



United States Department of Agriculture



OFFICE OF INSPECTOR GENERAL



# Federal Crop Insurance Corporation/Risk Management Agency Financial Statements for Fiscal Years 2018 and 2017

## Audit Report 05401-0010-11

OIG audited FCIC/RMA's financial statements for fiscal years 2018 and 2017.

### OBJECTIVE

Our objectives were to determine whether (1) the financial statements present information fairly, in all material respects, and in accordance with generally accepted accounting principles; (2) internal control objectives over financial reporting were met; (3) FCIC/RMA complied with applicable laws and regulations; and (4) information was materially consistent with other sources.

### REVIEWED

We conducted our audits at RMA's office in Kansas City, Missouri.

### RECOMMENDS

We recommended that FCIC/RMA develop change controls over the program production model used to calculate actuarial projections to avoid inadvertent modifications to the model.

### WHAT OIG FOUND

The Federal Crop Insurance Corporation/Risk Management Agency (FCIC/RMA) received an unmodified opinion for the Office of Inspector General's (OIG) audit of FCIC/RMA's financial statements. We determined that the agency's financial statements presented fairly FCIC/RMA's financial position as of September 30, 2018 and 2017, in all material respects, and were prepared in accordance with accounting principles generally accepted in the United States of America. This includes the agency's net costs, changes in net position, and statements of budgetary resources and related notes to the financial statements.

Our consideration of FCIC/RMA's internal control over financial reporting identified two significant deficiencies, one of which we considered to be a material weakness. Our consideration of compliance with laws and regulations noted no instances of noncompliance.





United States Department of Agriculture  
Office of Inspector General  
Washington, D.C. 20250



DATE: November 8, 2018

AUDIT  
NUMBER: 05401-0010-11

TO: Martin Barbre  
Administrator  
Risk Management Agency

ATTN: Heather Manzano  
Deputy Administrator for Compliance  
Risk Management Agency

FROM: Gil H. Harden  
Assistant Inspector General for Audit

SUBJECT: Federal Crop Insurance Corporation/Risk Management Agency's Financial  
Statements for Fiscal Years 2018 and 2017

This report presents the results of our audits of the Federal Crop Insurance Corporation/Risk Management Agency's (FCIC/RMA) financial statements for the fiscal years ending September 30, 2018 and 2017. This report contains an unmodified opinion on the financial statements, as well as the results of our assessments of FCIC/RMA's internal control over financial reporting and compliance with laws and regulations. Your response is included in its entirety in Exhibit B.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframes for implementing the recommendations for which management decisions have not been reached. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance, and final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publicly available information and will be posted in its entirety to our website (<http://www.usda.gov/oig>) in the near future.



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# Independent Auditor's Report

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The Board of Directors, Federal Crop Insurance Corporation

The Department of Agriculture's Office of Inspector General audited the financial statements of the Federal Crop Insurance Corporation/Risk Management Agency (FCIC/RMA) for fiscal years 2018 and 2017. We also considered FCIC/RMA's internal control over financial reporting and tested FCIC/RMA's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct effect on the determination of material financial statement amounts and disclosures on these financial statements.

Exhibit A of this report provides the status of the prior year's internal control weakness. Exhibit B presents FCIC/RMA's response in its entirety.

## Report on the Financial Statements

We have audited the accompanying financial statements of FCIC/RMA, which comprise the balance sheets as of September 30, 2018 and 2017, and the related statements of net cost and changes in net position; and the combined statements of budgetary resources for the fiscal years then ended and the related notes to the financial statements (hereinafter referred to as the "financial statements"). The objective of our audits was to express an opinion on the fair presentation of these financial statements.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.); and the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in government auditing standards, issued by the Comptroller General of the U.S.; and the Office of Management and Budget (OMB) Bulletin 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin 19-01 require that we plan and perform audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audits also included performing such other procedures as we considered necessary in the circumstances.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion on the Financial Statements**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FCIC/RMA, as of September 30, 2018 and 2017, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

### **Emphasis of Matter**

FCIC/RMA's ultimate losses on insurance claims are subject to uncertainty. As a result, losses on insurance claims may differ significantly from the recorded estimate due to differences between expected and actual yields, weather patterns, commodity prices, and economic conditions. Note 7 to the financial statements, "Estimated Losses on Insurance Claims," provides specific details concerning this liability. Our opinion is not modified with respect to this matter.

### **Other Matters**

### **Required Supplementary Information**

Accounting principles generally accepted in the U.S. issued by the Federal Accounting Standards Advisory Board (FASAB) require that the required supplementary information (RSI)<sup>1</sup> be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses

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<sup>1</sup> The RSI consists of the Management Discussion and Analysis, Required Supplementary Stewardship Information and Risk Assumed information, which are included with the financial statements.

to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Information**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The “Other Information” section is presented for the purpose of additional analysis, and is not a required part of the basic financial statements or the required supplementary information. This information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion and provide no assurance on it.

## **Other Reporting Required by Government Auditing Standards**

### **Report on Internal Control Over Financial Reporting**

In planning and performing our audits of the financial statements, we considered FCIC/RMA’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FCIC/RMA’s internal control. Accordingly, we do not express an opinion on the effectiveness of FCIC/RMA’s internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers’ Financial Integrity Act of 1982 (FMFIA).

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of FCIC/RMA’s financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

OMB Bulletin 19-01 requires us to describe significant deficiencies and material weaknesses identified during our audits, and in the event that no material weaknesses were identified, to so

report. In our fiscal year 2018 audit, we noted certain matters involving internal control that we consider to be significant deficiencies. Specifically, we identified weaknesses in FCIC/RMA's:

- controls over estimating losses on insurance claims, and
- information technology general controls.

We determined the first deficiency is also a material weakness. These deficiencies are discussed in this report in the "Findings and Recommendations," Sections 1 and 2.

## **Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements**

As part of obtaining reasonable assurance about whether FCIC/RMA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and Governmentwide policy requirements, noncompliance with which could have a direct effect on the determination of material financial statement amounts and disclosure in the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

We also performed tests of FCIC/RMA's compliance with certain provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which FCIC/RMA's financial management systems did not substantially comply with FFMIA.

## **Management's Responsibility for Internal Control and Compliance**

FCIC/RMA's management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under FFMIA, (2) providing a statement of assurance on the overall effectiveness of internal control over financial reporting, (3) ensuring FCIC/RMA's financial management systems are in substantial compliance with FFMIA requirements, and (4) ensuring compliance with other applicable laws, regulations, contracts, and grant agreements.

## **Auditor's Responsibilities**

We are responsible for (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing whether FCIC/RMA's financial management systems substantially comply with FFMIA requirements referred to above, and (3) testing compliance with certain provisions of laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosure in the financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly established by FFMIA, such as those controls relevant to preparing statistical reports and ensuring efficient

operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

We did not test compliance with all laws, regulations, contracts, and grant agreements applicable to FCIC/RMA. We limited our tests of compliance to certain provisions of laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosure in the financial statements that we deemed applicable to FCIC/RMA's financial statements for the fiscal year ended September 30, 2018. We caution that noncompliance may occur and not be detected by these tests.

### **Management's Response**

Management's response to the report is presented in Exhibit B. We did not audit FCIC/RMA's response and, accordingly, we express no opinion on it.

### **Status of Prior Year's Internal Control Weakness**

We reviewed the status of FCIC/RMA's corrective actions with respect to the prior year's Independent Auditor's Report, dated November 8, 2017. The status is presented in Exhibit A.

### **Purpose of the Report on Internal Control Over Financial Reporting and the Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements**

The purpose of the "Report on Internal Control Over Financial Reporting" and the "Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements" sections of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of FCIC/RMA's internal control or on compliance. These reports are an integral part of an audit performed in accordance with government auditing standards in considering FCIC/RMA's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.



Gil H. Harden  
Assistant Inspector General for Audit  
Washington, D.C.  
November 7, 2018

## Findings and Recommendation

### Section 1: Material Weakness in Internal Controls Over Estimating Losses on Insurance Claims

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#### Finding 1: Improvements are Needed in the Review of the Estimated Loss Calculations

Although management conducted detailed reviews of the projected loss calculations for estimating losses on insurance claims, change controls over the program used to calculate the actuarial projection were not effective in preventing changes to the production model. We identified an error in the program code whereby additional lines of code were inadvertently left in the program after performing sensitivity tests and used to initially calculate the 2018 estimated losses on insurance claims. As a result, FCIC/RMA's financial statements were materially misstated as reflected below.

- Indemnities Expense and Liability for Estimated Losses on Insurance Claims were understated by \$475 million.
- Net Gain on Business Ceded from Approved Insurance Providers (Contra Revenue) and Liability for Underwriting Gain was overstated by \$150 million.
- As a result, Total Liabilities and Net Cost of Operations were understated by \$325 million.

