



**United States  
Department of  
Agriculture**

Federal Crop  
Insurance  
Corporation

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

DATE: September 12, 2007

TO: Board of Directors  
Federal Crop Insurance Corporation

FROM: Eldon Gould /signed/  
Manager

SUBJECT: Manager's Report  
Exhibit No. 2913

This memorandum serves as the Manager's Report to the Board of Directors (Board), Federal Crop Insurance Corporation (FCIC), for the September 12, 2007 meeting. The report relates to program issues as outlined below:

**Program Issues:**

**Pasture, Rangeland, Forage-First Vegetative Index (PRF-VI) Interval Results** - On August 23, 2007, the results of the first Index Interval for the PRF Vegetation Index pilot area were released. The RMA and its contractor, Grazingland Management Systems (GMS), followed standard operating procedures for validating the data at the end of the Index Interval prior to release. Any potential anomalies were verified resulting in no modifications needed.

The vegetation index does not explicitly predict forage on a given producer's operation. Instead, the index is simply a reflection of how the greenness of the vegetation has changed over the given 3-month interval for a specified grid, declared by the producer, relative to a long term average for the same interval and grid. The time period for Index Interval I is from April 1 thru June 30.

Tables 1 and 2, which are provided below, summarizes the PRF-VI results for Index Interval I and provides PRF-VI results for Index Interval I by state.

Interval	Average Coverage Level	Net Acres Insured	Liability	Premium	Indemnity*	Loss Ratio
1	85%	963,961.49	\$ 18,208,119	\$ 1,752,392	\$ 96,990	0.06

Table 1

State	State Code	Interval	Average Coverage Level	Net Acres Insured	Liability	Premium	Indemnity*	Loss Ratio
CO	8	1	77%	40,989.79	\$ 645,145	\$ 37,196	\$ 3,881	0.10
OK	40	1	89%	253,090.83	\$ 5,097,441	\$ 445,602	\$ 15,881	0.04
OR	41	1	79%	26,925.40	\$ 1,129,057	\$ 39,760	\$ 45,291	1.14
SD	46	1	84%	642,955.47	\$ 11,336,476	\$ 1,229,834	\$ 31,937	0.03

*\*Please note: The Indemnities reflect RMA estimates based on the current book or business and final grid indices reported. The PRF-VI Index Interval II period will end September 30, 2007.*

Table 2

**Expansion of Pasture, Rangeland, & Forage** – On June 5, 2007, the expansion of pasture, rangeland, & forage was approved by the FCIC Board of Directors, subject to appropriate budget offsets available to meet Administration Pay-Go requirements, which establish restraints in Federal spending by implementing a budget-neutral requirement on Agency administrative actions affecting mandatory spending. RMA was unable to fully implement the expansion approved by the FCIC Board as appropriate budget offsets could not be obtained. Therefore, expansion for 2008 will encompass the state of Wyoming and four additional counties in South Dakota: Pennington, Lawrence, Fall River, and Custer. Alabama and a southern tier of counties in New York State were included at the time of initial Board approval of the PRF pilot program. Any other expansion was accounted for by meeting initial Pay-Go budget offset requirements.

RMA released all materials relevant to the 2008 PRF program, including expansion materials the week of August 27, 2007.

**Quarantine Pilot Endorsement** – On August 14, 2007, a solicitation for bids for development of a Quarantine Endorsement Pilot Program for California Citrus, Avocados, and Florida Citrus opened. It will close on September 13, 2007.

**Silage Sorghum Pilot Endorsement** – On August 16, 2007, a solicitation for bids for an evaluation of the Silage Sorghum Endorsement Pilot Program opened. It will close on September 14, 2007.

**California Avocado** – The solicitation for bids for conversion of the California Avocado Pilot Program from a Revenue program to an Actual Production History (APH) resulted in Watts and Associates being selected to develop the new program.

**Named Weather Peril Insurance** – The contract modifications for development of the Named Weather Peril Insurance have been exercised. Watts and Associates are proceeding to the final development stages of this project.

**Regulatory Update:**

**Combination Regulation Update** – Currently, the final rule is in the Departmental clearance process. The final rule is to be effective for the 2009 crop year.

**Mustard Crop Provisions** – Currently, the final rule for mustard crop provisions are in the Product Administration and Standards Division's (PASD) concurrence process. The mustard pilot crop program would become a permanent program. The final rule is targeted for the 2008 crop year.

**Cabbage Crop Provisions** – The proposed rule comment period ended and PASD is in the process of responding to the public comments. The final rule would convert the Cabbage pilot crop insurance program to a permanent program targeted for the 2009 crop year.

