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**DATE:** May 1, 2012  
**TO:** Board of Directors  
Federal Crop Insurance Corporation  
**FROM:** William J. Murphy /s/  
Manager  
**SUBJECT:** Manager's Report  
Exhibit No. 4076

This memorandum serves as the Manager's Report to the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) for the May 10, 2012 meeting.

### **Product Management Update**

**Acreage Crop Reporting Streamlining Initiative (ACRSI):** The ACRSI project continues to make progress towards developing streamlined acreage reporting solutions across USDA programs, including on-line self-service tools. Agencies participating in the ACRSI include the Risk Management Agency, (RMA) Farm Service Agency, (FSA) Natural Resources Conservation Service, (NCRS) and Natural Agricultural Statistics Service (NASS). For the 2013 crop year, location identifiers have been aligned to American National Standards Institute standards, acreage reporting dates have been consolidated, a data governance process has been put in place to maintain new common data standards, and the first phase of the on-line acreage reporting tool is scheduled to become available on a limited pilot basis.

In addition, work is continuing to standardize producer business/entity types, adopt the Common Land Unit (CLU) as the standard for land identification nationwide, consolidate production data elements, and consolidate commodity names and codes.

**Group Risk Plan (GRP) Rangeland:** On April 20, Actuarial and Product Design Division received a favorable decision in a National Appeals Division (NAD) Directors Review of an appeal of the 2008 GRP Rangeland indemnity payments. A NAD Hearing Officer determined on September 16, 2011, that RMA did not err in using National Agricultural Statistics Service (NASS) data to calculate GRP Rangeland indemnity payments for 63 appellants. Thirty-six of the appellants requested a Directors Review which upheld the Hearing Officers decision.

**Sweet Potato Law Suit:** The United States Court of Appeals for the Fourth Circuit issued a favorable unpublished opinion for RMA in a case for 2008 Sweet Potatoes. The judgment upholds the final agency decision issued December 30, 2008 and denies the appellant's motion to vacate the arbitration award and confirms the original indemnity payment which has already been paid.



The Risk Management Agency Administers  
And Oversees All Programs Authorized Under  
The Federal Crop Insurance Corporation

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**Financial and Operational Oversight:** RMA enhances program integrity and oversight through its efforts in performing National Financial and Operational Review (NFORs). The objectives of the NFORs are to determine the ongoing financial stability of Approved Insurance Providers (AIPs) as well as to evaluate AIP's overall operations in accordance with the Standard Reinsurance Agreement (SRA). RMA performed six NFORs during FY2011 and plans to perform six NFORs during FY2012. For Reinsurance Year 2012, RMA evaluated 15 Standard Reinsurance Agreement Plans of Operation recommending approval of 15 companies, and evaluated 11 Livestock Reinsurance Agreement Plans of Operation and recommending approval of 11 companies. For Reinsurance Year 2013, RMA is currently evaluating 15 Plans of Operations as well as one new Plan of Operations submission.

**Fostering Relationships with the National Association of Insurance Commissioners and State Insurance Regulators:** RMA has an ongoing reciprocal relationship with the National Association of Insurance Commissioners and state insurance regulators. RMA recently received access and training on the NAIC's Internet State Interface Technology Enhancement (ISITE) system which is the NAIC's insurance company data repository. RMA incorporates this data into the annual and quarterly financial analysis process.

### **Regulations:**

#### **Catastrophic Risk Protection Endorsement (CAT)**

The proposed rule public comment period ended on October 17, 2011. Responses to the public comments are being prepared as part of the final rule process. The final rule updates language in the CAT Endorsement to be consistent with the 2011 Common Crop Insurance Policy Basic Provisions and the area plans of insurance. The final rule is being updated to be consistent with language in the Area Risk Protection Insurance Plan final rule.

#### **Fresh Market Tomato (Dollar Plan) Policy**

The final rule was published in the Federal Register on April 18. The final rule is in effect for the 2013 crop year.

#### **Regulation for Ineligibility for Programs**

The comment period ended on February 3, for 7 Code of Federal Regulations Part 400 General Administrative Regulations; Mutual Consent Cancellation; Food Security Act of 1985, Implementation; Denial of Benefits; and Ineligibility for Programs under the Federal Crop Insurance Act which was published in the Federal Register on December 5, 2011. FCIC proposed to amend the General Administrative Regulations to revise Subpart U – Ineligibility for Programs under the Federal Crop Insurance Act to eliminate redundancies, improve clarity, remove or update obsolete references, and add references to other provisions regarding ineligibility for Federal crop insurance. In addition, FCIC proposed to remove Subpart C - General Administrative Regulations; Mutual Consent Cancellation and Subpart F - Food Security Act of 1985, Implementation; Denial of Benefits. RMA staff is finalizing responses to comments received and drafting the final rule for clearance. Target implementation of the regulation is for 2013 and succeeding crop years.