The majority of FCIC/RMA's liabilities is comprised of Estimated Losses on Insurance Claims. Estimated Losses are calculated based on Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government*.<sup>2</sup> There are a variety of risk factors that expose FCIC/RMA's liability estimates to uncertainty. Therefore, an actuarial projection of total indemnities is made at the end of each fiscal year based on current conditions.

After the error was brought to management's attention, FCIC/RMA officials promptly reviewed the projected loss calculation code, made corrections, and adjusted the financial statements accordingly.

#### Recommendation 1:

We recommend that management develop change controls over the program production model used to calculate actuarial projections to avoid inadvertent modifications to the model.

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<sup>2</sup> Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government*, dated September 1995.

## Section 2: Significant Deficiency in Internal Control Over Financial Reporting

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### Finding 2: Improvements are Needed in RMA's General Information Technology Controls

Last year our report<sup>3</sup> identified deficiencies in RMA's information technology general controls. In fiscal year 2018, RMA made continuous efforts to improve its disaster recovery program; however, our review disclosed that additional improvements in RMA's contingency planning and security management are still needed.

RMA's contingency planning for disaster recovery did not meet the National Institute of Standards & Technology (NIST)<sup>4</sup> and Departmental requirements.<sup>5</sup> Specifically,

- RMA has no failover system or alternate processing facility for backup and recovery of its systems,
- the alternate storage site is not separate from the primary storage site, leaving it susceptible to the same threats,
- RMA has not established alternate telecommunications services, and
- at the time of our review RMA had not tested its contingency plan for fiscal year 2018.

Information systems are vital elements in most mission/business processes. Because information system resources are essential to an organization's success, it is critical that services provided by these systems operate effectively without excessive interruption. Without a failover system or alternate processing facility, RMA reduces its ability to perform mission critical functions. Additionally, without organized defined testing of contingency plans performed each year RMA is unable to determine the effectiveness of the plan and the organizational readiness to execute the plan.

In fiscal year 2017 we recommended that RMA establish an effective disaster recovery program, failover system, and alternate processing facility, and perform annual testing of its contingency plan. According to RMA, it established a disaster recovery environment in July 2018 and completed environment and failover testing for its mission essential functions in September 2018. Additionally, RMA scheduled the completion of its data center relocation for the beginning of fiscal year 2019. Due to RMA's continuing progress to improve its disaster recovery program, we are not making any further recommendations.

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<sup>3</sup> Audit Report 05401-0009-11, *Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2017 and 2016*, issued November 2017.

<sup>4</sup> NIST Special Publication 800-53 Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*, states an organization must establish an alternate processing site. It further requires contingency plans to be tested to determine effectiveness.

<sup>5</sup> The Department's *Contingency Plan Exercise Handbook*, requires that an annual exercise be conducted to examine processes and procedures associated with the implementation of the plan.

## Abbreviations

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FASAB.....	Federal Accounting Standards Advisory Board
FCIC/RMA .....	Federal Crop Insurance Corporation/Risk Management Agency
FFMIA .....	Federal Financial Management Improvement Act of 1996
FMFIA .....	Federal Managers' Financial Integrity Act of 1982
NIST.....	National Institute of Standards and Technology
OIG .....	Office of Inspector General
OMB .....	Office of Management and Budget
RSI .....	Required Supplementary Information
U.S. ....	United States of America

## **Exhibit A: Status of Prior Year's Internal Control Weakness**

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**Report 05401-0009-11**, Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2017 and 2016, dated November 2017.

### **Reported Significant Deficiency**

Improvements are needed in RMA's information technology general controls

### **Status**

Recommendations 1 and 2 remain open. Recommendations 3 and 4 have been closed.

### **OIG Results**

OIG continued to find similar deficiencies related to RMA's disaster recovery program and has issued a repeat Finding 2 with no recommendations.

**FCIC/RMA'S  
RESPONSE TO AUDIT REPORT**



**United States  
Department of  
Agriculture**

Farm Production  
and Conservation

Risk  
Management  
Agency

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

November 7, 2018

TO: Mr. Gil H. Harden  
Assistant Inspector General  
Office of Inspector General

FROM: Margo E. Erny  
Chief Financial Officer  
Risk Management Agency

A handwritten signature in blue ink that reads "Margo E. Erny".

SUBJECT: FCIC/RMA's Financial Statements for Fiscal Years 2018 and 2017,  
Audit Report No. 05401-0010-11

RMA is please to respond to your audit report. We agree with the recommendation and will develop a corrective action plan with milestones to address the finding within 60 days.

I would like to express my appreciation for the cooperation and professionalism displayed by your staff and your contract auditors during this audit.

Please contact me at 202 720-4877 if you have any questions or would like to discuss.

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**Federal Crop Insurance Corporation/Risk  
Management Agency's**

**FISCAL YEARS 2018 and 2017  
FINANCIAL STATEMENTS**

**PREPARED BY FCIC/RMA**

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**FEDERAL CROP INSURANCE CORPORATION/  
RISK MANAGEMENT AGENCY  
FINANCIAL STATEMENTS  
FISCAL YEARS 2018 AND 2017**

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Management's Discussion and Analysis

## FEDERAL CROP INSURANCE CORPORATION/RISK MANAGEMENT AGENCY'S FINANCIAL STATEMENTS FOR FISCAL YEARS 2018 AND 2017

Message from Martin Barbre, Administrator, Risk Management Agency

### Mission of The Risk Management Agency

Serving America's agricultural producers through effective, market-based risk management tools and solutions to strengthen the economic stability of agricultural producers and rural communities.



On behalf of the Risk Management Agency (RMA), it is my pleasure to present this comprehensive financial report detailing the exceptional work of the agency and its employees for the past two years. The above-stated mission of the agency is further enhanced by the following strategic goals:

- Increasing the availability and effectiveness of Federal crop insurance as a risk management tool while enhancing and protecting the soundness of the program;
- Ensuring a fair and effective risk management product delivery system;
- Providing education and outreach to stakeholders to ensure knowledge of and access to risk management tools and products;
- Safeguarding the integrity of the Federal crop insurance program; and
- Creating an RMA for the 21st century that is high performing, efficient, and adaptable.

RMA worked to reduce regulatory burdens on Approved Insurance Providers, insurance agents, producers, and the United States Department of Agriculture by implementing changes to the Highly Erodible Land and Wetlands Conservation certification process. RMA also provided additional risk management options to allow producers to select different unit structures by practice for either irrigated or non-irrigated practices, which helps producers tailor crop insurance to help meet their specific needs. RMA continued to focus efforts to raise awareness of the Whole-Farm Revenue Protection insurance program, which is available in every county in the United States and expanded options for nursery growers as well. RMA worked with Approved Insurance Providers, agents, and stakeholder groups to respond to multiple disasters throughout the past two years.

In fiscal year 2017, RMA partnerships reached 113,948 producers and helped over 36,000 participants decide on risk management and crop insurance education topics such as Crop Insurance 101, Whole-Farm Revenue Protection, Pasture Rangeland and Forage and Livestock products, recordkeeping, irrigation/limited irrigation practices, and drought. In addition, RMA entered into 76 cooperative agreements for nearly \$10 million to provide nationwide risk management and crop insurance education to producers. For fiscal year 2018, RMA announced the availability of \$8.89M to continue the development of training and educational tools to help farmers and ranchers to effectively manage long-term risks and challenges.

RMA is required to identify, measure, prevent and report improper payments per the Improper Payments Elimination and Recovery Improvement Act (IPERIA). In fiscal year 2017, RMA significantly reduced its improper payment rate to 1.96%. In fiscal year 2018, the improper payment rate was reduced even further to 1.81%. The actual rates are less than both the fiscal year 2018 target of 1.95% and the fiscal year 2017 target of 2.01%.

The Federal Crop Insurance Corporation's (FCIC) financial statements report the financial positions for both 2018 and 2017 fiscal years, net costs of operation, changes in net position, and status of budgetary resources. Financial management performance measures also accompany the financial results. These performance measures include the annual results and the strategic targets.

Thank you for your interest in RMA and FCIC. I commend the employees of the Risk Management Agency for their outstanding work and am proud to share this information with our stakeholders.

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# MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

## MISSION

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Risk Management Agency's (RMA) mission is serving America's agricultural producers through effective, market-based risk management tools to strengthen the economic stability of agricultural producers and rural communities. To carry out this mission, RMA operates and manages the Federal Crop Insurance Corporation (FCIC).

FCIC provides crop insurance and risk management strategies to American producers. Private sector insurance providers, approved by FCIC, sell and service the policies. RMA develops and/or approves premium rates, administers the premium and expense subsidies, approves and supports products, and reinsures the Approved Insurance Providers (AIPs). In addition, RMA sponsors educational programs and seminars on risk management.