**Grape and Table Grape Crop Provisions** – Currently, the proposed rule is with the Office of General Counsel (OGC) for review and approval. The final rule is targeted for the 2009 crop year.

**Fresh Market Sweet Corn** – The rule is being prepared for publication in the *Federal Register* after OGC review. The final rule is targeted for the 2008 crop year for counties along with the contract change date of November 30, 2007.

**Northern Potato Crop Provisions and the Central and Southern Potato Crop Provisions** – Currently, the final rule is with OGC for review and clearance. The rule makes changes to the Storage Coverage Endorsement and the process for determining production to count for claim purposes intended to improve program integrity and address audit recommendations. The final rule is targeted for the 2008 crop year for the Northern Potato Crop Provisions and the 2009 crop year for the Central and Southern Potato Crop Provisions.

**Millet Crop Provisions** – On August 23, 2007, the final rule was published in the Federal Register. The rule removes the indemnity reductions for unharvested acreage that has caused producer concern for several years. The final rule is effective for the 2008 crop year.

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

**Coverage Enhancement Option (CEO)** – On August 6, 2007, the public comment period to the proposed rule ended, and PASD is preparing responses to the comments. The proposed rule converts the pilot program to a permanent program option. The final rule is targeted for the 2009 crop year. On a side note, CEO is only offered in Texas for citrus trees.

**Cultivated Wild Rice** – On August 6, 2007, the public comment period to the proposed rule ended, and PASD is preparing responses to the comments. The proposed rule converts the cultivated wild rice program from a pilot program to a permanent program. The final rule is targeted for the 2009 crop year.

**Tobacco** – The public comment period to the proposed rule ended on July 23, 2007, and PASD is preparing responses to the comments. The proposed rule rewrites and renames the current Guaranteed Tobacco Crop Provisions to the Tobacco Crop Provisions reflecting the elimination of tobacco quotas. In addition, the proposed rule eliminates the Quota Tobacco Crop Provisions. The final rule is targeted for the 2009 crop year.

**Dry Pea** – Currently, the proposed rule is in PM's concurrence process. The proposed rule provides coverage for fall planted dry peas and allows insureds to select different coverage levels and price election percentages by dry pea type. The final rule is targeted for the 2009 crop year.

#### **Program Highlights/Announcements:**

**Texas, Oklahoma, Kansas, and Missouri Floods Update** – About June 24, 2007, flooding occurred in certain parts of Texas, Oklahoma, Kansas, and Missouri. As of August 20, 2007, some counties in the four states are still flooded. State and county FSA offices continue to collect and assemble damage assessment information. The current indemnity estimate for all four states due to the flooding is approximately \$51.9 million, which is down from \$69.1 million. RMA continues to work with other USDA agencies in monitoring the affected areas due to the flooding.

**California Citrus Freeze Update:** Currently, citrus policyholders still have claims pending because the insurance companies are awaiting the records from the packer for late navel and Valencia oranges. Overall, the damage was very harsh, but more fruit was packed than initially estimated. However, Managers' Bulletins 003 and 003.1 did aide the Approved Insurance Providers in expediting the claims processing. Of the 4,165 policies sold, there are slightly over 195,000 acres insured with \$301.8 million in total liability. As of today, \$48.7 million in total indemnities have been paid.

**Rice Program Vulnerability** – Recently, the RMA Davis Regional Office was contacted by the Farm Service Agency regarding growers who produced Japanese short grain rice. These rice varieties yield less production per acre than other varieties. Local sweet rice growers were receiving higher prices for their commodity than traditional rice producers were. The RMA office is reviewing the situation and will make a program recommendation, if warranted.

**Conflict of Interest Update** – On May 14, 2007, RMA's Reinsurance Services Division (RSD) circulated a third draft Manager's Bulletin to provide guidance to Approved Insurance Provider's (AIP) regarding *Conflict of Interest* disclosures by company employees, agents, and loss adjusters.

The draft incorporated changes from comments submitted by the crop insurance industry from an earlier draft. Companies provided comments to the latest draft at a Program Integrity conference sponsored by National Crop Insurance Services held on May 22, 2007 in Overland Park, Kansas. RSD is circulating the current draft for internal review and then will send to the Companies and follow-up with a teleconference.

**Coordination with National Association of Insurance Commissioners** - RMA is coordinating several program issues with the National Association of Insurance Commissioners (NAIC) and these issues include rebating by cooperatives and loss adjuster licensing. From June 1, to June 5, 2007, those issues were discussed at a meeting of the Crop Insurance Working Group at the NAIC Spring Meetings in San Francisco, California.

