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2000 Annual Program Performance Report

RISK MANAGEMENT AGENCY

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RISK MANAGEMENT AGENCY

FY 2000 ANNUAL PERFORMANCE REPORT

The Risk Management Agency (RMA) was established under provisions of the Federal Agriculture Improvement and Reform Act of 1996 (1996 Act), P.L. 104-127, approved April 4, 1996. This Act amended the Department of Agriculture Reorganization Act of 1994, P.L. 103-354, Title II, to require that the Secretary establish within the Department an independent office responsible for supervision of the Federal Crop Insurance Corporation (FCIC), administration and oversight of programs authorized under the Federal Crop Insurance Act (7 U.S.C. 1501 et seq.), including any pilot or other programs involving revenue insurance, risk management education, risk management savings accounts, or the use of the futures market to manage risk and support farm income. The Agricultural Risk Protection Act of 2000 (ARPA), P.L. 106-224, was signed into law on June 20, 2000. Major provisions of this new legislation include: Expanded use of contracts and partnerships with public and private entities for the research and development of policies and other risk management tools; increased premium subsidies to make buy-up coverage more affordable for producers; expanded pilot program authority to include livestock program(s), a wild salmon program, a premium rate reduction pilot, and a cost-share program; reimbursement of research, development, and maintenance costs; increased emphasis on risk management education and assistance; provisions to address under-served areas, States, and commodities; establishment of expert review panels and procedures for reviewing policies, plans of insurance, and related material or modifications; program compliance and integrity provisions; availability and acceptance of electronic information; good farming practices to include scientifically sound sustainable and organic farming practices; and others not included herein.

The mission of the Agency is to provide and support cost-effective means of managing risk for agricultural producers, in order to improve the economic stability of agriculture. RMA is committed to transforming the crop insurance program into a broad-based safety net for producers to assure that American agriculture remains solid, solvent and globally competitive through the 21st century. This safety net for producers consists of many public and private alternatives designed to improve the economic stability of agriculture. RMA's portion of the safety net is supported by the Federal Crop Insurance program, risk management education, and non-insurance risk management tools such as options pilot programs.

More information regarding RMA's programs can be found in the RMA Strategic and Annual Performance plans. Only federal employees were involved in the preparation of this report.

The following table provides summary information on RMA's achievement of FY 2000 Performance Goals.

Goal 1: To strengthen the safety net for agricultural producers through sound risk management programs and education.

Objectives:

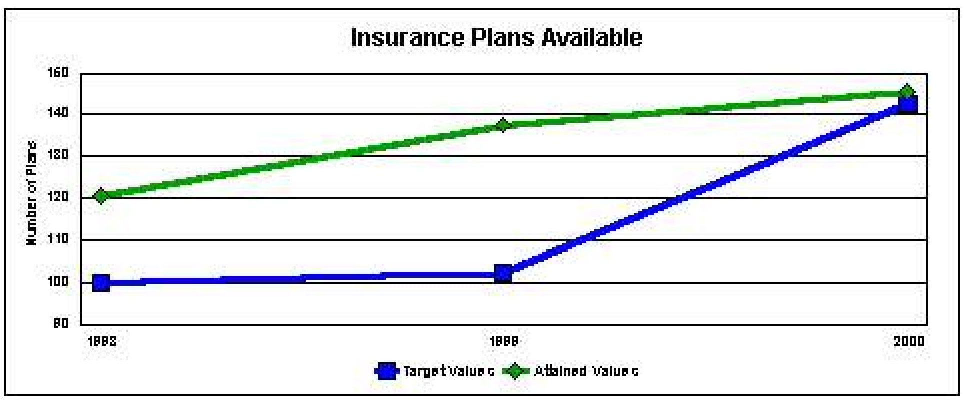
1.1 Producers have economically-sound risk management tools available to meet their needs.
1.2 Increase the agricultural community's awareness and effective utilization of risk management alternatives.
1.3 Improve program integrity and protect taxpayer's funds.

Goal 1: To strengthen the safety net for agricultural producers through sound risk management programs and education.

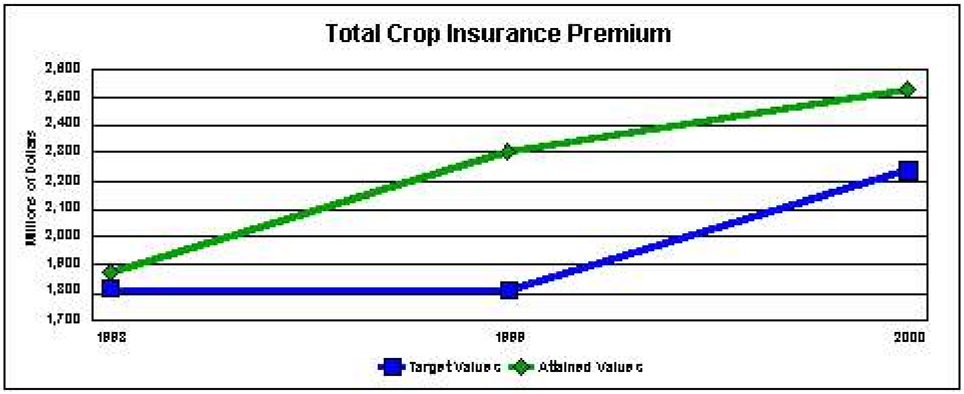
Objective 1.1: Producers have economically-sound risk management tools available to meet their needs.