### **History & Enabling Legislation**

FCIC is a wholly-owned government corporation established February 16, 1938 by the Federal Crop Insurance Act (7 U.S.C. 1501) and amended by the following:

- Federal Crop Insurance Act of 1980
- Federal Crop Insurance Reform and Department of Agriculture Reauthorization Act of 1994
- Federal Agriculture Improvement and Reform Act of 1996 (established RMA)
- Agriculture Research, Extension & Education Reform Act of 1998
- Agriculture, Rural Development, Food & Drug Administration, & Related Agencies Appropriations Act of 1999
- Agriculture Risk Protection Act of 2000
- Food, Conservation, and Energy Act of 2008
- Agricultural Act of 2014

The Federal Crop Insurance Act, as amended, is hereafter referred to as the Act.

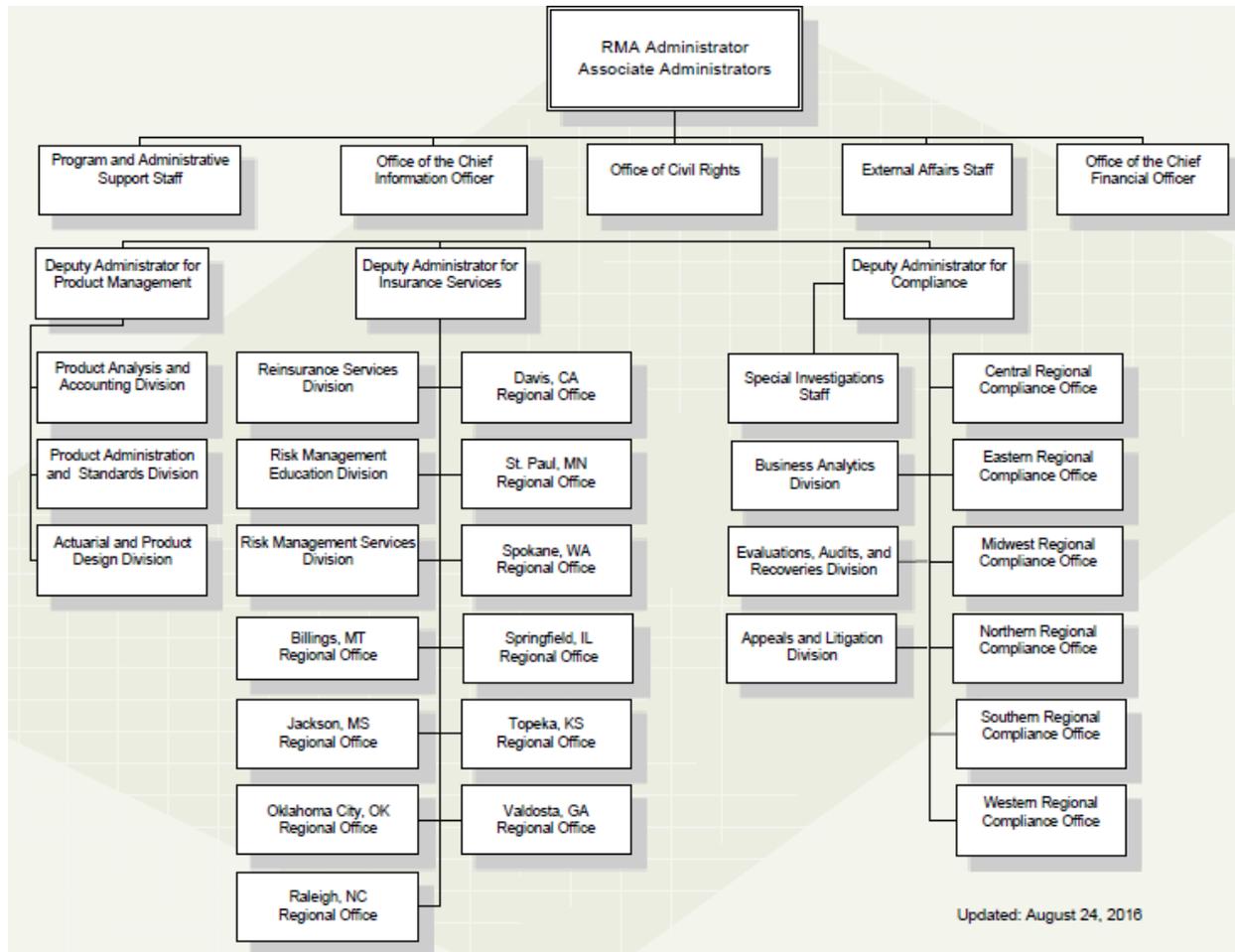
**FEDERAL CROP INSURANCE CORPORATION/RISK MANAGEMENT AGENCY'S  
FINANCIAL STATEMENTS FOR FISCAL YEARS 2018 AND 2017**

## ORGANIZATIONAL STRUCTURE

RMA employs approximately 460 people in offices around the country. Martin Barbre is the RMA Administrator and Manager of FCIC. Staff offices within the Office of the Administrator are External Affairs, Office of Civil Rights, Program and Administrative Support, the Office of the Chief Information Officer, and the Office of the Chief Financial Officer.

The Agency has three divisions: Insurance Services, Product Management, and Compliance. Insurance Services is responsible for program delivery (for example, managing contracts with the companies that sell and service policies), and local program administration and support. Product Management is responsible for overseeing product development and program operations. Compliance monitors program integrity and adherence to program provisions by both producers and private insurance companies that participate in the program.

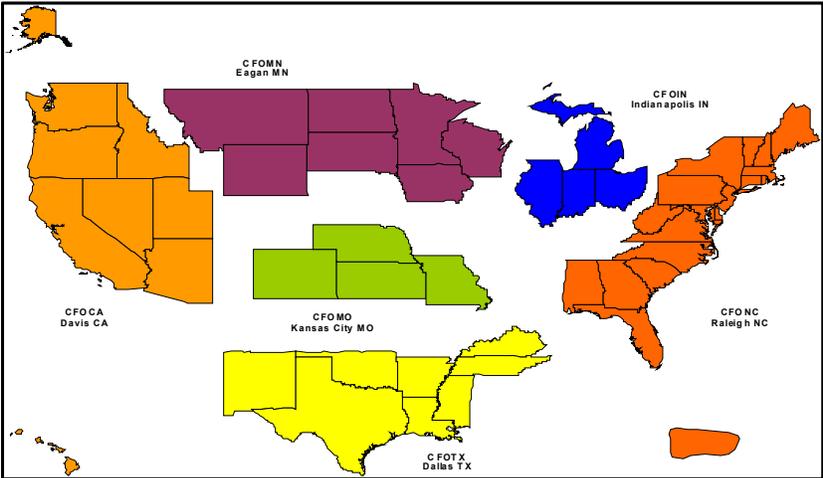
## ORGANIZATIONAL CHART



**FEDERAL CROP INSURANCE CORPORATION/RISK MANAGEMENT AGENCY'S  
FINANCIAL STATEMENTS FOR FISCAL YEARS 2018 AND 2017**

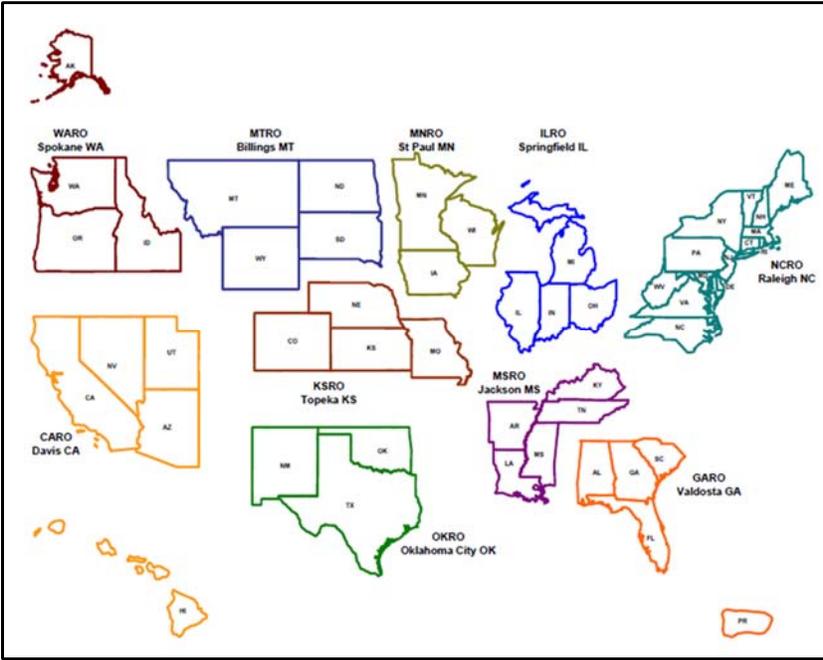
**RMA Office Locations**

RMA is headquartered in Washington, DC. There is a national operations office located in Kansas City, MO which includes Product Management, Office of Chief Information Officer, External Affairs, and Office of the Chief Financial Officer. In addition, there are six Compliance offices and ten Insurance Services regional offices located throughout the country, as shown in the table below.



