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REPORT BY THE U.S.

General Accounting Office

The Federal Crop Insurance Corporation's Efforts To Provide Monthly Reports To The Senate Committee On Appropriations

The Department of Agriculture's Federal Crop Insurance Corporation (FCIC) is responsible for developing an insurance program to help protect farmers against financial ruin brought about by natural disaster

In 1982 the Senate Committee on Appropriations requested that FCIC report monthly on producer participation, cancelled policies, and any marketing or administrative changes that affect the program's cost

This report responds to several questions raised by Senator Eagleton on FCIC's methodology and accuracy in developing the monthly reports



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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

RESOURCES COMMUNITY
AND ECONOMIC DEVELOPMENT
DIVISION

B-214525

The Honorable Thomas F. Eagleton
Ranking Minority Member
Subcommittee on Agriculture, Rural
Development, and Related Agencies
Committee on Appropriations
United States Senate

Dear Senator Eagleton:

In your November 2, 1983, letter (see app. I) and subsequent discussions with your office, you asked us to review the Federal Crop Insurance Corporation's (FCIC's) methodology in developing data submitted monthly to the Senate Committee on Appropriations as directed by Senate Reports 97-566, dated September 22, 1982, and 98-160, dated June 22, 1983. You also asked that we review FCIC's monthly reports to determine their accuracy. Essentially, the Senate reports ask FCIC, an agency of the Department of Agriculture (USDA), to report monthly on producer participation in the Federal Crop Insurance Program, the rate at which policies are cancelled, and any marketing or significant administrative changes that affect the program's cost. The Committee wants these reports to contain accurate and up-to-date program information for its use in appropriating FCIC's yearly funds.

We found that FCIC (1) had often changed the type of data and methodology used in preparing the monthly reports, (2) did not include comparable information on all companies selling and servicing crop insurance, and (3) had not included all marketing and administrative changes affecting program costs. Also, FCIC had not developed a system for estimating expected business.

We discussed our findings with FCIC officials and staff of the Senate Appropriations Subcommittee on Agriculture, Rural Development, and Related Agencies on May 10, 1984. At that meeting, FCIC's Manager said that changes could be made in the monthly reports and agreed to assist the Committee in making the changes. We also obtained FCIC's comments on a draft of this report in June 1984.

Our objectives in responding to your request were to (1) determine the methodology FCIC used to develop the information it

reports monthly to the Senate Committee on Appropriations and (2) review for accuracy FCIC's monthly reports covering the period from October 1982 to May 1984.

As agreed with your office, we began our review in February and completed it in May 1984 at FCIC headquarters in Washington, D.C., and at FCIC's Operations Office in Kansas City, Missouri. We reviewed applicable legislation, Senate Reports 97-566 and 98-160, and pertinent FCIC policies and procedures. We reviewed internal FCIC management reports as well as FCIC's monthly congressional reports. We interviewed agency officials in Washington, D.C., and Kansas City. Because of time constraints, we relied on agency summaries or management reports and did not analyze the detailed supporting documentation. For example, we reviewed biweekly summaries of FCIC business and did not review the four supporting files from which they were drawn. Except for this limitation, we made our review in accordance with generally accepted government auditing standards.

ADMINISTRATION OF THE FEDERAL CROP INSURANCE PROGRAM

On February 16, 1938, the Federal Crop Insurance Act (7 U.S.C. 1501 *et seq.*) created FCIC, a wholly owned government corporation, as a USDA agency. The act was amended by Public Law 96-365, approved September 26, 1980, to provide for a nationwide, all-risk crop insurance program. Previously, the crop insurance program operated on a limited basis, covering certain commodities and selected counties. The 1980 act also called for involving the private sector in selling and servicing the insurance.

FCIC's purpose is to promote the national welfare by improving the economic stability of agriculture through a sound system of crop insurance. It is managed by a Board of Directors, subject to the Secretary of Agriculture's general supervision. The Secretary selects FCIC's Manager, who is also appointed as the Board's Chief Executive Officer.

FCIC's insurance covers loss in production from unavoidable causes such as drought, hail, wind, frost, freeze, fire, insect infestation, plant disease, and earthquake. It does not cover loss due to neglect, poor farming practice, theft, or financial loss resulting from low prices received for farm products.

FCIC funding

FCIC receives funds from three sources--capital stock subscriptions from the U.S. Treasury, premium income from producers,

and appropriations for federal premium subsidies¹ and administrative and operating expenses.