Key Performance Goal

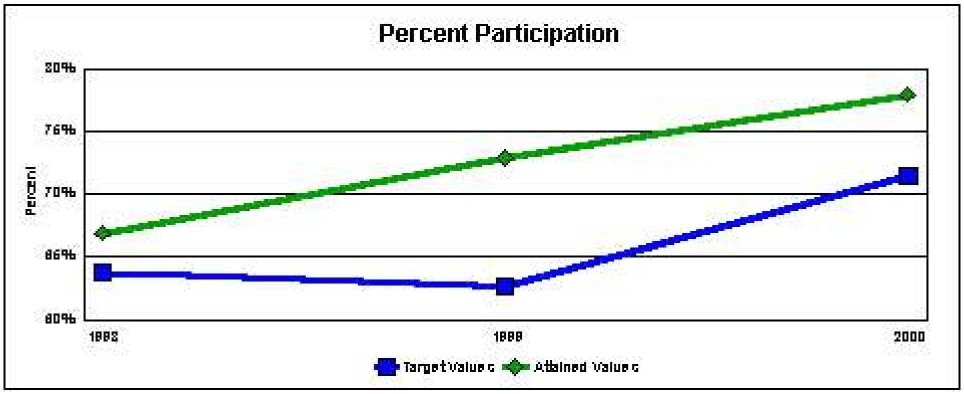
Annual Performance Goals/Indicators	1999 Actual	2000 Target	2000 Actual
Expand risk management tools available for producers.			
Number of insurance plans available (crop year* data).	138	143	146
Total crop insurance premium (dollars in thousands-crop year* data).	2,303,669	2,235,700	2,526,224
Percent Participation - Percent of planted acres of principal crops as reported by NASS (other than hay) that are insured (crop year data).	73%	72%	78%
Total insurance in force (dollars in thousands-crop year data).	30,861,626	28,754,900	34,276,581
*As defined in the Revised 2000 and 2001 Annual Performance Plan			



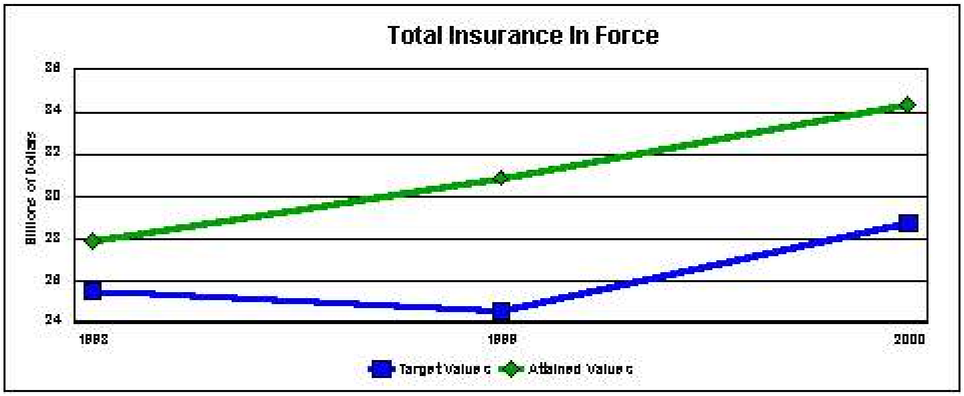
Year	Target	Attained	**Percent Attained
1998	**100**	**121**	**121%**
1999	**103**	**138**	**134%**
2000	**143**	**146**	**102%**



Year	Target (1,000s)	Attained (1,000s)	**Percent Attained
1998	1,814,000	1,874,644	103%
1999	1,808,390	2,303,669	127%
2000	2,235,700	2,526,224*	113%



Year	Target	Attain	Acres Insured (1,000s)	Acres Planted (1,000s)	**Percent Attained
1998	64%	67%	181,788	273,100	105%
1999	63%	73%	196,273	269,300	116%
2000	72%	78%	205,573*	262,200	109%



Year	Target (1,000s)	Attained (1,000s)	**Percent Attained
1998	25,561,600	27,913,508	109%
1999	24,613,400	30,861,626	125%
2000	28,754,900	34,276,581*	120%

* **As of the 03/05/2001 Summary of Business Report.**

** **Percent Attained is the attained number divided by the target number. Percentages of 100 or more indicate the target was reached or exceeded.**

2000 Data: RMA administers and provides oversight of the Federal crop insurance program and of the insurance providers who sell and service Federal crop insurance products to producers. Insurance providers are responsible for all aspects of customer service and guarantee payment of premium to FCIC. In return FCIC reinsures the policies and provides a subsidy for administrative and operating expenses associated with delivering the insurance products and/or programs. RMA maintains two integrated data processing systems to receive and validate data transmitted by insurance providers. Measured values are derived from RMA's database of financial and program data. These data are the basis to determine the liability and premium of the producers' insurance policies and resultant expense reimbursement to the insurance providers. Together the processing systems provide RMA with a mechanism to ensure that data received is accurate, errors are corrected timely, information contained on monthly accounting reports submitted by insurance providers is accurate and that all appropriate entries are made in the financial accounting systems. The databases are used in rating analyses, underwriting activities, statistical analyses, and management reporting. A report example is the crop insurance Summary of Business Report, which is the year-to-date cumulative summary of the crop insurance industry's business. RMA's database is used to measure program accomplishments, including those identified in RMA's Strategic Plan and Annual Performance Plan.

In addition to data validations, insurance providers and RMA's Compliance unit conduct field verification reviews. RMA believes that the checks and balances performed by the RMA data processing systems, the RMA Compliance unit, and the insurance providers assure the quality and reliability of its data.

While data reporting is not entirely complete for the 2000 crop year, analysis has shown that by the first of November of the crop year, 99 percent of the crop insurance premium and total insurance in force (value of insurance liability) have been reported. Final settlement of reimbursement expenses to the insurance providers will begin in February, 2001. As a result, final data for the 2000 crop year should be complete by November, 2001. There can be small increases or decreases in the acres, liability, and premium reported on these crop insurance policies due to adjustments made during reviews or appeals after the first year. As a result, attained values may be changed in the performance indicators as the Summary of Business report is updated with current data.