**Regional Compliance Offices locations**

- Raleigh, NC
- Davis, CA
- Egan, MN
- Indianapolis, IN
- Kansas City, MO
- Dallas, TX



**Insurance Services Regional Office locations**

- Raleigh, NC
- Davis, CA
- St. Paul, MN
- Springfield, IL
- Topeka, KS
- Billings, MT
- Jackson, MS
- Oklahoma City, OK
- Spokane, WA
- Valdosta, GA

## ORGANIZATIONAL FUNCTIONS



*Board members left to right:  
Kenneth Ray Sneed, Iris Saenz,  
James Bardenhagen, Dr. Robert  
Johansson, John Finston, Michael  
Clemens, Rickey Bearden, and  
Martin Barbre.*

### Program Administration

The Board of Directors is the decision-making body for FCIC. FCIC Board of Directors is subject to the general supervision of the Secretary of Agriculture. The Board consists of the United States Department of Agriculture (USDA) Chief Economist (Chairman); the USDA Under Secretary for Farm Production and Conservation plus one additional Under Secretary; FCIC Manager (non-voting); four producers who are policyholders, one of whom grows specialty crops; an individual involved in the insurance industry; and an individual knowledgeable about reinsurance or regulation.

### Office of the Administrator

Business activities are carried out by the following staff offices:

- **External Affairs Staff:**  
External Affairs Staff communicates with and provides information to the public and Congress about the Federal crop insurance program. External Affairs also provides guidance and training on communications, strategies, and issues to the Agency's leadership.
- **Office of Civil Rights:**  
The Office of Civil Rights (OCR) focus is to ensure that customers, such as farmers and ranchers, including small, limited resource, and other socially disadvantaged groups, have the opportunity to participate and have equal access to all USDA/RMA programs and services. In addition, RMA ensures that all employees and applicants for employment are treated equally in regard to employment opportunities, recognition, promotions, and other employee benefits.

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- **Program and Administrative Support Staff:**  
The Program & Administrative Support Staff provides services to the Agency ranging from regulatory administration, employee engagement activities, as well as continuity of operations and homeland security planning and execution.
- **Office of the Chief Information Officer (OCIO):**  
The OCIO staff is made up of 3 primary functional areas: Information Security, Capital Planning & Investment Control, and System Administration.
- **Office of the Chief Financial Officer (OCFO):**  
The OCFO staff is responsible for establishing and maintaining effective internal controls and policies over financial reporting and operations. The Budget Branch formulates and executes the RMA/FCIC budget as well as manages strategic planning and organizational performance management activities. The Accounting Branch processes and monitors financial transactions and prepares the financial statements.

### **Product Management**

Product Management designs, develops, and maintains the crop insurance programs, policies and standards; and establishes and maintains rates, prices, and actuarial documents for coverage of crops in each county. Product Management is responsible for the financial oversight of AIPs as well as processing the program receipts and expenditures including AIP reimbursement and escrow funding.

### **Insurance Services**

Insurance Services develops and manages contractual arrangements through AIPs, cooperatives, and other financial service organizations. Insurance Services ensures delivery partners meet published regulatory financial standards, administers corrective actions, and educates producers through private and public education partners. Insurance Services also engages outreach to ensure that all farmers and ranchers have the opportunity to participate and have equal access to all RMA/USDA programs and services.

### **Compliance**

Compliance safeguards the integrity of the Federal crop insurance program through operational reviews of crop insurance programs. Compliance is also responsible for oversight of the data-mining processes used to monitor program compliance. Compliance assists in the prosecution of criminal, civil, and administrative actions and refers cases of fraud to the Office of Inspector General as required. Freedom of Information Act (FOIA) and Privacy Act functions are performed within the Compliance Division.

## PROGRAMS

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FCIC enters into reinsurance agreements with AIPs to market and service policies. The conditions of reinsurance are defined in the Standard Reinsurance Agreements (SRA) between the companies and FCIC. Under these agreements, AIPs agree to deliver insurance products to eligible entities under certain terms and conditions.

AIPs are responsible for customer service and guarantee premium payment to FCIC. FCIC reinsures the policies and provides an administrative and operating expense reimbursement to AIPs for delivery of insurance products.

FCIC provides a subsidy for producers' premiums and funds indemnity payments to producers through escrow accounts. FCIC and AIPs share in underwriting gains or losses.

## INSURANCE PLANS AND TYPES

### Revenue Policies

Revenue based products protect the producers against loss of revenue due to price fluctuations and yield loss due to natural causes such as drought, excessive moisture, hail, wind, frost, insects, and disease. Types of policies included are:

- Actual Revenue History
- Pecan Revenue Assurance
- Revenue Protection
- Revenue Protection with Harvest Price Exclusion

### Actual Production History & Yield Protection Policies

Actual Production History and Yield Protection Policies insure producers against yield losses due to natural causes such as drought, excessive moisture, hail, wind, frost, insects, and disease. If the harvested plus any appraised production is less than the yield insured, the producer is paid an indemnity based on the difference. Types of policies included are:

- Actual Production History
- Yield Protection

### Livestock Policies

Livestock policies are designed to insure against declining market prices or declining margins. Coverage is determined using futures and options prices from commodity exchange markets. Types of policies included are:

- Dairy Revenue Protection
- Livestock Risk Protection
- Livestock Gross Margin

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### **Group Policies**

Policies in this category are based on the experience of the county rather than individual farms, these policies use: (1) Estimated county yields for insured crops as determined by National Agricultural Statistics Service (NASS); (2) Weather data collected and maintained by the National Oceanic and Atmospheric Administration's Climate Prediction Center; or (3) Weather data collected by the U.S. Geological Survey's Earth Resources Observation and Science. Types of policies included are:

- Area Yield Protection
- Area Revenue Protection
- Area Revenue Protection – Harvest Price Exclusion
- Rainfall Index
- Stacked Income Protection – Revenue Protection
- Stacked Income Protection – Revenue Protection with Harvest Price Exclusion

### **Other Policies**

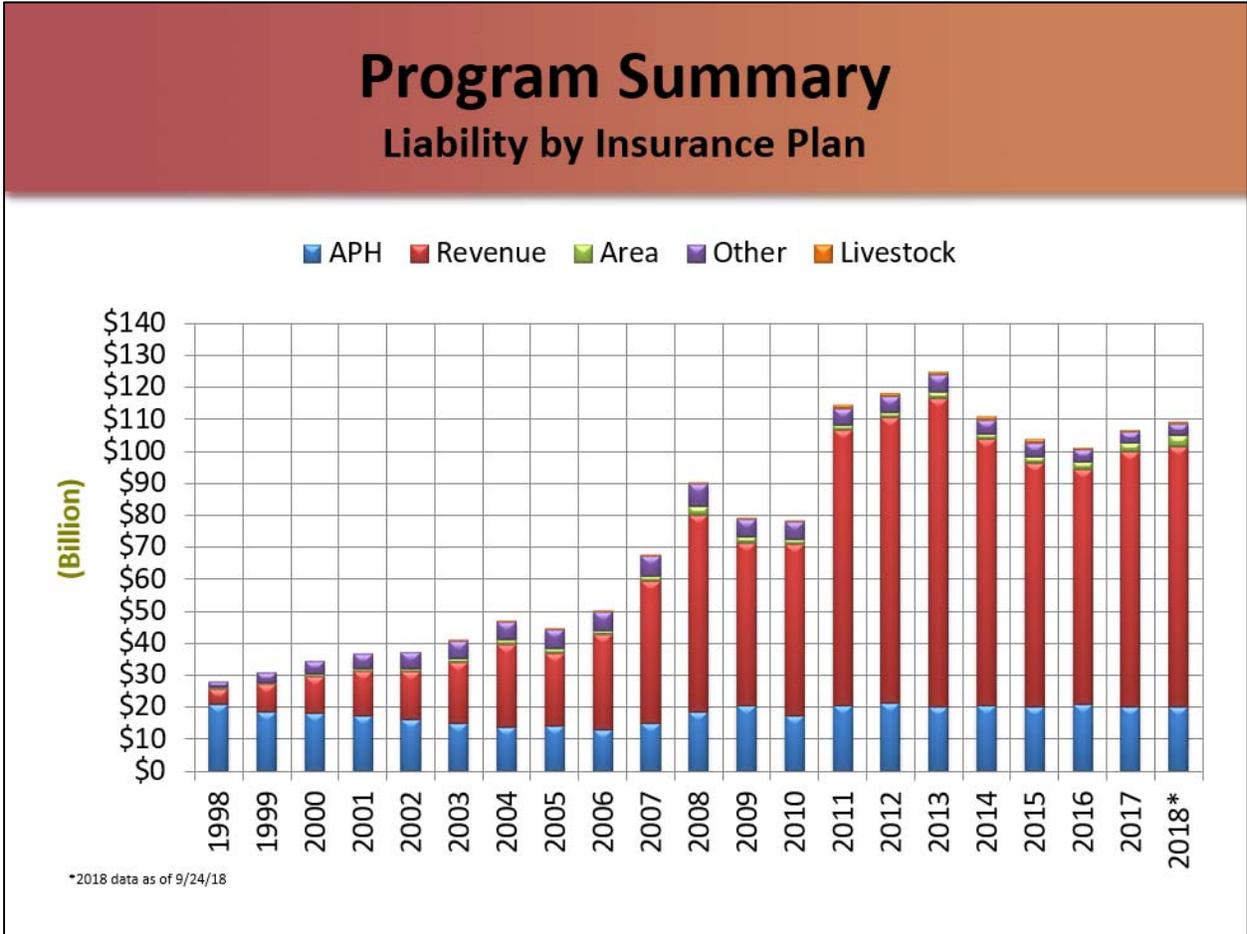
Policies that do not fall under other groups listed above are combined into this grouping. Examples of policies in this category are dollar amount products based on the cost of growing a crop or policies based on the producer's historical gross revenue to determine loss. Types of policies included are:

- Whole-Farm Revenue Protection
- Aquaculture Dollar Amount of Insurance
- Dollar Amount of Insurance
- Fixed Dollar Amount of Insurance
- Tree Based Dollar Amount of Insurance
- Yield Based Dollar Amount of Insurance
- Margin Protection

For more information on insurance plans visit: <http://www.rma.usda.gov/policies/>

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The chart below shows the 20-year trend in insurance liability and types of insurance.



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## **REIMBURSEMENT RATES**

FCIC receives an appropriation to reimburse AIPs for their administrative and operating costs. Reimbursement rates are a percentage of premium. The current SRA contains a cap which is indexed for inflation for specific insurance plans and coverage levels. The 2018 reimbursement amount is \$1.5 billion. Reimbursement rates are the same for 2018 and 2017 reinsurance years. The table below lists reimbursement rates under the current SRA:

<b>Insurance Plans</b>	<b>Reimbursement Rates (depending on coverage level)</b>
Area Risk	12.0%
Pasture Rangeland and Forage	20.1%
Revenue (Harvest Price Option)	18.5%
Other Additional Coverage	21.9%
Catastrophic Coverage	6.0%

## **UNDERWRITING GAIN/LOSS**

In addition to reimbursement of administrative and operating expenses, FCIC and AIPs enter into agreements on sharing of gains and losses. Under these agreements, FCIC assumes a portion of the loss risk on Federal crop insurance policies. The agreements are adjusted annually as part of the AIPs plan of operations. A plan of operations is submitted to RMA and approved prior to the beginning of the reinsurance year. In the plan of operations, AIPs elect methodologies to share risk with FCIC. The plan of operations becomes an appendix to the SRA for each reinsurance year (July 1 through June 30).

## **SPECIALTY CROPS**

Under the Act, FCIC reports to Congress on the progress and expected timetable for expanding crop insurance coverage to new and specialty crops. The Specialty Crop reports serve as a useful way to obtain a quick overview of processes and timelines RMA follows to make new and specialty crop insurance products available to producers. The latest report (available at <https://www.rma.usda.gov/About-RMA/Laws-and-Regulations/Published-Regulations-Archive>) highlights several pilot programs and privately developed products developed under section 508(h) of the Act.

## PILOT PROGRAMS

The Act defines the process by which RMA develops and maintains pilot programs and allows privately developed products to be submitted to FCIC under section 508(h). Private submitters may submit a Concept Proposal for FCIC Board approval. A portion of expected research and development funds may be advanced to create new insurance products. Private submitters may also develop new policies at their own expense and submit these products to FCIC. For FCIC Board approved products, the private submitters may request reimbursement of research and development from FCIC.

## PUBLISHED REGULATIONS

RMA periodically updates its regulations by publishing proposed, interim, and final rules in the Federal Register. RMA seeks public comment on proposed revisions. Revisions made to regulations improve risk management products available for producers and/or clarify such regulations. During fiscal year 2018, RMA had 6 regulations in the proposed, interim, or final rule stage. Published regulations can be found on the Federal Register's website at <https://www.federalregister.gov>.

## PERFORMANCE GOALS, OBJECTIVES AND RESULTS

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### PERFORMANCE GOALS OF RMA

In 2015, RMA published its Strategic Plan in alignment with the USDA Strategic Plan. The Strategic Plan has five goals with accompanying strategies and performance measures. This section describes RMA performance goals and selected accomplishments towards those goals.

- **Increase the availability and effectiveness of Federal Crop Insurance as a risk management tool while enhancing and protecting the soundness of the program.**

The RMA goal to increase the availability and effectiveness of the program is achieved by:

- Ensuring American agricultural producers are better protected against the inherent risks of weather and price fluctuations,
- Enhancing rural communities' income through indemnity payments to local producers who suffer insured losses, and
- Ensuring American taxpayers' confidence in an actuarially sound insurance program.

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RMA's primary performance measure under this goal, as shown in the following table, is the annual normalized value of risk protection provided to agricultural producers through the Federal crop insurance program. By "normalizing" or adjusting the actual value of risk by parameters that smooth out the volatility of crop prices, the steady climb in the value of risk protection provided to producers through the years is shown.

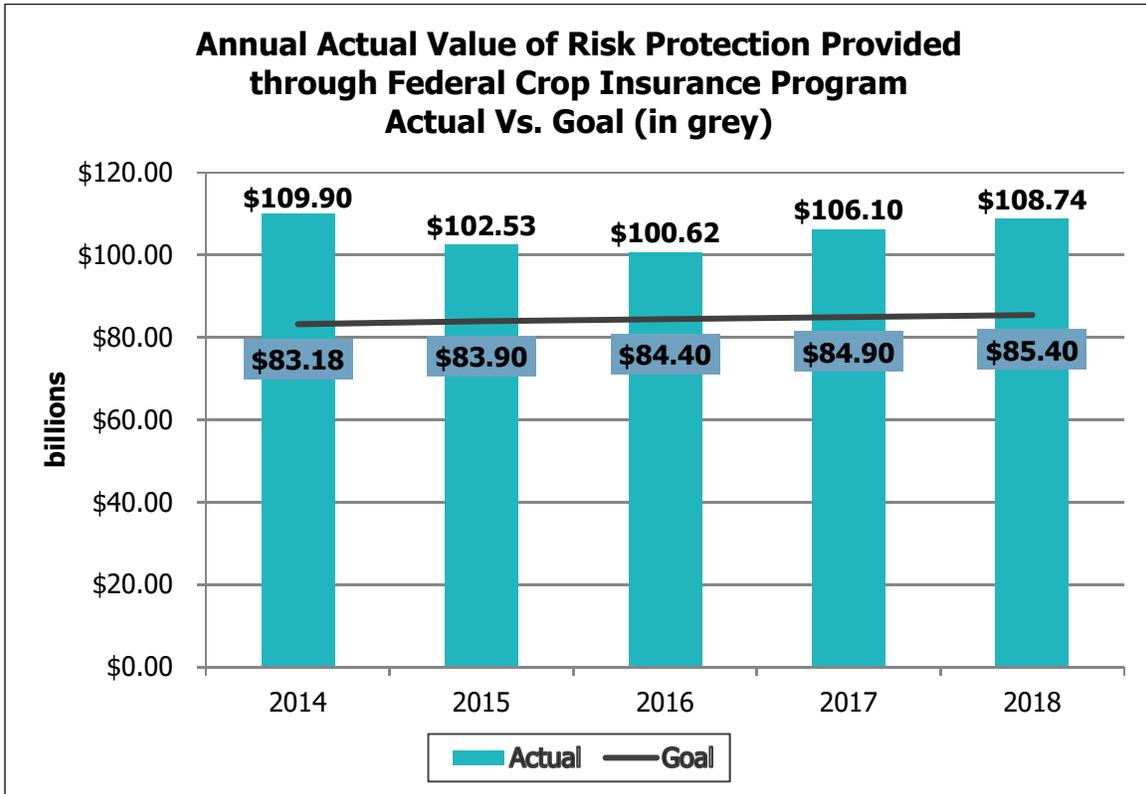
	<b>Baseline 2012</b>	<b>2017 Actual</b>	<b>2018 Actual</b>	<b>2018 Target</b>
Annual normalized value of risk protection	\$62.1 billion	\$74.6 billion	\$81.7 billion	\$64.0 billion

Additional activities that contribute to the goals of increased availability and effectiveness of the Federal crop insurance program are shown below.