The 1980 act authorizes capitalization of \$500 million. Fiscal years 1982 and 1983 appropriations provided \$400 million of this amount for capital stock subscriptions. The capital stock is to provide FCIC with necessary working capital as well as a reserve to cover losses when premium income and/or reserves are insufficient.

FCIC's premiums for insurance are to be set at such rates as the Board deems actuarially sufficient to cover claims for losses on such insurance and to establish as expeditiously as possible a reasonable reserve against unforeseen losses. The 1980 legislation authorizes funds to be appropriated to cover FCIC's administrative and operating costs, including items such as agents' and brokers' commissions, premium subsidies paid by FCIC, and the direct costs of adjusting losses. The legislation also provides that these items may be paid from premium income and other FCIC funds and that any such payments be restored by appropriations in subsequent years.

Private sector involvement

Following the 1980 act, FCIC increased private sector involvement in selling and servicing crop insurance. Until the fall of 1982, FCIC offered the private sector three types of agreements--sales and service (independent agents), agency sales and service (master marketers), and reinsurance (reinsured companies). In the fall of 1982, FCIC phased out the sales and service agreement.

Under an agency sales and service agreement, an insurance company or agency, called a master marketer, agrees to sell and service insurance for FCIC. The master marketer is responsible for recruiting, training, and paying sales commissions to its agents. For crop year² 1983, FCIC reimbursed the master marketer

¹Subsidies are based on 30 percent of each producer's premium on any coverage under FCIC's policy of insurance of up to a maximum of 65 percent of the producer's recorded or appraised average yield.

²Generally, a crop year is the period within which the insured crop is normally planted and harvested. It is designated by reference to the calendar year of harvest.

18 percent of book premium³ for new business and 13 percent of book premium for carryover business.

Under a standard reinsurance agreement, an established insurance company enters into a financial arrangement with FCIC to sell, service, and adjust claims for losses (the assessment and determination of the amount and cause of the loss) on the policies the company sells. The company, acting as an insurer for policies issued in its name, is able to obtain reinsurance coverage (whereby part or all of the risk is transferred from the original insurer to another party) from FCIC as protection against most of the risk that could result from losses incurred in selling crop insurance. Under the standard reinsurance agreement for crop year 1983, FCIC provided the private insurance company an administrative and operating allowance of 27 percent of the company's book premium for new business and 22 percent of book premium for carryover business. In addition, for claims adjustment work, FCIC paid the company 4 percent of book premium and 3 percent of total indemnities paid on the company's policies.

FCIC reporting requirements

Senate Report 98-160 emphasizes the Senate Committee on Appropriations' need for up-to-date and accurate information on the crop insurance program's performance. According to the report, the Committee bases its funding decisions for FCIC's administrative and operating expenses on anticipated program participation in the upcoming year, as well as actual participation in the current fiscal year. In its annual funding request, FCIC includes estimates of the participation rate⁴ and premiums for the upcoming year. Actual program participation and premiums, however, have been lower than estimated. For example, for crop year 1982, FCIC estimated its premiums at \$540 million with an estimated participation rate of 38 percent, but because producers did not buy insurance to the degree expected, actual premiums were about \$399 million with participation at 18 percent.

To obtain better funding information, the Committee asked USDA in both 1981 and 1982 to provide it with revised estimates of the crop insurance program's funding needs. According to the Committee, however, USDA did not provide any supplemental information during those 2 years. As a result, the Committee asked FCIC in Senate Report 97-566, dated September 22, 1982, to provide

³The farmer-paid premium plus the federal subsidy.

⁴FCIC determines the participation rate by dividing the estimated number of acres insured by the total potentially insurable acres.

monthly reports on the program's performance. Specifically, the report stated that the Committee

" . . . will expect FCIC to provide monthly reports on participation rates and cancellation rates, as well as any pertinent changes in marketing or reinsurance contracts and any significant changes in administrative procedures which may impact on the cost of the Federal Crop Insurance Program."

To assure that it continued to receive monthly information on the program's performance, the Committee repeated its request for FCIC reports in Senate Report 98-160, June 22, 1983. In addition, the Committee noted that FCIC had not reported reinsured company data for fiscal year 1983 and asked that FCIC include this information in its fiscal year 1984 monthly reports.

FCIC's reporting process and methodology

According to FCIC officials, FCIC management has had difficulty deciding what information the reports should include. Because of this difficulty, FCIC did not submit its first report to the Committee until January 1983, 3 months after the Committee's request. FCIC's Office of the Comptroller was assigned responsibility for developing and coordinating the reports, which are prepared in FCIC's Operations Office, reviewed by the Comptroller's Office, and forwarded for signature to FCIC's Manager.