Analysis of Results: RMA has successfully achieved this performance goal. To strengthen the safety net for agricultural producers through sound risk management programs and education, RMA has developed, managed, and ensured delivery of a variety of products to help producers protect themselves from yield risks, market risks, or both. RMA and its private delivery partners have made substantial strides in the number of producers who have benefitted from the economic protection offered by RMA managed products. Producer utilization of risk management tools is measured by the following indicators:

The number of insurance plans available to producers, increased by 8 (a 6 percent increase from the 138 insurance plans for the 1999 crop year, to 146 insurance plans for the 2000 crop year). For the 2000 crop year, new pilot programs were implemented for processing chile peppers, mint, fresh market beans, processing cucumbers, strawberries, and cultivated clams (all commodities not previously insured). In addition, new insurance plans were implemented for previously insured crops including Revenue Assurance plans for canola, sunflowers and barley. This increase of nine new insurance plans, coupled with the removal of the watermelon insurance plan beginning with the 2000 crop year, results in a net increase of eight insurance plans for the crop year. In addition to developing programs for new crops and new alternatives for existing crops, RMA has continued to expand the availability of existing programs to new counties and States. This increase in the number of new risk management tools available to producers is a direct measurement of the success of RMA in exceeding performance goal 1, which is to expand the risk management tools available to producers.

The total crop insurance premium exceeded the 2000 crop year target by approximately 13 percent, representing a 10 percent increase over the previous year. Total crop insurance premium is the combined dollar amount paid by producers (producer-paid premium) and the Federal Government (premium subsidy) for insurance premiums under the Federal crop insurance program. Because insurance premium rates are higher for higher coverage levels, additional insurance options, and other program enhancements selected by producers, this program indicator provides a measurement of meeting producers' needs by the purchase of such enhancements and the additional premium expense incurred. Producers also have the ability to reduce their coverage to lower levels or cancel options and other enhancements to maintain approximately the same out-of-pocket cost incurred in previous years. Total crop insurance premiums are also impacted by individual producers' changes in crops, insured shares, and insured acreage.

The Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act (P.L. 1906) authorized funds for disaster relief. Included in the appropriations were funds which allowed RMA to assist producers by providing premium discounts for those producers who purchased additional crop insurance coverage for the 2000 crop year. Total insurance in force is the amount of liability (or value of insurance in force) for all producers participating in the Federal crop insurance program. Total insurance in force is another performance indicator in which the target goal was exceeded; in this case, by 19 percent. For the 2000 crop year, the value of insurance in force for additional coverage levels increased by $3.4 billion over 1999 levels and values at the catastrophic levels decreased by $236 million. This indicates a number of producers who were able to more satisfactorily meet their needs through higher levels of coverage. The success of the premium reduction and subsequent conversion to buy-up coverage levels is evidenced in the actual value of this performance measure.

Percent participation exceeded the 2000 crop year target by approximately 10 percent. Percent participation is determined by dividing RMA's net acres insured (for principal crops, other than hay, as reported by National Agricultural Statistics Service [NASS]) by the total U.S. planted acres of principal crops (other than hay) as reported by NASS. This performance indicator is positively impacted by the additional premium discounts, program enhancements, and number of insurance plans available.
The passage of ARPA further contributes to producers' ability to protect their financial stability, and comprises the major component of the safety net for agricultural producers. The ARPA includes significant changes in the manner in which RMA will accomplish its goals, including expanded use of contracts and partnerships with public and private entities. RMA anticipates these changes will expedite and strengthen the research and development process to enable new and innovative risk management tools to be developed for use by producers. These new tools will go far beyond the traditional crop insurance programs, which in the past, have been the primary focus of the FCIC. As a result, RMA has revised its

Strategic Plan for fiscal years 2000 through 2005. Objective 1.1 has been revised to incorporate the utilization provision previously contained in Objective 1.2 and two new performance measures have been added to Objective 1.1. The change in Objective 1.1 to "Increase the availability and utilization of economically-sound risk management tools to meet producers' needs" will provide the outcomes which assess the effectiveness of RMA's contribution to the safety net for agricultural producers through the utilization of risk management tools. The two new performance indicators are: Net acres insured, and Number of non-insurance tools available. The outcome of traditional crop insurance indicators is obtained from RMA's databases and will be utilized to measure RMA's achievements.

Current Fiscal Year Performance: The traditional crop insurance indicators expressed in Objective 1.1 are the values of producer participation data obtained from RMA's data processing systems. Target levels are established based on such issues as the current legislative funding provided in the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act (P.L. 1906) which allowed RMA to provide premium discounts for those producers who purchased additional crop insurance coverage for the 2000 crop year. Management initiatives such as expansion of crop and county programs are also utilized to establish target levels. For the 2000 crop year, RMA expanded the number of county crop insurance programs to 36,262 from the 1999 level of 34,849. Increased producer participation is evidence that RMA has been successful in delivery of the crop insurance program and in providing a cost-effective means for agricultural producers to manage their risk.

RMA and its private delivery partners have made substantial strides in the number of producers who have benefitted from the economic protection offered by RMA-managed products. For example, achievement of the objective is evidenced by the increase in the number of acres that are insured. RMA anticipates the contracting and partnerships with public and private entities will further increase the number of acres insured and as a result projected target levels have been increased as identified in RMA's revised Strategic Plan. Likewise, total insurance in force, which is the value of insurance liability, is a direct measure of RMA's contribution to the safety net for agricultural producers. In recent years, there has been a significant increase in the total insurance in force. That coupled with the expected increase in future products, results in a projected increase in liabilities.

Program Evaluations: The RMA's Research and Evaluation Division plays a major role in the evaluation of permanent programs and pilot programs. During FY 2000 the Division completed and reported to the Chairmen of the House and Senate Ag Committees on evaluations of the pilot millet crop insurance program and the pilot cotton harvest incentive program. The complete evaluations are available through RMA's Research and Evaluation Division.

