- **Alexandria Henry** – Alma FFA (Elwell, MI)
- **James Lyons** – Scott County FFA (Georgetown, KY)

In addition, the RMA Administrator recently hosted FFA Central Region National Vice President Anita Estes, a sophomore at the University of Nebraska. On March 21, 2006, Estes shadowed Administrator Gould as part of a national officers' program, participating in discussions regarding upcoming RMA programs and the need for reliable management of risk in commercial agricultural endeavors.

Request for Applications (RFA), Research and Development Risk Management Research Partnerships Announcement – Applications will be solicited for the development of non-insurance risk management tools that will be utilized by agricultural producers to assist them in mitigating the risks inherent in agricultural production. Approximately \$4 million is available to fund an undetermined number of partnerships for Fiscal Year (FY) 2006. The research objectives for this RFA are in priority order: 1) develop risk management tools that would provide producers facing reduced water allocations with the information needed to manage these reductions; 3) develop tools to assist producers (including livestock) in finding alternative products, techniques or strategies related to disease management; 3) to develop tools for better managing agricultural pests under various farming practices; and 4) to develop tools encouraging self-protection for production agricultural enterprises vulnerable to losses due to terrorism. The application period ended June 8, 2006 and 72 applications were received. An evaluation panel will evaluate and score each proposal based on criteria published in the RFA. The panel will be comprised of selected RMA employees as well as subject matter experts from other agencies such as the Agricultural Research Service and the Economic Research Service, and will meet in Kansas City the week of July 17-21, 2006. The RMA Administrator will make the final selections based upon the ranking of the scores by objective. All awards and agreements will be completed no later than September 30, 2006.

Request For Applications, Risk Management Education Division Announcement Update – So far this year the Risk Management Education (RME) Division received 159 applications for funding consideration under the Targeted States, Commodity Partnerships, and Small Sessions programs. Of the 159 applications received, 16 were received electronically through the *grants.gov* application process. Each application received a first level review, and those applications that passed the first level review will be reviewed by an independent review panel for further evaluation based on the criteria outlined in the Request For Application announcements. Also, the review panel will meet the week of July 10, in Oklahoma City, Oklahoma. After the review panels are held, the RME Division will review individual scores to determine which applicants scored high enough to warrant funding consideration. Negotiations with potential partners will be conducted to ensure deliverables/statements

of work are clear and understandable and budget expenses are appropriate and efficient. Then, all the agreements will be signed by the FCIC Manager, and finalized by mid-September. As a result of this year's RFA announcements, RME will fund the following: 1) one cooperative agreement project in each of the 15 targeted states, 2) up to 4 projects in each of the regional offices for a total of 40 commodity partnerships, and 3) up to 5 projects in each of the regional offices for a total of 50 small session partnerships.

North Dakota Non-Irrigated Corn Grain Expansion – RMA's Billings RO is recommending the expansion of non-irrigated corn grain to 10 central North Dakota counties for the 2007 crop year. Grain corn acreage has continued to increase across the state due to higher input costs for all crops and strong market. In addition, the construction of three new ethanol plants in central North Dakota will increase demand and more farmers will be growing grain corn for this emerging market. Presently, the state of North Dakota produces 140 million bushels of corn per year to meet market demand. Also, with the addition of three more ethanol plants,, an additional 120 million bushels will have to be produced. If approved, this program expansion will help to keep the number of written agreement requests the Billings Office handles each year at a manageable number. The North Dakota Corn Growers Association strongly supports expansion of the insurance program for grain corn into the central part of the state.

Well Shutdowns Ordered by the State of Colorado - Prior to May 5, 2006, Colorado growers, who were served by the Central Colorado Water Conservancy District and its Well Augmentation Sub-district (WAS) in the State of Colorado, had been informed that they would have 15 percent pumping quota from the wells. This information was based on above average snow packs for the winter and the expectation of normal rainfall in the spring. However, after announcing the 15 percent allotment of water, very little snow fell in April 2006, snow packs melted and evaporated, and the normal spring rains did not materialize.