FCIC officials told us that they interpreted the Senate reports to require that the monthly reports have three parts--one covering participation and cancellation⁵ rates, one covering marketing changes, and one covering changes in administrative procedures. According to the officials, FCIC believed the Senate request for participation and cancellation rates related specifically to sales information. FCIC did not, therefore, report figures not directly tied to insurance sales, such as indemnities paid or loss adjustment costs.

In part 1 of the report (see app. II for an example of FCIC's reports), FCIC presents two columns of figures--one labeled as FCIC's original estimate of projected business for a given crop year and one labeled as actual business as of a specific date each month. FCIC reports the following in both columns: premium, cancellation rate, insured acreage, potential acreage,⁶ and participation rate. FCIC reports information for each crop year according to the federal fiscal year--October through September.

⁵FCIC determines the cancellation rate by dividing the premium for cancelled policies by the prior year's estimated premium for insurance in force.

⁶Potential acreage was added to the report in Apr. 1983.

In parts 2 and 3, FCIC provides space to report marketing and administrative changes, respectively. FCIC has used this reporting format since the initial report in January 1983.

FCIC draws its information for the monthly reports from an internal FCIC report entitled Summary of Business. (See app. III for an example of this report.) This summary report, developed in May 1983, is prepared biweekly by FCIC's Data Automation Division in Kansas City. Before the summary report was developed, FCIC obtained data for its monthly report from various sources, primarily internal management reports and estimates from its division chiefs. The summary report initially included only FCIC's master marketer business; it did not include the reinsured company business until November 1983. Currently, it includes a detailed schedule of estimated and actual master marketer business, including sales, cancellations, transferred policies, indemnities paid, and cash balances. The summary report includes limited information for the reinsured company business based on actual insurance reports processed. FCIC does not require the reinsured companies to report cancelled or transferred policies, carryover business, or cash balances.

FCIC'S REPORTS HAVE LACKED CONTINUITY

FCIC submitted 15 reports to the Committee covering the period from October 1982 to May 1984. During this time, FCIC often changed the type of data and methodology used in preparing the reports. Further, FCIC has combined both estimated and actual data in reporting "actual" program information. FCIC's frequent changes in its reporting methodology have caused the reports to lack continuity.

For example, FCIC changed its method for computing its "actual" premium income for crop year 1984 (Oct. 1983 through Sept. 1984) in three consecutive reports from December 1983 through February 1984. In each report, FCIC reported as "actual" an estimate⁷ of the master marketers' premium for crop year 1984. The reinsured companies' premium added to this, however, was computed differently each month:

--For December, FCIC included the latest estimate of the reinsured companies' total premium for crop year 1983.

⁷This figure is computed monthly and includes estimates of new sales, carryover business from the previous year, and premium subsidy, as well as actual new sales and cancelled policies.

--For January, it included the reinsured companies' actual premium for crop year 1984 through January.

--For February, it included the reinsured companies' actual premium for crop year 1984 through February, FCIC's estimate of the reinsured companies' carryover premium for crop year 1984 based on the total premium collected for 1983, and FCIC's estimate of business transferred to the reinsured companies from the master marketers.

As a result of these changes, the reports could not be used for a month-to-month comparison of program business. The following table shows the actual premium during the 3 months as reported to the Committee. For information purposes, we have included a breakdown for master marketer and reinsured business.

FCIC's Reported "Actual" Premium for
Crop Year 1984

	<u>December 1983</u>	<u>January 1984</u>	<u>February 1984</u>
Master marketers	\$188,821,000	\$181,967,000	\$180,371,000
Reinsured companies	<u>110,000,000</u>	<u>9,064,000^a</u>	<u>104,718,000</u>
Total	<u>\$298,821,000</u>	<u>\$191,031,000</u>	<u>\$285,089,000</u>

^aThis number is significantly different from the numbers for the other 2 months because FCIC included actual premiums-to-date for the reinsured companies and did not include estimated business.

In addition to changing its method for computing the premium amount, FCIC has changed its methods and the type of data for reporting "actual" cancellation rates, insured acreage, and participation rates. As a result, FCIC's reported data in these columns has not been comparable from month to month. For example, using the same approach it used for reporting premium income, FCIC reported its "actual" insured acreage for crop year 1984 as 30,296,000 in December 1983, 18,616,000 in January 1984, and 28,467,000 in February 1984. Also, FCIC reported participation rates as 11 percent in December 1983, 6.8 percent in January 1984, and 10.4 percent in February 1984.