The millet evaluation findings are as follows: Insured acres represented approximately 65 percent of the millet acreage planted for grain in the pilot program counties. An average of 650 producers and 85,000 acres were insured in the pilot program counties each crop year from 1996 through 1999. The major causes of loss were excess moisture/precipitation and hail. Performance measured by loss ratio for all pilot program counties has been generally similar for millet relative to the comparative crops (barley, corn, oats, and sunflowers) in the same counties. RMA plans to expand the crop insurance program to include millet as a permanent insurance program beginning with the 2002 crop year.

The cotton harvest incentive (CHI) findings are as follows: The program's objective was to reduce losses by increasing harvested acres and thus increasing the amount of cotton delivered to cotton gins. The CHI pilot program was implemented in selected Texas counties for the 1995 and 1996 crop years. About 2,300 producers insured more than a quarter million acres (20 percent of the planted acreage) under CHI each of these crop years. An evaluation of the 1995 and 1996 CHI showed that instead of going down, indemnities actually increased approximately 7 percent as a result of CHI. The evaluation also indicated that a greater percentage of CHI acres were harvested than non-CHI acres and that ginners were generally pleased with the additional supply of cotton, but were disturbed by the large amount of dirty cotton they received.

Although CHI was designed to elicit economically-productive behavior, growers may have harvested worthless residue to avoid the 35-pound penalty, making the pilot program economically counterproductive. Another concern was that the incentive/penalty amount of 35 pounds had a greater effect on lower-yielding dryland cotton than irrigated cotton. The CHI pilot program as implemented for 1995 and 1996 was criticized by producers who believed that the 35-pound penalty should not be applied to early season losses. They were also unhappy with the concept of a penalty in general, preferring only the incentive part of the program.

The program was changed for the 1997 through 1999 crop years such that it contained no unharvested penalty, but had a higher premium rate and the 35-pound incentive was changed to 7.5 percent of the producer's average yield. For reasons of actuarial soundness, all acreage in each county was required to be covered as one unit rather than being subdivided into smaller insurance units. Many producers elect optional units because indemnities tend to be paid more frequently. Participation in the modified pilot program progressively declined each year until 1999 when there were just 19 insureds with 6,000 acres. Indemnities directly associated with the CHI 35-pound incentive/penalty were less than $3,000 in 1999. The continuation of the CHI pilot program did not seem to be justified with such low participation.

CHI was tested in the hopes that it would cause greater amounts of cotton to be harvested, thus reducing crop insurance losses because the increased quantities harvested would offset the increased indemnity as a result of the incentive. The results did not support these expectations as there was actually an increase in indemnities. Because the test also demonstrated that producers would not buy CHI as redesigned, it was terminated for the 2000 crop year.

Objective 1.2: Increase the agricultural community's awareness and effective utilization of risk management alternatives.

Key Performance Goal

Annual Performance Goals/Indicators	1999 Actual	2000 Target	2000 Actual
Increase agricultural producers' awareness of risk management alternatives.			
Number of producers' attending risk management education sessions.	21,036	12,300	30,095
Number of risk management education sessions being coordinated or facilitated.	582	600	858
Number of producers participating in risk management clubs or marketing clubs.	N/A	1,000	850
Number of Dairy Options Pilot Program sessions being coordinated or facilitated.	N/A	55	55
Increase the number of agricultural producers that utilize risk management alternatives.			
Number of dairy producers participating in the Dairy Options Pilot Program.	N/A	3,000	1,225
Total number of crop insurance policies earning premium (in thousands-crop year data).	1,285	1,286	1,316

2000 Data: The Risk Management Education Division (RME) surpassed targets set for the number of producers attending risk management courses and the number of risk management education sessions being coordinated or facilitated. Information regarding the number of producers attending risk management education (RME) courses and the number of RME sessions being coordinated or facilitated was provided by the Risk Management Agency's (RMA) ten Regional Offices (RO's) through September 30, for the previous fiscal year. The numbers reflect only the producers attending courses and RME sessions coordinated, facilitated or funded by the RO's; and do not reflect any producers attending RME courses or RME sessions coordinated, facilitated or funded by public or private sector education partners.

RME is aware through coordination activities with the RO's and the public or private sector education partners that collection procedures for these data are not consistent from state to state.

RME is working with the RO's to improve collection procedures to ensure federal consistency of future data tabulation and analysis. Earlier this year the RME Division held a meeting with all regional offices in which documentation of RME activities was discussed. RME implemented several changes that will improve collection procedures to ensure federal consistency on how meetings are documented on individual RO logs. The major improvements made to the logs included adding columns that will allow RMA to identify how many small, limited resource, and minority farmers our educational initiative is reaching. This agency is charged with performing outreach activities that help small, limited resource, and minority farmers better manage their risks. Also, RME established guidelines to clarify what actually counts as a meeting. Within many RO's inconsistencies existed in regards to what counted as an effective, worthwhile RME activity. Also, RME clarified how to effectively count attendees reached at large trade shows.

The number of active risk management and marketing clubs being coordinated or facilitated was provided by RMA's ten RO's and the University Cooperative Extension Service through September 30, for the previous fiscal year. RME will verify and validate the increase in active risk management clubs throughout under served states and the total nation by agencies and organizations reporting back to us on the completion of the projects in which we helped fund or played an actual role in making happen.

Information regarding the number of producers participating in the Dairy Options Pilot Program (DOPP) and the number of DOPP sessions being coordinated or facilitated was provided by the RMA's ten RO's through September 30, for the previous fiscal year. During FY 2000, Round II expanded the program to 61 counties in 32 states. This expansion provided dairy farmers with unique hands-on opportunities to learn to use options markets for price risk management. DOPP participants first attend a training session and then work with a licensed commodity broker to establish a floor price for their future production. They can establish a floor for milk revenues by buying dairy put option, which are traded at The Chicago Mercantile Exchange. DOPP subsidizes 80 percent of the market premium and $30 of the round-turn commission for each put option contract purchased by participants within the provisions of the program.