As a result of ongoing litigation regarding the WAS augmentation plan and temporary substitute water supply plan, the Court had given WAS the following two options for 2006: 1) proceed with pumping, provide replacement water and 2) have a hearing in which objectors could challenge the WAS 2006 plan, or cease pumping until the scheduled trial. WAS chose the second option and agreed not to allow pumping under its plan for 2006 on the condition that it be allowed to store the water it had assembled for 2006 and save it for future years. On May 5, 2006, the Colorado State Engineer, in compliance with the Court Order, issued "cease and desist" orders to some 449 well owners. The additional water was expected to come from rainfall during the 2006 crop year that could be stored for future release.

After the order to shut down the wells, WAS sought an emergency water supply and had secured a commitment of 10,000 acre feet from the Western Slope. The Northern Colorado Water Conservancy District had agreed to exchange water from Windy Gap Reservoir near Granby for an emergency supply of Big Thompson River water. However, it appears that the water would only be available if those that filed objections to WAS' plan withdrew their objections. While some withdrew their objections, objections were maintained by the Cities of Sterling and Boulder and about 375 farmers. The objectors alleged that the 10,000 acre feet of water would not be sufficient to cover past water uses, much less be available to cover 2006 water uses, and there was no guarantee of how much water would be available or when. As a result, the deal fell through.

On June 29, 2006, an Informational Memorandum was issued stating the following: From all available information, it appears that the cause of the shutting of the wells and the loss of the allotments was drought. Since, drought is an insurable peril and at least some insureds had a reasonable expectation of receiving 15 percent of their allotment of water until May 5, 2006, such producers may be eligible for prevented planting and indemnities for planted acreage that subsequently failed.

However, any acreage in excess of what could have been irrigated with the amount of water made available in the augmentation plan could not be covered as either prevented planted or planted acreage. The inability to irrigate such acreage is not an insurable cause of loss. Further, losses on acreage planted after May 5, 2006, would not be covered because there was no reasonable expectation for receiving the 10,000 acre feet of water. The 10,000 acre feet of water was still subject to the litigation over the WAS water plan and the only way this water would have been available is if the objectors had withdrawn their objections. Until such time as all the objections were withdrawn, there could be no reasonable expectation of receiving the water.

In addition, the RMA Topeka Regional Office has made available a Producer Documentation Tool to assist the producer in documenting water expectations and their decision on planting based on those expectations. The tool is available through the RO's website, which is http://www.rma.usda.gov/aboutrma/fields/ks_rso/.

2006 Grain Sorghum in South Texas – Policy holders planted grain sorghum in south Texas counties of Cameron, Hidalgo, Willacy, Starr, Kleberg, Jim Wells, Kennedy, Nueces, San Patricio, Brooks, Live Oak, Bee, Refugio, Goliad, Calhoun, Victoria, Dewitt, Karnes, McMullen and Duval. However, the crop did not emerge due to drought conditions. Approved insurance providers (AIP) determined it was not practical to replant the crop, released the effected acreage and paid claims for indemnity accordingly. The area recently received moisture and producers asked RMA if they do the following: 1) may plant the same acreage back to grain sorghum and 2) elect not to insure such crop (second crop) and rather than consider such crop to be a replanted crop. The Basic Provisions provide various related definitions and policy provisions relevant to this issue.

In accordance with *Manager's Bulletin MGR-06-008, Grain Sorghum Planting in South Texas*, when grain sorghum is planted following an AIP's determination that it is not practical to replant a damaged first insured crop of grain sorghum and releases the acreage, the crop replanted is not insurable. Since, the crop replanted is not insurable, the producer's indemnity on the initially planted crop shall not be reduced.

However, the AIP must determine that the "second" crop is replanted consistent with the requirements for a replanted crop (i.e. the cultural practices necessary to prepare the land must be performed and the seed of the damaged or destroyed crop must be replaced with new seed, etc). If the requirements for replanting the crop are not met or the initial crop's seed is left undisturbed in the ground and emerges, then the production from such acreage must be included as production to count and any indemnity with respect to the initially planted crop must be adjusted accordingly.