By including estimates as well as actual figures in reporting premium and insured acreage figures in its "actual" column, FCIC has overstated its monthly program participation. For example, according to FCIC's March 9, 1984, Summary of Business report, actual premium for the master marketers and reinsured companies in crop year 1984 was \$35,243,000. However, FCIC's February 1984 report to the Committee showed an "actual" premium through March 9, 1984, of \$285,089,000--\$180,371,000 for master marketers and \$104,718,000 for reinsured companies. The master marketer

figure included \$7,279,000 for new sales (estimated and actual), \$133,410,000 for estimated carryover business, and \$39,682,000 for estimated premium subsidy. The reinsured company figure included \$3,900,000 in estimated new sales, \$6,800,000 in estimated sales transferred to the reinsured companies from the master marketers' business, \$70,980,000 in estimated carryover business, and \$23,038,000 in estimated premium subsidy.

FCIC followed similar procedures for reporting insured acreage. For example, according to FCIC's March 9, 1984, Summary of Business report, actual insured acreage in crop year 1984 was 4,154,000 acres. However, FCIC's February 1984 report to the Committee showed "actual" insured acreage through March 9, 1984, of 28,467,000--17,251,000 for master marketers and 11,216,000 for reinsured companies. The master marketer figure included 1,008,000 new acres insured (estimated and actual) and 16,243,000 estimated carryover acres from the previous year. The reinsured company figure included 915,000 estimated new acres insured, 896,000 estimated acres transferred to the reinsured companies from the master marketers' business, and 9,405,000 estimated carryover acres.

INCONSISTENCIES IN DATA REPORTED
FOR MASTER MARKETERS AND REINSURED
COMPANIES

At the time FCIC began submitting its monthly report to the Committee, master marketers handled most of FCIC's insurance sales. For crop year 1983, master marketers handled about 64 percent of insurance sales and reinsured companies handled about 36 percent. FCIC estimates, however, that in crop year 1984 master marketers and reinsured companies will each handle about 50 percent of the premiums and that in 1985 reinsured companies will increase their share to about 55 percent of the premiums. For future crop years, FCIC intends to use the reinsurance concept as its primary mode of operation.

Despite this growing reliance on the reinsured companies for sales and service, FCIC has not reported information for the reinsured companies comparable to that reported for the master marketers. From January through August 1983, FCIC's monthly reports included data only from its master marketers. It did not report any data for its reinsured companies' business, although during the 1983 crop year, the reinsured business, which made up about 36 percent of total FCIC business, earned a premium of \$107 million.

FCIC began reporting the reinsured companies' premiums and insured acreage following the Committee's request for such data in Senate Report 98-160; however, the data FCIC has presented for reinsured companies have sometimes differed from the data presented for the master marketers. In some months FCIC has reported

actual data for reinsured companies and estimated data for master marketers. Also, some monthly reports have included data from different crop years for the two delivery systems.

As of May 1984, FCIC had not reported the reinsured companies' cancelled business or stated this exclusion in the reports. According to FCIC officials, FCIC assumes that the cancelled business for the reinsured companies will be equal to that of the master marketers. The officials did not have information available to confirm this assumption.

FCIC does not require its reinsured companies to provide it with the same accounting information it collects for its master marketers. Under the agency sales and service agreements, master marketers sell and service the insurance, but FCIC obtains farmers' acreage reports from the master marketers, pays the claims, and processes the documents through its computer. Therefore, records on the master marketers' business are controlled internally by FCIC. The reinsured companies carry out these functions themselves and then submit the data to the Crop Hail Insurance Actuarial Association (CHIAA).⁸ CHIAA summarizes the information and prepares a monthly accounting report which, after being reviewed by the reinsured companies, becomes the basis for the accounting information submitted to FCIC. CHIAA also prepares a monthly status report, which includes aggregate summary statistics for all FCIC-reinsured companies using CHIAA.

CHIAA's status reports are FCIC's source of information for preparing the reinsured company data included in the Summary of Business reports and the monthly reports to the Committee. The status reports provide FCIC summary data on the actual number of crops insured, net acres insured, liability incurred, premium earned, indemnities paid, and a loss ratio.⁹ CHIAA's monthly reports to FCIC do not include reinsured companies' policies cancelled or transferred or estimated carryover business. FCIC currently does not require the reinsured companies to submit this information, although it reports such information to the Committee for the master marketers.