RMA exceeded it goal by 1 percent for the total number of policies earning premium. RMA maintains two integrated data processing systems to receive and validate data transmitted by reinsured companies. These data are the bases to determine the liability and premium of the producers' insurance policies.

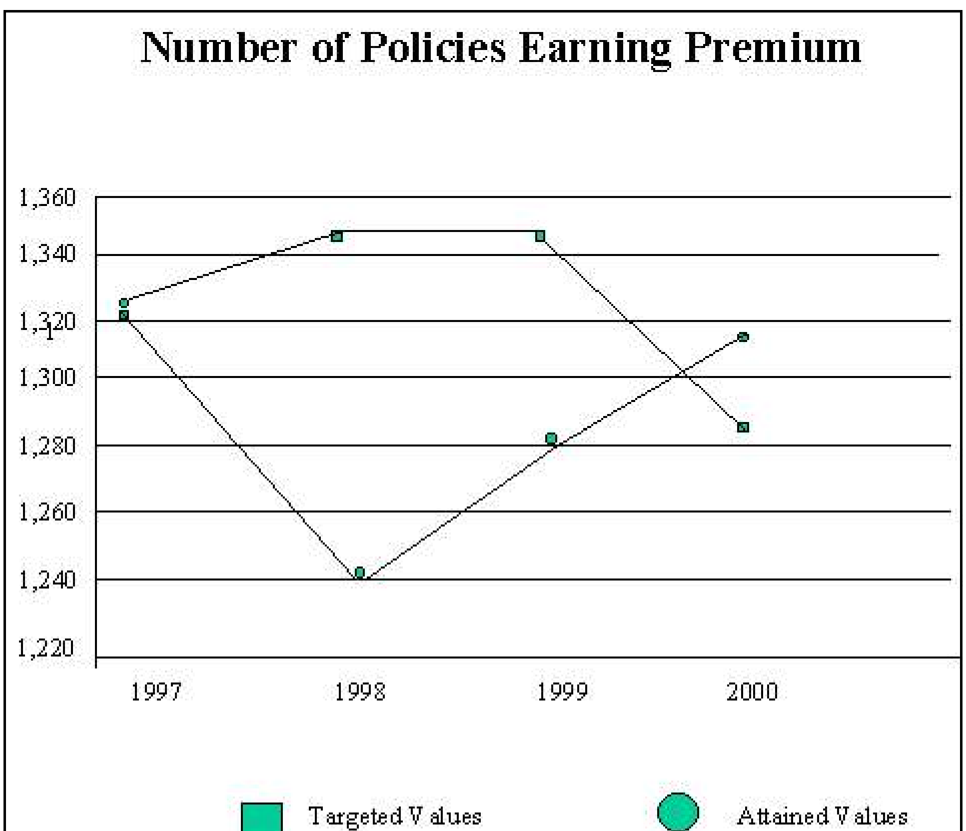
Analysis of Results: The performance goal was not met. For FY 2000, the number of producers attending RME courses was 30,095, which exceeded the targeted goal of 12,300. The same is true for the number of RME sessions coordinated or facilitated. In FY 1999, RMA projected that 600 sessions would be held in FY 2000. But in FY 2000, 858 sessions were actually held. FY 1999 was the first year a major emphasis was placed on RME activities; and RO's had to form partnerships with private and public agricultural organizations and gain expertise in coordinating and facilitating RME activities. The expertise gained in FY 1999 is reflected in the number of producers reached in FY 2000. With low commodity prices, the increase in producers reached in FY 2000 proves producers are searching for sources and solutions to help manage price risk. Producers attending RME courses is an indication of their desire to increase awareness of risk management alternatives to help choose the most effective risk management tools to meet their individual needs. With the expertise RO's gained in FY 1999 and FY 2000 and the funding increases awarded to RME by ARPA, the number of producers this agency plans to reach in FY 2001 by traditional risk management courses are far larger than previous years. Also, RME is planning to reach producers through non-traditional modes of training. These modes include the distant learning courses now employed by the DOPP program, intensive one on one counseling sessions and converting instructional materials to CD's for self study. RMA feels this is the wave of the future and will enable RME to reach producers in a more effective manner. Many producers do not want to attend traditional workshops. They are computer savvy and would rather learn about new risk management strategies and tools in the comfort of their own homes.
The target set for the number of producers joining risk management and marketing clubs in FY 2000 was not met. In FY 2000, RME projected that 1,000 producers would participate, but only 850 producers joined. The concept of joining a risk management or marketing club to help manage a producer's farming operation has been slow to catch on in the farming community. As time passes, and club members

throughout the farming community begin to tell other farmers about the objectives of these clubs and how they have helped them, the concept will become more popular. Many extension agents in states such as Kansas and Texas are working hard to push this risk management alternative. RME will verify and validate the increase in active risk management clubs throughout under served states and the total nation by agencies and organizations reporting back to us on the completion of the projects in which we helped fund or played an actual role in making happen.

The number of dairy producers participating in the DOPP was not met. In FY 2000, 1,225 producers participated in the pilot program. However, the projected number of 55 dairy options pilot program sessions being coordinated or facilitated was met. In FY 1999, RMA projected that 3,000 producers would be participating in DOPP in FY 2000. The projection was too optimistic, low milk market prices have played a major role in many producers not utilizing the DOPP program, even though improvements in the program were made. The attendance numbers indicate this is a valid and useful program. In the coming year, participation should rise due to the expansion that is planned. However, if milk market prices remain as low as they have for the last two years, many producers will likely not utilize the program.