California Crop Estimates - Apricots, cherries, and pears are experiencing a decline in production due to cool, wet weather experienced in the early spring during bloom. Apricots have had a weak bloom and harvest has been delayed a week. Acreage for apricots has been declining for some time due to competitive markets. The state’s cherry crop is estimated to be down by 15 percent due to rain during pollination. But with the short supply in high demand, the growers will receive higher prices. The pear crop is estimated to be 195,000 tons, which is up 19 percent from last year’s crop. Harvest is expected to begin in July for the Sacramento River area of the state. The following table 1 describes the crop along with its acreage and total estimated liability:

Crop	Acres	Liability
Pears	10,774	\$14,546,219
Cherries	12,894	\$24,646,099
Apricots	6,381	\$6,882,181

Table 1

Cooperative and Trade Associations – The RMA Reinsurance Services Division (RSD) is working with the Office of General Counsel to revise the procedures for implementing 508(b)(5)(b) of the Federal Crop Insurance Act, which authorizes licensing fees or other payments to be made by an approved insurance provider to a cooperative association or trade association, and “rebated” to producers. On May 19, 2006, a draft Standard Reinsurance Agreement (SRA) amendment and accompanying procedures were sent to the approved insurance providers and industry groups for review and comment by June 2, 2006. RMA has reviewed the comments, and is currently redrafting the procedures, which will be distributed through a Manager’s Bulletin instead of an SRA amendment. If an insurance provider would like to make a payment to a cooperative or trade association they must submit the documentation required under Exhibit 27 of their 2007 Plan of Operation. RMA is withholding review and approval of the 2007 Exhibit 27 until after final procedures are developed.

Several Large Group Risk Income Protection (GRIP) Corn Claims in Hartley County, TX – The Oklahoma City RO has been notified of several large GRIP claims in Hartley County based on the new provisions allowing RMA the option to participate in claims with a liability exceeding \$500,000. The RO has elected to participate in the loss adjustment process for some of these claims. The 2005 crop year GRIP liability in Hartley County was \$53,755,262. In addition, there were 67 GRIP policies earning premium for 2005 crop year. In contrast, there were 12 corn GRIP policies earning premium for the 2004 crop year, with \$3,747,638 that was paid out in indemnities and a loss ratio of 3.97. Several inquiries about the GRIP program provisions in Hartley County have been received and the Southern Risk Compliance Office is aware of this issue.

Electronic Written Agreements (eWA) Project - The eWA Investment supports the replacement of current legacy systems and methodologies. Also, it also consists of the enterprise architecture and platform necessary to support the processes and store current and historical data.

Currently, the eWA project team is finalizing detailed requirements for the Actuarial Filing Systems (AFS) and Regional Office (RO) Exceptions Processing systems. Final RMA review of AFS requirements documentation was completed by June 26, 2006. The RO exceptions requirements

documentation materials are nearly complete with a final review and concurrence by RMA scheduled for July 24, 2006. Also, Reinsurance Accounting Systems, Data Acceptance System, and Corporate Reporting detailed requirements gathering sessions are scheduled to start this coming July 18, 2006.

In addition, the kickoff of the design and implementation phase of the project remains dependent on the re-compete of RMA and FCIC's Information Technology (IT) contract. The new contract is scheduled to be in place in mid July 2006. On June 22, 2006, RMA's project team met and began the next planning phase of the project. The eWA Steering Committee anticipates a phased in implementation for the eWA project beginning with AFS in January 2008, effective for the 2009 crop year. However, final decisions on this plan are expected to be made by September 1, 2006.