**FY 2007 Projects** - The Risk Management Education Division (RMED) met the RMA Chief Financial Officer's (CFO) deadline for having all agreements signed by partners and back to the RMA by Wednesday, August 29, 2007. Currently, RMED is waiting to receive all signed agreements back from the budget office. RMED will begin issuing official award letters to those partners who were successful in receiving an agreement this year. From September 18 to 19, 2007, Risk Management Education Division will conduct the Partner Post Award Training/Conference in Denver, CO, which will be followed by individual entrance conference calls. In these conference calls, both sides will discuss in detail the statement of work and deliverables.

**Request for Applications for Fiscal Year 2008** – RMA's CFO would like to see the Request For Applications (RFAs) process for the Fiscal Year 2008 implemented earlier in the year. RMED will work with the CFO to meet this request. RMA's goal is to have the RFA's published by November 30, 2007.

### **Compliance:**

**Ongoing Investigations/Audits/Sanctions Update** – On August 21, 2007, RMA met with the OIG-Investigations Management Team to discuss current Federal crop insurance program trends and changes. Highlights included discussions of the new *Combo Policy*, electronic Written Agreement system, Common Information Management System, and an overview of RMA Compliance activities for 2006. Also, discussed were the recent success stories in crop insurance prosecutions, suspensions, debarments, and disqualifications and the need to encourage changes in standard practices to improve the effectiveness of criminal and administrative remedies for dealing with program violations.

**National Program Operations Reviews (NPOR)** – The field work for the current round of reviews has been mostly completed by the field offices for 2006 claims on randomly selected policies. These policy reviews help assess the insurance providers' adherence to the Standard Reinsurance Agreement (SRA), quality control guidelines, and approved policies and procedures. RMA conducts random policy reviews during the NPOR to report an error rate to OMB under the requirements of the Improper Payments Information Act of 2002. Completing the current reviews will finalize the three-year review cycle and will provide RMA with the first full program error rate since it began the NPOR process. On May 25, 2007, RMA reported a 2-year program error rate of 2.68 percentage based upon the first 600 randomly policy reviews conducted to date.

Compliance continues to monitor findings from last year's NPORs and one Approved Insurance Provider's progress in resolving internal control and other organizational issues. Compliance is working closely with Reinsurance Services Division to validate this provider's corrective actions.

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

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

**Update GAO Report on Fraud, Waste, and Abuse** – This audit provided recommendations to RMA as to how we could improve compliance efforts. RMA agreed in principle with most of the GAO recommendations and agreed to proceed on the following items:

- Adjusting the producer spot-check list procedures to permit FSA to review fall seeded crops for the following year as opposed to the current year, which was ineffective. RMA discussed the possibility of separating the data mining algorithms for the fall and spring, but determined that essential data would be excluded in the process. Farm Service Agency has stated that without additional resources, it will be unable to perform 100 percent of the designated growing season inspections.

**Status - Complete.**

- Distributing to each AIP the listing of its policyholders whose tax identification numbers or shareholders with substantial beneficial interests did not reconcile with FSA's permitted entity file. RMA will formally require the AIPs to review the discrepancies under Appendix IV and report the results in the future.

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

- Finalizing a quality control program for the AIPs intended to help RMA assess the effectiveness of the quality controls used by the AIPs. In addition, RMA Compliance will continue to test AIP quality control programs during scheduled national operations reviews.

**Status** – RMA continues to work on this recommendation. On April 30, 2007, companies were required to have all their quality control inspections electronically submitted to RMA on “Type 57” records. In the initial review of the data, Compliance identified processing errors that appear to have corrupted some of the data. RMA is working to correct the problem and will ask the companies to resubmit their 2006 crop year review information when complete.

- Finalizing the ARPA-implemented sanctions regulations as soon as OGC has completed its review of the current draft. RMA informed GAO that the lack of these regulations had not hindered RMA from using the statutory authority to sanction some producers. However, getting the regulations in place should help improve the overall sanctions process.

**Status** – The proposed rule to amend the *General Administrative Regulations, Administrative Remedies for Non-Compliance* provisions published in the Federal Register on May 18, 2007, with the comment period ending on June 18, 2007. Compliance is in the process of reviewing the comments to the proposed regulation. RMA received 17 comments within the comment period. The proposed rule and the comments received are now available online at [www.regulations.gov](http://www.regulations.gov) under the Federal Crop Insurance Corporation.

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