Through DOPP, RME is accomplishing the objective of increasing agricultural producers awareness of risk management alternatives. This was accomplished by working closely with dairy extension agents and other interested parties residing in the selected dairy counties. Without the buy-in of dairy extension agents and other interested parties, such as dairy co-op leaders, who publicize training sessions, these sessions could not take place.

RMA is dedicated to increasing the total number of policies earning premium. RMA exceeded its goal by 1 percent in FY 2000 because of the increase in the number of pilot programs now available, the expansion of existing programs in new counties and States, emergency supplemental appropriations that provided a reduction of approximately 30 percent in the farmer's share of premium costs, and the increase of funding for risk management education. The passage of ARPA opens opportunities for new products to be developed through contracting and partnerships. Also, premium subsidy levels have been raised on the higher levels of crop insurance. These factors should continue to increase the number of policies earning premium.



Crop Year	Target (1,000s)	Attained (1,000s)	Percent Change
1997	1,320	1,321	0%
1998	1,348	1,242	-8%
1999	1,348	1,285*	-5%
2000	1,286	1,316	1%

RMA discontinued these measures: The agency decided to combine Performance Goal #2, *"Increase agricultural producer's awareness of risk management alternatives" and, "Increase the number of agricultural producers that utilize risk management alternatives"* into one goal. The new goal is *"Increase agricultural community's awareness of risk management alternatives."* This change was warranted because the success of RMA's risk management education and outreach efforts can be more accurately assessed by measuring how the overall agricultural communities' awareness has been raised. The outcome of this goal will assess the effectiveness of RMA's contribution to the safety net for agricultural producers through the utilization of risk management tools. Through partnerships, the agricultural community will have available comprehensive programs to meet this goal. Awareness and utilization of risk management alternatives by the agricultural community should be heightened.

Current Fiscal Year Performance: Currently, RME is working with sessions for fiscal year 2001. Request are being submitted to the national office on a regular basis now that the funds stipulated in ARPA have been apportioned. Also, the national RME office in Washington, DC will coordinate and facilitate some sessions independently. Action plans have been devised for Sections 131 and 133 of ARPA to provide guidance to parties interested in training producers.

Description of Actions and Schedules: As mentioned above, the concept of joining these sorts of clubs to help manage a producer's farming operation has been slow to catch on in the farming community. As time passes, and club members throughout the farming community begin to tell other farmers about the objectives of these clubs and how they have helped them, the concept will become more popular. Also, funding has been an issue. In FY 2000, RME did not receive the funding needed to execute a massive and meaningful push to ensure 500 new risk management and marketing clubs were formed.

RME did not meet the target set for the number of dairy producers participating in the Dairy Options Pilot (DOPP) Program. In FY 2000, 1225 producers participated. In FY 1999, RMA projected that 3,000 producers would be participating in DOPP in FY 2000. The projection was too optimistic. Milk market prices have been low for the last two years, so many producers did not utilize the program even though changes in the program were made. Round III of DOPP will expand the program to the limits set (300 counties) in ARPA in FY 2001.

Program Evaluations: None were conducted in FY 2000.

Objective 1.3: Improve program integrity and protect taxpayer's funds.

Key Performance Goal

Annual Performance Goals/Indicators	1999 Actual	2000 Target	2000 Actual
Reduce program vulnerabilities.			
Crop insurance loss ratio (crop year data)	0.93	1.075	1.075
Total error rate (total of misrepresentation, program vulnerabilities, and Unintentional errors.	3.95%	4.83	4.42%
Rate of erroneous payments (misrepresentation)	.05%	0.11%	N/A
Rate of program vulnerability	.26%	1.10%	N/A
Rate of program delivery errors (unintentional errors).	3.65%	3.63%	N/A
Number of audit recommendations which are not completed timely.	19	21	5
Percent of material Federal Managers' Financial Integrity Act (FMFIA) deficiencies which are not completed timely.	0%	0%	0%
Percent of program goals and services with actual costs aligned.	100%	100%	100%

2000 Data: Baseline Error Rate Review (BERR) was to serve as the Office of Risk Compliance's annual review process designed to establish a Multiple Peril Crop Insurance (MCPI) baseline error rate. The BERR results were derived from testing results conducted by RMA on a sample selection of policies and a subsequent analysis by the Office of Inspector General (OIG) to determine actual error rates, given a specified population, sample size, and confidence level.

The BERR defined an error as an exception that may or may not have a monetary effect on the claim and may have been caused by the insured, agent, adjuster, company representatives, or resulting from a program vulnerability. Unintentional errors included finding loss adjusters failing to verify or correctly determine production to count an acreage. Intentional errors included hidden production and overstated acreage by policyholders. Program vulnerability errors are situations where there is a vulnerability in the program which allows insureds to collect indemnity payments, although if common sense were applied, the claim would be uninsurable. The total error rate is the total of misrepresentation, program vulnerabilities, and unintentional errors with unintentional errors constituting 3.63% of the 3.95% of the errors discovered during FY 1999. Though the BERR was discontinued we have little reason to believe this number significantly changed during FY 2000.

However, ROC decided to discontinue the BERR methodology during FY 2000 because the figures used did not encompass an increasing number of programs that have been made available to the producers. Additionally, these measures are dependent on the *Manual 14* (*Guidelines and Expectations for Delivery of the Federal Crop Insurance Program*) quality control reporting requirements found in the *Standard Reinsurance Agreement* (SRA) that details the insurance providers' contractual relationship with RMA and the Federal Crop Insurance Corporation (FCIC). Therefore, results for performance measure "total error rate (total of misrepresentation, program vulnerabilities, and unintentional errors)" is not available for FY 2000. RMA did not receive enough information to report the outcome for this measure. As stated in RMA's revised FY 2001 and FY 2002 Annual Performance Plan under Objective 1.3 "Reduce program vulnerabilities", we will use the error rates reported by the insurance providers of 6.58% (95% confidence level with +/- 2.74%) as a baseline for 1999 and 4.42% as a baseline for 2000 (95% confidence level with +/- 2.72%). These rates were compiled from the data obtained from all the Compliance Crop Insurance Contract Reviews conducted by the insurance providers. However, a review of these error rates found additional discrepancies which would show that these rates are understated.