- Whole-Farm Revenue Protection is available in every county in the United States. Eligibility for Whole-Farm Revenue Protection includes beginning farmers and farms that are exclusively livestock or greenhouse. Improvements were made for how Whole-Farm program protection accounts for producers who also have non-reinsured coverage on their crops.
- Pasture, Rangeland, and Forage, an area-based insurance plan that covers perennial pasture, rangeland, or forage used to feed livestock is available in all 48 continuous states. Program expanded to provide organic coverage and increased program integrity with more accurate pricing methodology.
- New programs implemented include: crop insurance program triticale; option for sugarcane that provide payments to replace plants destroyed in their first or second year; and state-funded crop insurance subsidy for certified cover crop growers in Iowa.
- Coverage for blueberries was expanded to include blueberries planted in containers (select California counties).
- Eligibility for nursery crops was expanded by lowering the wholesale requirement from 50% of sales to 40% and added flexibility to the program by allowing for the field grown practice to have basic units by non-contiguous land.
- Improvements have been made to how cotton quality losses are covered.

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Another performance measure is shown in the chart below. It is a graphic representation of how RMA has met its goal to increase the value of risk protection for farmers and ranchers across the United States. It shows actual values of the Federal crop insurance program for the last five years.



➤ **Ensure a fair and effective risk management product delivery system**

RMA accomplishes fair and effective delivery of the program by ensuring all producers have access to risk management products and information; compliance with Federal Civil Rights statutes is ensured; and AIPs, their agents, and adjusters treat all producers fairly. The designated underserved states are Alaska, Connecticut, Delaware, Hawaii, Maine, Maryland, Massachusetts, Nevada, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Utah, Vermont, West Virginia, and Wyoming.

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One performance measure illustrates fair and effective delivery of the program is shown below where the table lists value of risk protection in underserved states.

	<b>Baseline 2013</b>	<b>2017 Actual</b>	<b>2018 Estimate</b>	<b>2018 Target</b>
Actual Value of Risk Protection in Underserved States	\$1.6 billion	\$2.1 billion	\$2.3 billion	\$2.2 billion

RMA has provided enhanced crop insurance coverage to new and beginning farmers and ranchers which participate in beginning farmer crop insurance incentives. These incentives make crop insurance more affordable and more effective for beginning farmers, which supports new and beginning farmers in the critical first few years of farming.

These benefits include:

- Exemption from paying the administrative fee for catastrophic and additional coverage policies
- Additional 10 percentage points of premium subsidy for additional coverage policies that have premium subsidy
- Use of production history of farming operations that they were previously involved in the decision making or physical activities
- Increase in the substitute Yield Adjustment, which allows producers to replace a low yield due to an insured cause of loss, from 60 to 80 percent of the application Transitional Yield (T-Yield).

For the 2018 reinsurance year, there were more than 16,500 beginning farmers and ranchers insured spanning more than 4.1 million acres. They saved more than \$17 million in reduced premiums and administrative fees.

➤ **Educate stakeholders to ensure knowledge of and access to risk management tools and products**

RMA educates stakeholders by ensuring producers are knowledgeable about risk management tools and products, educational resources are leveraged through partnerships with other governmental and nongovernmental entities, and producers have access to regionalized risk management education and information through RMA regional offices.

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RMA measures the ability to educate stakeholders and ensure knowledge and access to risk management tools and products by a variety of measures. During the current application cycle, RMA awarded 56 risk management education partnership agreements in the amount of \$6.1 million and 24 cooperative agreements for Targeted States in the amount of \$4.7 million.

The following table summarizes another performance measure in risk management education opportunities.

	<b>Baseline 2013</b>	<b>2014 Actual</b>	<b>2015 Actual</b>	<b>2016 Actual</b>	<b>2017 Actual</b>	<b>2018 Estimate</b>	<b>2018 Target</b>
Number of Producers Attending Risk Management Education	48,403	155,027	109,276	120,859	113,948	120,000	50,000
Number of Producers Provided Education through Regional Offices	104,373	156,581	55,195	39,635	70,605	38,260	115,000

The table above shows a spike in participation in 2013 and 2014. This is likely due to the demand for information about the multiple changes in the 2014 Farm Bill legislation. The decrease in participation after 2014 reflects a stable time in the program.

➤ **Safeguard the integrity of the Federal crop insurance program**

RMA safeguards the integrity of the program by ensuring tax dollars are used appropriately. RMA addresses insurance fraud, waste, and abuse. RMA ensures AIPs fully comply with FCIC regulations. RMA safeguards the integrity of the Federal crop insurance program through multiple layers of compliance activity.

Select performance activities that contribute to the goal of improved integrity and show RMA's commitment to safeguarding the Federal crop insurance program are shown below.

- In fiscal year 2018 and 2017, RMA reported an improper payment rate of 1.81% and 1.96% respectively, which met the reduction target of 1.95% and 2.01% for those years.

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- RMA utilizes an enhanced process for AIP Performance Reviews (APR). The reviews are used to determine whether an AIP's internal controls and operations comply with SRA requirements and whether the AIP demonstrates satisfactory performance in the areas reviewed.

For fiscal years 2017 and prior, RMA was identified by USDA as a high-priority program. A high-priority program is a program that has \$750 million in estimated improper payments in one year. A program that is identified as high-priority in one year, but in subsequent years reports an improper payment estimate below \$750 million can be taken off this list. RMA was below this threshold for the last three consecutive reporting years. As of October 2017, RMA received notification that it has been removed from the annual high-priority improper payment reporting.

RMA uses a statistically valid estimate of the improper payment rate and of the dollar amount of improper payments for FCIC. The improper payment reviews include all payment categories (premium subsidies, A&O subsidies, and indemnity payments) and considers how an improper payment can occur. A simple random sample is used to select the policies for review.

For fiscal year 2017 and beyond, RMA has an OMB approved statistically valid sampling methodology.

The following table illustrates the improper payment rate performance measure. This measure is used across government to evaluate program effectiveness and shows the outcome of safeguarding the integrity of the Federal crop insurance program.

	<b>Baseline 2013</b>	<b>2017 Actual</b>	<b>2018 Actual</b>	<b>2018 Target</b>
Improper Payment Rate	5.23%	1.96%	1.81%	4.90%*

\*This target published in the 2015 strategic plan. 2018 reduction target was 1.95%.

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➤ **Create an RMA for the 21st century that is high performing, efficient, and adaptable**

RMA has several performance activities that contribute to the goal of improving the workplace including modernizing its Information Technology (IT) infrastructure, allowing the organization to accomplish its mission more efficiently.

An example of RMA improvements is a new review process known as the APR. This is a primary tool for assessing AIP compliance with the SRA, FCIC policies and procedures, and related laws and regulations. The APR connects evaluation tools to specific laws and regulations in a consistent and standard process.

**CROP AND INSURANCE STATISTICS**

Three types of years are referred to in this financial report. The financial statements are for fiscal years which run from October 1 to September 30. Crop year refers to the year in which a crop is harvested. Reinsurance year is based on the yearly reinsurance agreements with AIPs and runs from July 1 to June 30. Statistics are maintained for policies, farmer paid premium, premium subsidy, total premium, indemnities, loss ratio, and insurance protection on a crop year basis. General ledger transactions include reinsurance year attributes. Multiple reinsurance years are active during each fiscal year.

Federal crop insurance program statistics are shown below. The indemnities and loss ratios for 2018 are estimated as they are not known at the time the financial statements are prepared.

<b>Program Information Comparison</b>	<b>Crop Year 2018 (Estimated)</b>	<b>Crop Year 2017 (Actual)</b>
Number of Policies	1.10 million	1.12 million
Farmer Paid Premium	\$3.64 billion	\$3.71 billion
Premium Subsidies	\$6.27 billion	\$6.36 billion
Total Premium	\$9.91 billion	\$10.07 billion
Indemnities	\$8.38 billion	\$5.36 billion
Loss Ratio	85%	53%
Insurance Protection	\$109.08 billion	\$106.10 billion

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FCIC insures 122 types of crops for crop year 2018. The top crops in volume are listed below, with the remaining crops (pasture, rangeland, forage; apples; almonds; potatoes; beans, etc...) grouped together as All Other. The chart below illustrates premiums on the top five crops representing 78% of total premium in crop year 2018 and 79% of total premium in crop year 2017.