#### **Onion Policy**

The final rule was published in the Federal Register on March 8. The final rule addresses coverage for processing onions, allows for expansion of the onion program to additional states and counties, and clarifies indemnity calculations. The final rule is in effect for the 2013 crop year.

### **Peach Policy**

The public comment period for proposed rule ended on March 26. Responses to the public comments are being prepared as part of the final rule process. The final rule revises the requirements to qualify for fresh peach production; allows optional units by fresh, processing and non-contiguous land; and clarifies quality loss adjustment provisions. The final rule is targeted to be in effect for the 2013 crop year.

### **Pecan Revenue Policy**

The proposed rule public comment period ended on September 20, 2011. The final rule is in Product Management's concurrence process. The final rule revises the settlement of claims language, provides for optional units and other changes requested by pecan producers. The final rule is targeted to be in effect for the 2013 crop year.

### **Prune Policy**

The proposed rule public comment period ended on February 3. The final rule is in Product Management's concurrence process. The final rule revises the settlement claim language. The final rule is targeted to be in effect for the 2013 crop year.

## **REGIONAL OFFICES (RO)**

### **County Identification Changes**

Due to changes under the USDA Acreage Crop Reporting Streamlining Initiative (ACRSI), the Risk Management Agency and Farm Service Agency are slated to move to American National Standards Institute (ANSI) codes and away from Federal Information Processing Standard (FIPS) codes. The change directly affects 3 RMA "split counties" where those counties would go away. This will sync RMA and FSA county codes. NOTE: The 3 split counties are all in the St. Paul RO region: East/West pairs of Ottertail (MN), Pottawattamie (IA), and Polk (MN) will be replaced by just the one county name for each current pair. Actuarial work has begun to combine rates, T-Yields, crop programs and other county structures. The St. Paul RO has been working with Iowa and Minnesota State FSA offices regarding these program changes.

### **Planting Conditions**

On April 23, the Billings RO Director was contacted by an Associated Press reporter from Jamestown, ND. The reporter was working on an expanded story about the March 30 USDA planting report and requested prevented planting information for North and South Dakota. USDA's recent planting intentions report indicated higher corn acres and lower soybean acres. Generally, ND had the highest Prevented Planting acres for the 2011 crop year and SD had the fourth highest. However, projections for the 2012 crop year indicate that this may well be the lowest year for Prevented Planting in both states.

North Dakota- Corn is 49 percent planted, soybeans are 12 percent planted, and 80 percent of the state's sugar beet crop has been planted.

South Dakota - Corn is 44 percent planted, soybeans are 5 percent planted, and 84 percent of the spring wheat has been planted.

### **Electronic Regional Office Exceptions**

The 10 RO's have continued to develop the Exceptions Extranet Pilot Program as 2012 written agreements and other exceptions are processed. This is a system that allows insurance companies to transmit requests for exceptions (written agreements, added land, yield determinations, nursery) to RO's through a SharePoint server versus through the mail. RO's process the exception request electronically, digitally sign the agreement or yield determination, and post back on SharePoint for a company representative to pick up. This saves huge amounts of time and money versus mailing, printing, etc. This is also a step toward the RO Exception ITM project when all requests will be processed electronically. The ITM system is planned to go into production for crop year 2014. Several enhancements have been made both in the system and through coordination with insurance companies and RO's. Approximately 8,183 or 33 percent of all 2012 actuarial requests have been processed through the Extranet pilot-up from 11 percent a year ago. Over 54 percent (1,190 of 2,178) of all yield determinations and 28 percent (122 out of 433) of added land requests have also been processed electronically. Twelve insurance companies are signed up in the pilot program and 10 have submitted requests electronically.

### **Washington State Potato Crop Insurance Conspiracy Case**

An insurance agent for producers involved in a Potato crop insurance case was indicted for participating in a conspiracy with area potato growers and packers to defraud the Federal Crop Insurance Corporation of more than \$9.5 million in insurance payments. A trial is set for October 22, 2012, for the agent and seven others indicted earlier in the case. The trial date was rescheduled after the agent was added to the case. Spokane RO staff is assisting the US Attorney's staff and Office of Inspector General investigators preparing for trial.

### **California Wheat**

The Davis RO continues to meet with stakeholders to address program vulnerabilities associated with dry land wheat. Throughout the state, there are approximately 185,000 acres of dry land wheat insured. The counties for which program changes are being considered are located in the state's San Joaquin and Imperial Valleys. These valleys comprise of almost 122,000 acres of dry land wheat.

### **Texas Irrigation Issues**

In the 2011 crop year, many producers found that their irrigation water supply was not adequate to supply the amount of water needed to sustain their cotton crops. By attempting to salvage their crops, producers applied large amounts of water to their crop which depleted some water wells. Other producers chose to divert water according to Par. 88 of the Loss Adjustment Manual.