⁸CHIAA is a private organization that processes financial and statistical data on crop premiums and losses for private insurance companies. Reinsured companies are not required to use CHIAA's services. However, at the time of our review, all but one of the 46 reinsured companies that sell FCIC insurance reported through CHIAA.

⁹The relationship of indemnities paid to premiums received.

FCIC management has recognized that it does not receive all the information it needs from the reinsured companies in a timely manner. On March 9, 1984, FCIC's Manager directed FCIC's Reinsurance Division to provide data on the reinsured companies' carryover business for inclusion in the premium earned sections of the Summary of Business report and the report to the Committee. In preparing its February congressional report in March 1984, FCIC included a premium figure for the reinsured companies' business. The figure, however, was not derived in the same manner as the figure reported for the master marketer premium.

In determining the reinsured companies' premium to be included in the February 1984 report, FCIC began with the companies' latest crop year 1983 estimated premium (\$107 million). FCIC assumed that 85 percent of the reinsured companies' crop year 1983 business would carry over to crop year 1984 and that the other 15 percent would be cancelled. The 15-percent cancellation rate was FCIC's "best guess" estimate based on telephone calls to the reinsured companies. To this figure, FCIC added the reinsured companies' estimated new sales for crop year 1984. FCIC's reported "actual" premium for the reinsured companies' business was \$104,718,000.

In April 1984 FCIC asked the reinsured companies for information on their 1984 business--total policies and premiums and new policies and premiums. (See app. IV.) The Acting Chief of FCIC's Reinsurance Division told us that FCIC expects to request such data four times a year.

In reviewing FCIC's request for reinsured company information, we found that FCIC had not provided guidance to the companies for preparing the responses. For example, FCIC did not state what the figures on policies and premiums should include (i.e., estimates, actual data, or both) or provide any parameters for preparing the responses, such as what reports to rely on, what methods to use, or what accuracy was expected. We believe that, as a result, the 46 reinsured companies preparing the responses could interpret the request in various ways and provide data that may be inconsistent or inaccurate. For example, a reinsured company may base its response on speculation, actual sales to date, or prior years' sales. FCIC's Manager acknowledged that this could occur.

While FCIC management has recognized the need for more information on reinsured business and has requested some additional information, we believe the new information will not be comparable to the information collected for the master marketer business. For example, FCIC will not have a system in place to collect monthly information on transfers of business from reinsured companies to other companies or on cancelled reinsured business. Also, although FCIC intends to collect quarterly information from reinsured companies on estimated sales, FCIC needs the information

on a monthly basis to provide information comparable to that it provides the Committee on master marketers. This is especially important because FCIC intends to use the reinsurance concept as its primary mode of operation.

FCIC HAS NOT REPORTED ALL MARKETING
AND ADMINISTRATIVE CHANGES

Senate Reports 97-566 and 98-160 asked FCIC to report pertinent marketing and significant administrative changes that affect program costs. The Senate reports did not further define the type of changes that were to be reported. The 15 reports we reviewed showed that FCIC had reported a marketing change in January 1983 relating to extension of reporting deadlines but that it had not reported any other marketing or administrative changes. FCIC program officials said that they could not provide any specific examples of what should be reported. Officials in FCIC's Office of the Comptroller told us that they believed other changes could have been reported, but they could not give us any examples.

We identified three changes, however, that we believe FCIC should have reported to the Committee. These changes occurred just before the Senate Committee's request for monthly FCIC reports and applied to the 1983 crop year program. Because the Committee specifically requested "changes in marketing or reinsurance contracts" for the 1983 fiscal year, we believe FCIC should have reported these changes in its first report.

One change occurred in late 1982 when FCIC began to phase out the independent agents operating under the sales and service agreements. FCIC allowed independent agents to continue selling crop insurance through the 1983 fall crop selling season. This change resulted in a shift of virtually all sales activities to either the master marketers or the reinsured companies, beginning with the 1983 spring selling season (approximately Jan. 1983).

Another change that we believe FCIC should have included in the first monthly report was FCIC's revised agreement with the reinsured companies for crop year 1983. The reinsurance agreement was revised for 1983 to increase the companies' percentage share in underwriting gains and losses from 8 percent to 11 1/3 percent. The third change that we believe FCIC should have included was an adjustment in premium rates for 1983 spring-planted crops. The following table shows the changes to previously established premium rates.