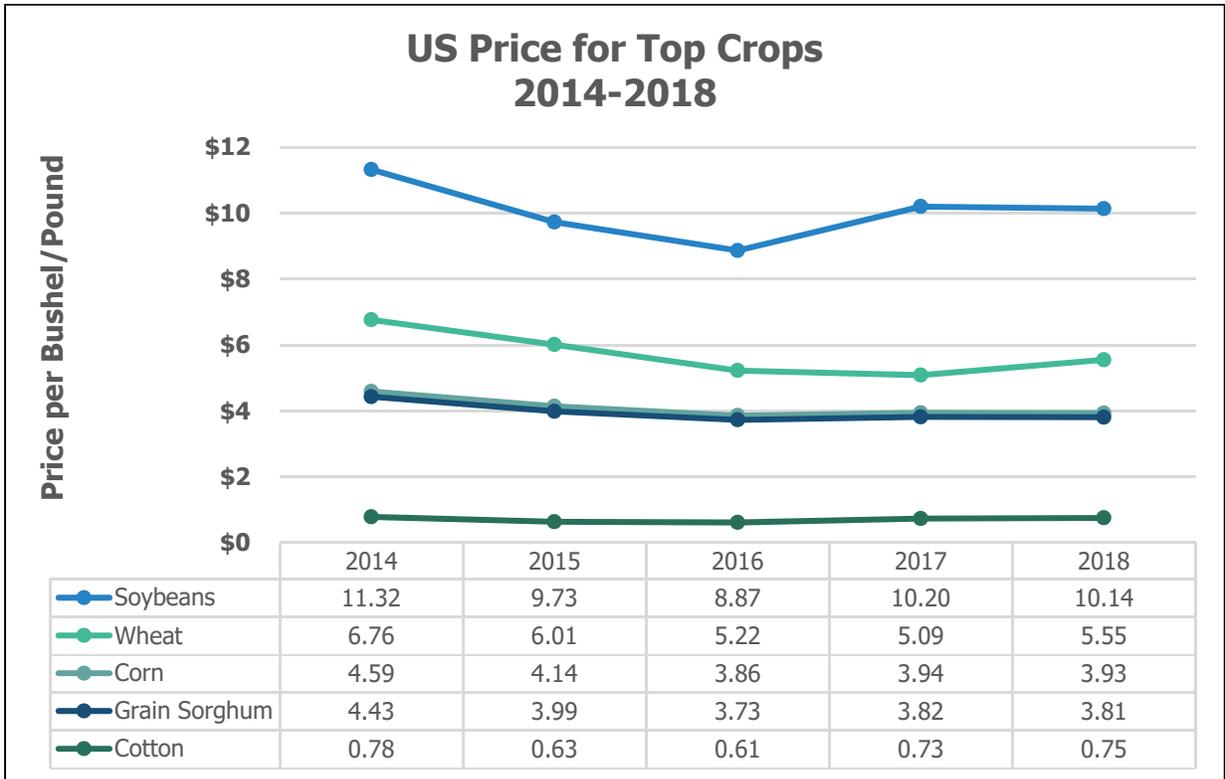
<b>Crop</b>	<b>Crop Year 2018* (billions)</b>	<b>Crop Year 2017 (billions)</b>
Corn	\$3,143	\$3,454
Soybean	\$2,227	\$2,556
Wheat	\$994	\$893
Cotton	\$1,129	\$935
Sorghum	\$155	\$154
All Other	\$2,166	\$2,082
<b>Total</b>	<b>\$9,814</b>	<b>\$10,074</b>

\*Approximately 99% of all Premium is known at Sept. 30<sup>th</sup>, but the total premium will not be known until the next fiscal year.

As noted on the chart above total premiums have decreased. The projected crop prices remained relatively stable between 2017 and 2018 at acreage reporting dates. Below is the RMA's projected price data for top crops as of acreage reporting dates. The projected prices are different than the final harvest price which is used to calculate indemnities.



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**Losses (2017 and 2016 Cause of Loss, Indemnity by Region)**

FCIC/RMA issues the annual financial report based on a fiscal year ending September 30. The growing season for the crops that constitute most of FCIC’s book of business does not end until October or November. As a result, the majority of losses for a given crop year are paid out in the following fiscal year.

In crop year 2017, the overall loss ratio was .53 compared to a loss ratio of .42 in crop year 2016. In 2017, the top factor for losses was drought. In 2016, the top factor for losses was excess moisture.

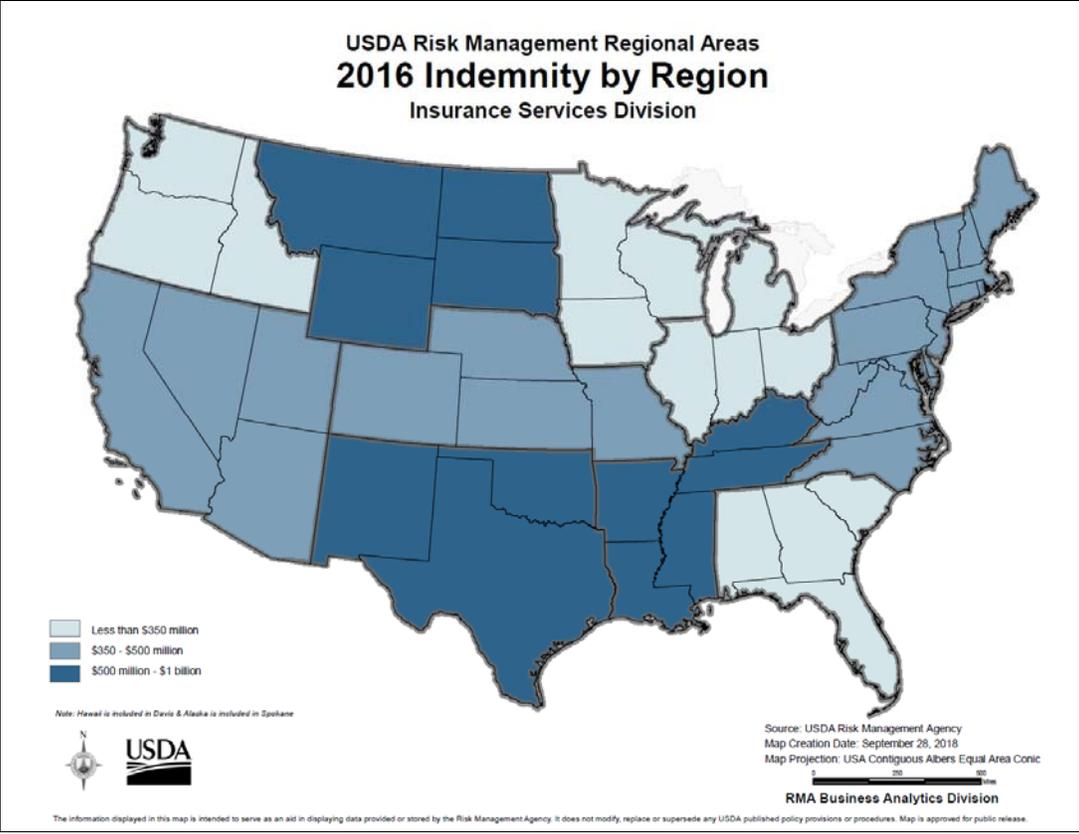
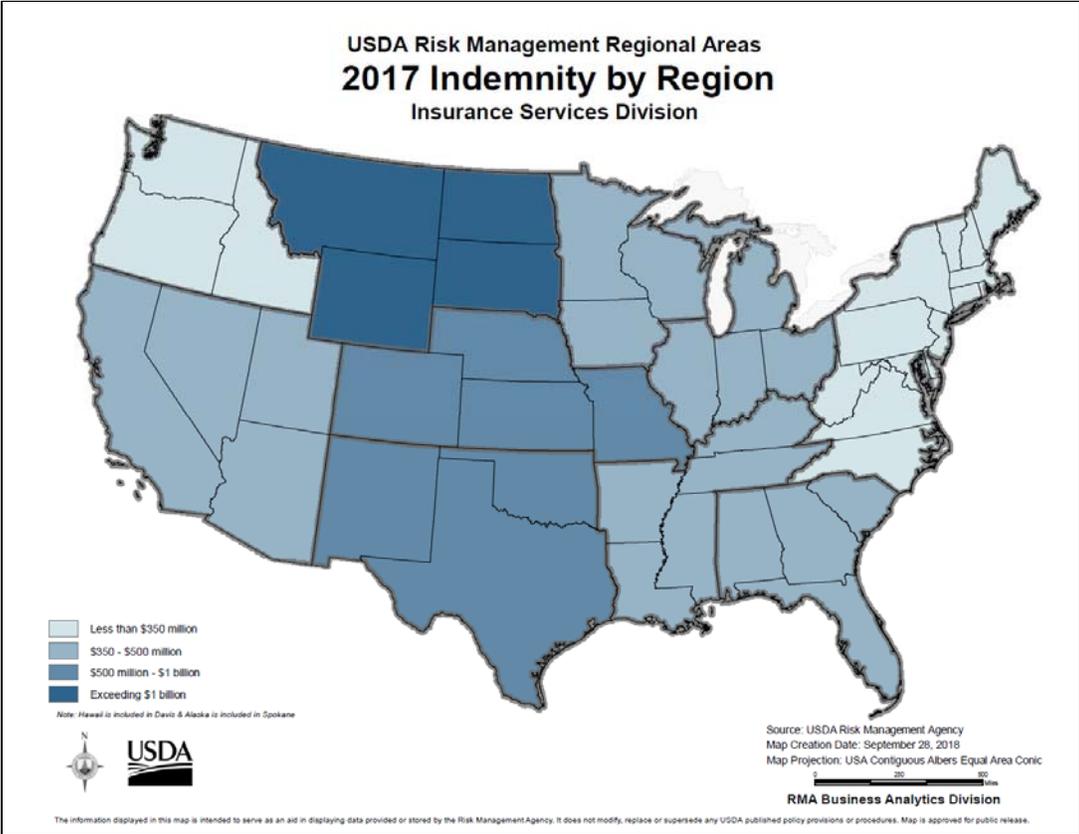
- In crop year 2017, the top causes of loss were: drought in the Midwest, Northern and Southern Plains and excess moisture primarily in the Midwest, Southwest, and Southern region.
- In crop year 2016, the top causes of loss were: excess moisture primarily in the Northern, Central, and Southern Plains, and California; drought in the Northern Plains, Northeast, and Southeast; and hail in the Northern, Central, and Southern Plains.