The more encompassing *Manual 14* review process sets standards that when properly followed would show the effectiveness of the insurance providers' quality control program. However, we spot checked the Compliance Crop Insurance Contract Reviews conducted by the insurance providers and made seven (7) recommendations to improve *Manual 14.* When these recommendations are implemented *Manual 14* reviews will be an effective method to evaluate the insurance companies quality control program.

The manner in which corrective actions to OIG/GAO audit recommendations have not been completed as planned and has been modified from an absolute number to a percentage. This new metric is consistent with that employed by the Department's Chief Financial Officer (OCFO) and more clearly indicates the level of effort required to the complete corrective actions and close recommendations. However, in our FY 2000 Annual Performance Plan, performance measure *to "reduce the number of recommendations not completed timely"* from 21 to 16, this goal was exceeded with the number reduced to 5 open recommendations. Office of Risk Compliance in coordination with OIG, OCFO, and the program offices worked to fulfill the requirement to close recommendations without final action more than one-year past the Management Decision date. The remaining issues continue to be aggressively worked.

Performance measure " *Federal Managers Financial Integrity Act (FMFIA)"* was changed to a new measure *"number of material weaknesses report."* Deficiencies was changed to reflect a greater emphasis in identifying material weaknesses or system non-conformances. This shift represents a change of focus from a timely completion of correction actions to one of timely identification of weaknesses or non-conformances through the use of the criteria discussed in OMB Circular A-123 *(Management Accountability and Control)*. We will continue to work with the Office of Inspector General to ensure that material weaknesses or system nonconformances are identified and reported as part of the audit process.

There were no new material weaknesses or system non-conformances reported by RMA in FY 2000 and none carried over from previous years. The RMA Administrator in the Annual Statement of Assurance reported this to the Office of the Chief Financial Officer (Departmental).

Additionally, performance measure "*percent of programs goals and services with actual costs aligned*" has been discontinued and replaced with a shift in focus to the cost-benefit analysis of individual program reviews. This will assist senior management more readily to identify the level of effort and resources used and serve as a foundation for future planning and programming initiatives.

To further support this effort, formalized procedures have been developed to track the number of cases and dollar amounts for civil, criminal, and administrative cases, and the number of cases referred for disqualification/disbarment. The sources, methods, and bases for calculations of estimated or actual figures for cases are provided as support documentation.

Multiple systems remain in place to measure performance in each of these areas, all of which provide accurate, reliable, and current information to the Office of Risk Compliance managers allowing them to make informed and timely decisions regarding the short and long-term strategic and operational direction of Risk Compliance as well as to affect mid-term corrections caused by unforeseen events or legislation.

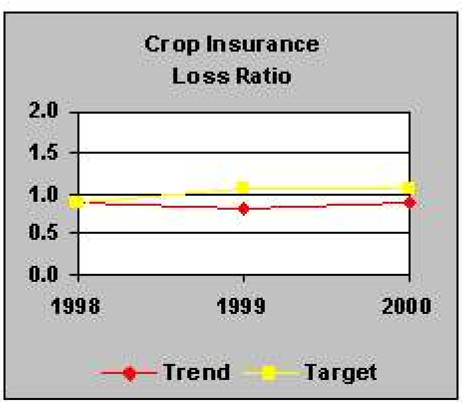
Analysis of the results: The goal was met. Though the performance indicators were modified for future years reporting and the Baseline Error Rate Review was eliminated during FY 2000. The Office of Risk Compliance remains confident that the performance measure *"reducing program vulnerabilities"* has been meet for Fiscal Year 2000. The 2000 loss ratio[1] of 0.88 shows that the Agency remains successful in

[1] Losses incurred expressed as a percentage of earned premiums.

keeping the cost of program to taxpayer is higher than the premium paid by producers for crop insurance coverage. The loss ratio is reviewed throughout the year by monitoring the inflow (e.g. premiums) and outflow of monies (e.g., indemnities) to ensure the legislatively mandated loss ratio of 1.075. This can be attributed to several factors:

- an aggressive program review process designed to identify program vulnerabilities
- use of the criteria discussed in the *Federal Managers Financial Integrity Act (FMFIA)* to identify material weaknesses and system non-conformances,
- the actions taken as a result of audits conducted by the Office of Inspector General (OIG) and General Accounting Office (GAO),
- investigation of OIG Hotline complaints regarding waste, fraud, abuse or poor farming practices by producers or questionable business practices by producers, loss adjusters, or insurance agents.

As stated in the 2000 Data, the Office of Risk Compliance will discontinue using the BERR methodology for indicators "total error rate (total of misrepresentation, program vulnerabilities, and unintentional errors)". These measures are dependent on the Manual 14 quality control reporting requirement found in the Standard Reinsurance Agreement (SRA). We are replacing this measure with a new measure "Error rate " calculated from Manual 14. The Office of Risk Compliance has a 95 percent confidence level that the error rate for FY 2000 is 4.42% and encompasses the policies in error for the whole program. The new measure is reflected in the revised FY 2002 and revised FY 2001 Annual Performance Plan.



Crop Year	Actual	Target
1998	0.89	0.89
1999	0.80	1.075
2000	0.88	1.075

Performance measure *"percent of programs goals and services with actual costs aligned"* has been discontinued because it is no longer a feasible measure.