The eWA Investment project leadership team is as follows:

- Project Sponsor – James Callan
- Chief Information Officer (CIO) - Vondie O'Conner, CIO
- Project Manager - Dave Paul, Regional Director
- Project Steering Committee:
 - Denise Hoffmann, Director Product Analysis and Accounting Division – Chair
 - Dave Paul, Regional Director
 - Kathy Tiefel, Assistant Project Manager
 - Mike Alston, Regional Director
 - Cornell Webb, Compliance
 - Jacques Malebranche, GSA Acquisition Manager

IT Contracts Status - On May 2006, the IT integration contract that provides most contracted IT services for RMA and FCIC was scheduled. However, the contract has been extended by three months. The contract is being offered again for RMA by the General Services Administration (GSA), which contracts for much of the IT services for Federal government. During the week of April 10, 2006, diligence meetings with prospective contractors were held in Kansas City. So, the new IT integration contract is scheduled to be in place in July or August of 2006.

In addition, the data mining/data warehousing contract with Tarleton State University Center for Agricultural Excellence (CAE) was scheduled to end on August 31, 2006. However, an extension of up to six months is anticipated. The preparations to re-offer the data mining/data warehousing contract have already begun, and an award for a new contract is expected in late 2006.

Compliance:

National Association of Insurance Commissioners - The National Association of Insurance Commissioners has established an antifraud task force with a mission statement to serve the public interest by assisting the state insurance supervisory officials, individually and collectively, to promote the public interest through the detection, monitoring and appropriate referral for investigation of insurance crime, both by and against consumers. One of the charges of the task force is to coordinate with state, federal, and international law enforcement agencies in addressing antifraud issues relating to the insurance industry.

The NAIC Fraud Coordinator has indicated that many of the states have established fraud divisions that investigate cases similar to RMA's in other lines of insurance and have enacted specific insurance fraud statutes. RMA has been pursuing ideas as to how we can cooperate with willing state fraud divisions to assist Compliance in investigating crop insurance fraud.

Risk Compliance is developing a working relationship with the NAIC to educate members of the antifraud task force and state insurance fraud directors of the potential impact of crop insurance fraud. As a first step in this process, RMA Compliance presented crop insurance program information to the antifraud task force at the recent NAIC meeting in Orlando, Florida.

Our goal is to have a protocol worked out for referring specified cases for prosecution to State authorities as a part of the cooperative effort between NAIC and RMA.

National Operations Reviews (NOR) – RMA Compliance has only seven final policy findings remaining to be issued out of the 300 random policies (2004) selected for the 2005 NOR reviews. These policy reviews help assess the insurance providers' adherence to the Standard Reinsurance Agreement (SRA), quality control guidelines and RMA's approved policies and procedures. The Agency conducts random policy reviews during the NOR to report an error rate to OMB under the requirements of the Improper Payments Information Act of 2002. Also, RMA has issued the NOR procedures for conducting these reviews and will modify them as necessary based on the experience comments of the reviewers who have used them in the field.

RMA announced the review schedule for 2006 at the recent NCIC National Claims Manager's Conference. The Compliance offices will conduct Operations Reviews of the following companies:

- Dallas – *Rain and Hail*
- Davis – *Crop USA*
- Indianapolis – *Country mutual*
- Kansas City – *ProAg*
- Raleigh – *American Agricultural*
- St. Paul – *Farmers Crop Insurance Alliance (closeout)*

The 2005 random policy selection occurred during the week of April 17, 2006. By waiting until this date, RMA expected to see some Group Risk Plan and Group Risk Income Protection indemnities in the selection pool available as part of the review population. Due to recent concerns raised regarding these products, Compliance will assess over the summer of 2006 if a special review on these products is necessary.

New General Accountability Office (GAO) Assignment – RMA received a February 3, 2006 memorandum, advising that GAO is planning to conduct a new audit entitled *Insurance Risks from Climate Change*. RMA has been designated as the lead USDA agency for this audit that will look at historical losses, expectations and the perceived risk of climate change. RMA Research and Development has been designated the point of contact for the Agency for this audit.

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 (FSA) has 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 at some point in time
- Finalizing a quality control program for the AIPs intended to help RMA assess the effectiveness of the quality controls used by the AIPs. 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.

###