Level ^a	Coverage levels	Percentage increase (decrease)	
	Percent of yield guaranteed	in premium rates	
		Minimum	Maximum
3	75	3	20
2	65	(6)	9
1	50	(1.8)	(16)

^aFCIC offers farmers a yield guarantee for three coverage levels--50, 65, or 75 percent of the average yield calculated for each farm or area.

FCIC estimated that these adjustments would increase nationwide premium income by about 12 to 14 percent for crop year 1983.

Time did not permit a detailed examination of FCIC's program to determine if other marketing or administrative changes may have occurred. We do not know, therefore, whether FCIC made other changes that should have been reported. Also, without further clarification of the terms "pertinent" and "significant," it is difficult to determine what changes should be reported to the Committee. We believe that until these terms are clarified, FCIC could report to the Committee all marketing and administrative changes that affect program costs.

FCIC DOES NOT HAVE A SYSTEM FOR ESTIMATING EXPECTED BUSINESS

To provide a comparison between anticipated business and actual business, FCIC includes its start-of-year estimate of business for the current year in its monthly report to the Committee. FCIC's yearly estimates, however, have been significantly overstated. For example, for crop year 1983, FCIC estimated that premiums would be \$680 million with a participation rate of 30 percent, but actual premiums were about \$297 million with a participation rate of 10 percent. FCIC has not developed a formula or systematic method for determining its estimate of future business but instead has relied on "best guess" estimates or based its estimated program participation on its annual appropriation from the Congress.

In early 1982, FCIC estimated that 1983 program participation would reach 50 percent with a premium level of \$876.7 million. However, because 1982 program participation was considerably lower than FCIC had projected (see p. 4), FCIC management revised the 1983 estimates in May 1982 to a 30-percent participation rate and a premium level of \$680 million. Both participation rate estimates were derived by a "best guess" approach. FCIC officials could not provide us with any formulas or guidelines for arriving at the participation rate estimate for any given crop year.

FCIC derived its crop year 1984 premium and participation estimates in a different manner than for crop year 1983. In FCIC's 1984 budget request to the Congress, FCIC estimated a 37-percent participation rate with a premium level of \$850 million. In that submission, FCIC requested \$279 million to cover administrative and operating expenses to sustain this level of participation. The Congress appropriated \$200 million for crop year 1984. FCIC then used the \$200 million appropriation as a basis for determining the total business (participation rate and premium level) it could carry for crop year 1984. FCIC assumed that with \$200 million for administrative and operating expenses, it could administer a program with a premium level that did not exceed \$500 million. It showed this reduced level in its monthly reports for crop year 1984.

We do not believe that either of these methods of determining program participation provides a high degree of accuracy. By basing its program estimates on appropriated funds or "best guesses," FCIC has not been able to accurately predict the program's participation levels. We recognize that estimating future program participation is a difficult task. However, according to the Committee staff, the Committee needs reasonable estimates to make funding decisions. Therefore, we believe it would be beneficial for FCIC to develop a model to realistically project program participation.

CONCLUSIONS

The Senate Committee on Appropriations has asked FCIC to report monthly on the crop insurance program's performance. The Committee wants these reports so it will have accurate and up-to-date program information for use in appropriating FCIC's yearly funds. However, FCIC has often changed its methodology for preparing the monthly reports and the type of data reported. FCIC has (1) not reported accurately its "actual" business but has instead reported a combination of "actual" and "estimated" business, (2) either not reported information for its reinsured companies' business or presented information not comparable to the information presented for its master marketer business, (3) based its anticipated program participation on "best guess" estimates or on funds appropriated by the Congress, and (4) not reported marketing and administrative changes that affect program costs. As a result, the reports have been incomplete, have lacked continuity, and have generally overstated program participation.

We believe that information is available to FCIC that would provide the Committee with an adequate basis for month-to-month comparisons of FCIC's business. However, further clarification by the Committee is needed on such issues as reporting "estimated" versus "actual" figures and "pertinent" marketing and "significant" administrative changes that affect program costs. FCIC

officials have agreed that the monthly reports could be revised and that they are willing to work with the Committee to develop a report format that would be more useful to the Committee.