For 2012, the burden remains for all producers to determine if adequate water supply will be available to successfully produce an irrigated 2012 cotton crop. Some producers will not be able to plant as many irrigated acres as they have in the past due to irrigation supply limitations and current drought conditions. Many reservoirs and river systems throughout Texas have limited or eliminated the amount of water supplied for agricultural use in 2012. Producers must plan accordingly based on information received from their water districts. Prevented planting or converting to a non-irrigated practice, due to loss of irrigation, may be the only option for some producers.

In the Texas Panhandle, several ground water districts have begun setting limits on the amount of irrigation water a producer can use from any given well. For 2012, these irrigation water limits should have little effect on the irrigation practices of most cotton producers but could affect producers in the future as the allotted amounts are further reduced. Some producers will not have enough water available from a particular site to use their ground water district allotment.

### **Regional Grain Sorghum Planting Date Review**

The Oklahoma City RO is working on a review for grain sorghum planting dates in New Mexico, Oklahoma and Texas and will work with the Cooperative Extension and grain sorghum grower groups in all three states.

### **Team USDA in Oklahoma**

The Oklahoma City RO met with Extension and other USDA agencies to formulate a plan to combine resources to inform producers of agency programs. Plans have been made to collaborate in an effort to reach producers at several upcoming venues.

### **Compliance**

#### **Final Findings Issued Since the September 2011 Board Meeting**

Since the March Board meeting Compliance has issued final findings to reinsured companies for the following amounts: premium overstatements - \$1,040,291; indemnity overpayments - \$5,191,556; premium understatements - \$21,718; indemnity underpayments - \$6,288; and indemnity cost avoidance \$1,235,672.

#### **Program Integrity**

On March 19, Troy Gregory, 74, pled guilty to failure to file currency transaction reports, in violation of Title 31, United States Code, Sections 5313(a) and 5322(b). According to the information, as well as statements made in open court, Gregory, doing business as Troy's Place, was a licensed check casher engaged in currency transactions over \$10,000, which by regulations, require reports to be filed detailing the transactions. Gregory failed to file the required reports for transactions over \$10,000 between 2003 and 2010. In 2007 alone, between August and November, Gregory cashed over \$560,000 worth of checks on behalf of two tobacco warehousemen. The checks were in nominee and fictitious names, and were payment in connection with the sale of hidden tobacco.

#### **Quality Control Reviews**

The Standard Reinsurance Agreement for 2012 envisioned a greater use of data mining to target policies for Company quality control reviews. In April, the Compliance Strategic Data Acquisition and Analysis Staff distributed this year's spot check list to FSA and the reinsured companies. This year Companies will review a lower limit list made up of policyholders with indemnities under \$10,000 as well as 50 percent of the list of policyholder with indemnities exceeding \$10,000. FSA will review the other 50 percent of the "upper limit" list. The Companies agreed to take on more spot checks in 2012 due to the change in the high dollar review requirement effective for this year.

## **National Program Operations Review (NPOR)**

The regional Compliance Offices received the policy selections for the 2011 NPORs in April and are in the process of scheduling entrance conferences with their assigned Companies. Throughout the summer Compliance will be reviewing random and non-random policies sold and serviced by the following Approved Insurance Providers for the 2011 crop year. Field reviews will include interviews with policyholders, company personnel, agents, and adjusters identified with each selected policy.

## **Ongoing Tobacco Program Review**

North Carolina Farm Bureau (NCFB) Tobacco Meeting: The NCFB sponsored a meeting for about 150 tobacco producers on March 16, in Wilson, NC. The Deputy Administrator for Compliance, and Dr. Jim Hipple, remote sensing expert represented the Risk Management Agency and Miles Davis, Special Investigator, represented the USDA Office of Inspector General. The purpose of the meeting was to discuss the concerns surrounding the tobacco insurance program and future stability of the program. Representatives from the RMA regional offices, RMA Kansas City, banking industry, NC Department of Agriculture and the NC Commissioner's Office and from the NC State University Cooperative Extension Department also attended the meeting. As a follow-up to this meeting the Deputy Administrator for Compliance will address the U.S. Tobacco Conference in Raleigh, NC on June 15.

The work in assisting the Office of Inspector General with tobacco program investigations in North Carolina, South Carolina, Georgia, Kentucky, and Tennessee is ongoing.

## **Supplemental Revenue Assistance Program (SURE) Referrals**

As of April 24, 2012, the regional Compliance Offices have received 6,851 SURE referrals from the Farm Service Agency or about 600 more than was reported to the Board in the March report. Since FSA relies on crop insurance program data to calculate payments under SURE, FSA is in a position to discover reporting discrepancies while reviewing producer applications. Compliance is currently receiving referrals for the 2008, 2009, and 2010 crop year from FSA.