Current Fiscal Year Performance: The actual performance levels for Fiscal Year (FY) 2000 will impact the estimated levels of performance for FY 2001. The FY 2000 Plan was significantly affected by the June 2000 passage of the *Agriculture Risk Protection Act of 2000 (ARPA)* and the implementation requirements that diverted a substantial amount of our programmed resources to meet the new mandated requirements. Regional Compliance Offices (RCOs) were unable to complete 31 planned program reviews because of a shortage of 12 FTEs and unprogrammed ARPA related activities. The investigation case-load increased significantly during the year yet the RCOs were able to close 194 cases during the FY. The year ended with approximately 700 cases remaining open. With the introduction of data-mining techniques and the

ARPA mandated referrals from the Farm Service Agency (FSA) , we anticipate an increase in the case-load.

During FY 2000 RMA monitored and tracked 151 OIG hotline cases and turned over 90 hotline leads to the OIG for further action. This work level is expected to remain constant for the first half of FY 2001, however, as expanded cooperation with the Farm Service Agency (FSA) continues to develop this may indirectly generate more hotline referrals in the second half of FY 2001 and beyond.

Program Evaluations: To effectively ensure that the Office of Risk Compliance meets it goal of reducing program vulnerabilities, the Office of Risk Compliance relies on a variety of internal and external assessments to evaluate its performance. Internal assessments such as program reviews coupled with external assessments conducted by the OIG and GAO evaluators serve to provide senior management a snapshot of how well the agency is performing its mission as well as providing indicators where improvements can be made. We also continue to investigate complaints and allegations received from a variety of sources such as producers, agents, and the OIG hotline.

The associated cost savings from the efforts of the six Regional Compliance Offices (RCOs) can be measured in both direct and indirect savings. Though the direct savings are the easiest to measure, they are not the sole result. The preventative aspects of our reviews often outweigh the direct savings. Reducing risks, improving controls, and making recommendations, that improve overall program performance, provides cost avoidance savings that can far exceed the direct savings.

Reviews conducted by the RCOs can result in monetary findings that result in recommendations made to the Reinsurance Services Division to deny reinsurance due to agents operating without proper licenses or performing loss adjustment activities. Reviews can also identify areas where the exposure to risk due to insurance providers' application of uninsured causes of loss and reduction in reported acreage that failed to meet insurance eligibility resulting in cost avoidance.

Program reviews also examine new and existing programs to ensure policy provisions and their modifications continue to serve their intended purpose, for example:

- The Northern Regional Compliance Office (NRCO) conducted a review of Cultivated Wild Rice, a pilot program, for the purpose of examining the implementation of new policy provisions.

- The Central Regional Compliance Office (CRCO) working with the insurance provider investigated a producer's poor farming practice resulting in the claims being denied. The projected savings for the non-payment of these claims were $280,000.
- The Southern Regional Compliance Office (SRCO) working with the Office of Inspector General identified fraudulent prevented planting claims involving three producers. The Assistant U.S. Attorney accepted the case for prosecution.

- The Western Regional Compliance Office (WRCO) conducted a Disaster Assistance Program (DAP) Review for the purpose of determining if producers accurately reported information in their *Acreage Report and Application for Insurance* and disclose area of noncompliance regarding FCIC approved policies and procedures. The review uncovered errors in share, unit structure, and insurable entities.

- The Risk Operations Division (ROD) conducted a High Loss Ratio Review designed to evaluate the reason for high loss ratios and to determine that losses were properly determined. The review resulted discovered that the Crop Year 1998 high loss ratios were caused by a combination of program weaknesses and adverse weather conditions. Recommendations were made to address the program vulnerabilities and program areas needing improvement.

Agriculture Risk Protection Act of 2000 (ARPA). ARPA was enacted in June 2000 and mandated new requirements in the area of program compliance and integrity that have yet to be fully implemented, but the Act did not cause us to change Strategic Goal #1 (To strengthen the safety net for agriculture producers through sound risk management programs and education) or the supporting Performance Goal. Instead, ARPA has caused us to re-examine our business processes, reassess our organizational structure, reevaluate the various governmental, insurance industry, private sector, and academia partnerships and determine the impact on our organizational culture, values, and the business environment in which we operate. These actions are significant and evolutionary in nature and will continue for the foreseeable future.

Additionally, during FY 2000, the Office of Risk Compliance entered into a Cooperative Agreement with Montana State University (MSU) through the USDA Office of Outreach. The objective was for MSU to assist the Office of Risk Compliance in their compliance program initiatives and develop contracts to develop a data-mining and data-warehousing program to more effectively and quickly identify trends, anomalies, and relationships between insurance agents, adjusters, and producers in crop and crop insurance data provided by USDA/RMA indicative of excess claim over actual crop loss.

This original RMA initiative was augmented with a separately funded initiative with Tarleton (TX) and Bradley (IL) Universities for data mining, data warehousing, and other information technologies. Through analysis of the data the Office of Risk Compliance plans to significantly enhance its risk compliance enforcement capabilities and reduce program waste, fraud, and abuse. Using trend analysis and other indicators provided by these systems we will have the capability to become more proactive and aggressive in managing and monitoring program integrity.

Another significant measure instituted in FY 2000 was the establishment of a Special Investigation Branch (SIB) within the Office of Risk Compliance. The SIB is designed to dispatch investigators or investigation teams quickly to high-profile cases or other contingencies as determined by the Deputy Administrator for Risk Compliance. The SIB has national jurisdiction across all regions and has strategically located across the nation. The SIB capability is similar to the insurance industry's Special Investigation Units (SIUs) initiatives and go far beyond the requirements of ARPA for conducting timely investigations. The SIB became fully operational during the first quarter FY 2001.

These new initiatives coupled with on-going efforts moves RMA into a better position to ensure even a higher level of program integrity in the Federal Crop Insurance Program than was envisioned even five years ago.