AGENCY COMMENTS

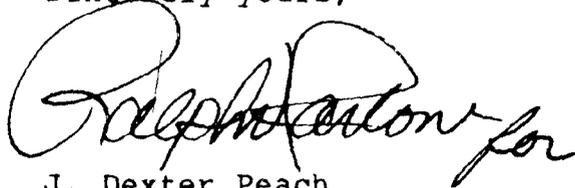
We obtained oral comments from the Assistant Manager for Administration, FCIC, who was designated to comment on this report for the Corporation. He generally agreed with the factual content of the report and with our finding that the monthly reports have lacked continuity. However, he stated that, absent any specific guidelines, changes were made to the monthly reports in an effort to make them more responsive to the Committee.

The Assistant Manager also said that FCIC recognizes the difficulties it has had predicting participation rates. He stated that as a result of our review, FCIC is developing a model that will provide the Corporation with a better indication of estimated participation rates. Regarding administrative and marketing changes, FCIC does not believe that all administrative changes should be reported to the Committee because FCIC makes many small changes that would not be of interest to the Committee. We agree that only those changes that affect program costs should be reported.

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We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of Agriculture; various Senate and House committees; members of the Congress; and other interested parties. We will also make copies available to others on request.

Sincerely yours,

A handwritten signature in black ink, appearing to read "J. Dexter Peach for". The signature is written in a cursive, flowing style.

J. Dexter Peach
Director

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United States Senate

COMMITTEE ON APPROPRIATIONS
 WASHINGTON, D.C. 20510

November 2, 1983

Honorable Charles A. Bowsher
 Comptroller General of the
 United States
 General Accounting Office
 Washington, D. C. 20548

Dear Mr. Bowsher:

The funding requirements of the Federal Crop Insurance Corporation in any given fiscal year are directly related to the participation rates, cancellation rates and amount of premium income involved in the program in the previous fiscal year. Recognizing this, the Senate Appropriations Committee directed in Senate Report 97-566 (re-emphasized in Senate Report 98-160) that the Federal Crop Insurance Corporation report monthly to the Committee on those factors which would impact on the Federal cost of the crop insurance program.

Recent question has been raised that the data provided the Committee overstates actual participation rates and premium income. For instance, the data provided the Committee in August showed actual premium income of \$332.9 million. The data provided the Committee one month later indicated premium income of \$277.8 million.

Since the Committee must rely on this data in making its decision on the funding requirements for the program, it is imperative that the data provided the Committee be as accurate as possible. I would appreciate your review of the methodology used by FCIC in developing the data used in its reports to the Committee, along with a review of the recent reports provided the Committee in order to determine their accuracy.

Yours very truly,



Thomas F. Eagleton
 Ranking Minority Member
 Subcommittee on Agriculture,
 Rural Development, and
 Related Agencies

TFE/Kt

FEDERAL CROP INSURANCE CORPORATION
CONGRESSIONAL DIRECTIVE

Page 48 of Senate Report 97-566 states the following:

"The Committee will expect FCIC to provide monthly reports on participation rates and cancellation rates, as well as any pertinent changes in marketing or reinsurance contracts and any significant changes in administrative procedures which may impact on the cost of the Federal Crop Insurance Program."

The Federal Crop Insurance Corporation is responding to this directive in three parts. The following response is for the month of January 1984:

Part 1 - Report on Participation Rates and Cancellation Rates

	Crop Year 1984 (Report for the Month of January 1984)	
	Original Estimate	Actual Data as of 2/3/84
Premium	\$500,000,000	\$191,031,000 ^{1/}
Based on Cancellation Rate of	12%	7.1%
Insured Acreage	55,600,000	18,616,267
Potential Acreage	275,000,000	275,000,000
Participation Rate	20%	6.8%

^{1/} The Corporation's report for the month of December 1983 reflected premium at \$298,821,000 which compares with \$191,031,000 for this report. This decrease of \$107,790,000 is due to a change in the method of reporting premium.

The reports submitted for the months of October, November and December included actual premium to date for government operations, but the amount included for reinsurance operations was an estimate based upon the crop year 1983 total premium.

This report includes actual premium to date for both government and reinsurance operations.

At this time, FCIC is not able to estimate total premium (government and reinsurance operations) since the results of the 1984 spring sales will not be known until June or July. At that time the Corporation will have enough data available to provide total estimated premium for the 1984 crop year.

If it is determined FCIC will not reach its expected level of participation and premium, there would be excess funds available, since the full amount allocated for agents' commissions, reinsurance administrative expense, and loss adjustment cost would not be needed.

Part 2 - Changes in marketing or reinsurance contracts:

None.

Part 3 - Significant changes in administrative procedures which may impact on the cost of the Federal Crop Insurance Program:

None.

Additional comments - None.

SUMMARY OF BUSINESS
As of February 03, 1984

	'82 CROP YEAR	'83 CROP YEAR		'84 CROP YEAR
	CURRENT REPORT	PREVIOUS REPORT	CURRENT REPORT	CURRENT REPORT
REINSURED BUSINESS				
Crops	76,415	97,836	97,932	6,611
Net Acres	9,382,000	9,795,000	9,803,000	1,056,000
Liability	\$ 1,283,407,000	\$ 1,530,065,000	\$ 1,534,293,000	\$ 96,950,000
Prem Earned	\$ 78,101,000	\$ 96,040,000	\$ 96,436,000	\$ 9,064,000
Indemnity	\$ 69,410,000	\$ 141,457,000	\$ 147,518,000	\$ 0
Loss Ratio	.89	1.47	1.53	0
Est Net Acres	9,382,000	11,375,000	11,375,000	
Est Prem	\$ 78,101,000	\$ 110,000,000	\$ 110,000,000	
FCIC BUSINESS				
Business in Force:				
Contracts	258,610	204,301	202,812*	184,790
Crops	394,458	309,355	307,109*	277,185
Est Net Acres	33,857,716	18,781,577	18,704,972*	17,560,267
Est Prem	\$ 320,718,463	\$ 194,178,203	\$ 191,642,901*	\$ 181,966,928
New Sales:				
Crops	87,881	29,202	29,095*	6,216
Est Net Acres	9,327,921	2,536,063	2,536,779*	1,061,451
Est Prem	\$ 103,161,900	\$ 34,124,429	\$ 34,469,501*	\$ 8,422,927
			* Removed inactive citrus counts.	
Cancellations:				
Crops	178,117	116,045	116,088	38,382
Net Acres	16,928,631	11,464,966	11,466,538	2,288,947
Est Prem	\$ 163,172,406	\$ 110,067,440	\$ 110,081,894	\$ 21,494,687
Transferred Reinsurance:				
Crops	52,119	40,787	40,790	8,955
Est Net Acres	5,124,599	4,043,740	4,045,345	832,166
Est Prem	\$ 49,406,390	\$ 38,726,587	\$ 38,741,958	\$ 7,809,558
Acreage Reports:				
Contr Proc	261,128	198,108	198,349	1,584
Cont Earn Prem	219,381	152,195	152,297	992
Crops Proc	395,107	299,329	299,742	1,595
Units Proc	675,016	428,945	428,818	2,445
Net Acres	33,228,320	17,931,405	17,941,020	61,629
Prem Earned	\$ 318,265,477	\$ 181,064,445	\$ 181,239,158	\$ 3,200,331
Prem Subsidy	\$ 70,018,405	\$ 39,834,178	\$ 39,872,615	\$ 704,073
Liability	\$ 4,854,688,611	\$ 2,744,576,341	\$ 2,747,711,457	\$ 40,011,615
Indemnities Paid:				
Contracts	60,082	56,055	58,708	4
Units	124,819	116,573	122,960	4
Acres	7,330,420	5,356,042	5,671,366	132
Indemnity	\$ 457,658,558	\$ 301,203,928	\$ 323,288,077	\$ 7,035
Loss Ratio	1.44	1.66	1.78	.00
Cash:				
**Collections	\$	\$ 112,049,244	\$ 115,903,597	\$ 948,198
**Balance			\$ 201,482,107	

**Taken from Accounting Reports

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FCIC DATA REQUEST TO REINSURED
COMPANIES ON 1984 BUSINESS VOLUME



United States
Department of
Agriculture

Federal Crop
Insurance
Corporation

Reinsurance
Branch

P. O. Box 293
Kansas City,
Missouri 64141

TO: All MPC I Companies

April 12, 1984

SUBJECT: Estimated 1984 Premiums

The Manager's office is continually receiving inquires about the amount of 1984 crop insurance business being sold by reinsured companies. Please complete the items below and return to Reinsurance by May 2, 1984.

Please contact Steve Ginie if you have any questions. Thanks for your assistance.


JAMES B. ALDEMAN

Estimated Total 1984 Premiums _____

Estimated New 1984 Premiums _____

Estimated Total 1984 No. of Policies _____

Estimated New 1984 No. of Policies _____

Company Name: _____



The Federal Crop Insurance
Corporation is an agency of the
Department of Agriculture

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GENERAL ACCOUNTING OFFICE
WASHINGTON D.C. 20548

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