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The losses for crop year 2016 were historically low. Losses in 2017 increased but remained relatively low. The following maps show the indemnities reported by region for crop year 2017 and 2016 (primarily paid in fiscal years 2018 and 2017, respectively).



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## FINANCIAL STATEMENT HIGHLIGHTS AND ANALYSIS

### ASSETS

#### Funding

RMA maintains two separate funds: the Insurance Fund and the Salaries and Expenses (S&E) Fund. The Insurance Fund is used to pay for the crop and livestock insurance programs. The funding for the insurance fund is mandatory funding with “such sums as necessary” to carry out the program. The S&E Fund is used to pay RMA’s salaries and administrative expenses. The funding for the S&E Fund is an annual appropriation set by Congress. The financial statements present both funds.

#### Assets

<b>Fiscal Year 2018 – Assets (millions)</b>	
Fund Balance with Treasury (Note 2)	\$ 4,805
Cash Held Outside of Treasury (Note 3)	\$ 119
Accounts Receivable, Net (Note 4)	\$ 242
General Property, Plant and Equipment (Note 5)	\$ 18

The majority of the assets are Fund Balance with Treasury (FBWT), Cash Held Outside of Treasury (CHOT), and Accounts Receivable (AR). At the end of each fiscal year, RMA returns unobligated funds excluding the balances for Capital Stock, Paid-in Capital, and the Contingency Fund to the U.S Treasury. In 2018, RMA returned \$5.5 billion compared to the \$6.8 billion returned in 2017. The normal collection of revenue due to FCIC on the last day of the fiscal year and lower than budgeted losses resulted in large amount of funds returned to Treasury.

FBWT is a cash-like account which represents funds available which have not been disbursed and CHOT consists of amounts funded into escrow accounts for which AIP’s indemnity payments have not yet cleared. Together, these two accounts make up the cash held by FCIC.

AR with the public represents premiums from AIPs due to FCIC for crop insurance written by AIPs and reinsured by FCIC. AIPs are responsible for collecting the premium from the producer and paying FCIC, whether or not the premium has been collected from the producer. Premiums are collected at the end of the growing season. As a result, significant amounts of premium are due in the fall, around the end of the fiscal year.

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**LIABILITIES**

**Liabilities**

The majority of FCIC/RMA liabilities are estimated. The following table summarizes FCIC/RMA liabilities.

<b>Fiscal Year 2018 – Liabilities (millions)</b>	
Estimated Losses on Insurance Claims (Note 7)	\$ 6,091
Underwriting Gain (Note 9)	\$ 4,235
Accounts Payable (Note 6)	\$ 1,515
Unearned Revenue (Note 10)	\$ 613
Federal Employee Benefits	\$ 2
Other Liabilities (Note 8)	\$ 19

**Estimated Losses on Insurance Claims**

The Estimated Losses on Insurance Claims make up the majority of liabilities. Estimated losses were calculated based on Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*. The claims Incurred But Not Reported (IBNR), Premium Deficiency Reserve (PDR), and change in CHOT make up the estimated loss on insurance claims balance sheet line item. PDR is a liability for premium subsidy deferred to next fiscal year where it will be used to pay out not yet incurred indemnities. PDR is estimated at the same rate as unearned premium.

**Estimating Losses**

FCIC establishes premium to attain an expected long-term loss ratio of 1.0. The premium cost for policies is determined by evaluating loss experience in the program by county, crop, and pricing to equal projected losses over the long term. Losses are divided into premium to arrive at a loss ratio. A loss ratio of less than 1.0 means there are less losses than premium. A loss ratio greater than 1.0 means the losses are greater than premium. For the Federal crop insurance program, loss ratios are measured periodically in relation to reinsurance year which runs from July 1 through June 30. The eventual total loss ratio depends on many variables including weather patterns and commodity prices. A projection of total indemnities is made at the end of each fiscal year based on current conditions. Total indemnities will not be known until several months after the end of the fiscal year; therefore, the financial statements are based on a projection.

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Actual losses are reported and recorded prior to the end of the fiscal year. The IBNR is the difference between the total losses expected to have occurred in the current year and losses that have been reported in the current year. PDR and unearned premium are reserves set aside for the portion of the insurance period that falls into the next fiscal year. PDR is the government subsidized portion of the reserves and unearned premium is related to the producer paid premium.

**Uncertainty in Estimating Losses**

Estimated losses are calculated as of September 30, 2018. In 2018, multiple hurricanes occurred late in the growing season. RMA's normal process for projecting losses is based on the September NASS report which was released on September 12 prior to the late season hurricanes. At this time, the financial impact of the hurricanes is unknown.

There are a variety of additional risk factors that expose FCIC's liability estimates to uncertainty. The growing season for crops that constitute most of FCIC's book of business does not end until October or November. As of September 30, most crop insurance claims that will eventually be attributed to the current reinsurance year have not yet been submitted. A projection of total indemnities is made at the end of each fiscal year based on current conditions. Late season weather conditions and price changes in commodities can significantly impact actual losses. When actual losses are realized, upward or downward adjustments are made and reflected in financial statements of subsequent years.



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The table below shows that most losses for a given reinsurance year are realized in future fiscal years. For example, the majority of losses attributed to reinsurance year 2017 were reported and paid in fiscal year 2018.

<b>Reinsurance Year</b>	<b>2018 (est.) (millions)</b>	<b>2017 (millions)</b>
Losses Claimed and Paid in Current Fiscal Year	\$ 2,088	\$ 1,756
Losses Paid in Subsequent Fiscal Years	6,308	3,839
<b>Total Losses</b>	<b>\$ 8,396</b>	<b>\$ 5,595</b>

Although FCIC uses an actuarial model to project overall losses, the model is subject to a high level of uncertainty. In the last 10 years, the difference between the actual and estimated loss ratio has exceeded 10 points 90% of the time (9 of 10 years). The relatively high variance of this estimate reflects the large degree of uncertainty inherent in predicting losses before the end of the reinsurance year. Actual loss ratios in the last 10 years have varied from a low of 42% to a high of 157%. The average actual loss ratio for the past ten years was 80%.

The following table is updated as of the end of September 2018 and summarizes premiums and losses by crop year.

<b>Summary of Premium and Losses by Crop Year</b>					
<b>Actual (millions)</b>			<b>Loss Ratio</b>		
<b>Crop Year</b>	<b>Premiums (\$)</b>	<b>Losses (\$)</b>	<b>Actual</b>	<b>Projected</b>	<b>Difference</b>
2008	9,851	8,680	88%	63%	(25%)
2009	8,951	5,222	58%	66%	8%
2010	7,595	4,254	56%	41%	(15%)
2011	11,972	10,869	91%	112%	21%
2012	11,117	17,451	157%	185%	28%
2013	11,808	12,085	102%	76%	(26%)
2014	10,073	9,136	91%	74%	(17%)
2015	9,767	6,312	65%	84%	19%
2016	9,328	3,909	42%	66%	24%
2017*	10,074	5,362	53%	99%	46%
2018 EST	9,912	8,376		85%	

\*Projected loss ratio was adjusted to account for multiple hurricanes in September

## **Underwriting Gain**

Underwriting gain is the AIP portion of earnings on the insurance book of business. A periodic settlement, as stipulated in the SRA, is calculated where the results of business written by AIPs are determined and an experience-rated gain or loss on business ceded

**FEDERAL CROP INSURANCE CORPORATION/RISK MANAGEMENT AGENCY'S  
FINANCIAL STATEMENTS FOR FISCAL YEARS 2018 AND 2017**

from AIPs is computed. The timing of payment to AIPs for reinsurance gains is stipulated by the SRA. Payments to AIPs for net gain is disbursed in the second fiscal year following the reinsurance year.

**Accounts Payable**

Accounts Payable includes amounts due to AIPs for reimbursement of administrative and operating expenses associated with the delivery of the Federal crop insurance program. The program's administrative and operating reimbursement has averaged \$1.4 billion over the past 10 years. There is a cap stipulated in the SRA that limits administrative and operating reimbursement on most policies.

**Unearned Revenue**

Premium revenue is comprised of producer paid premium. Producer paid premium is recognized as earned proportionately over each crop's growing season. The portion of producer paid premium not recognized at the end of the fiscal year is classified as Unearned Revenue in the balance sheet.

**Other Liabilities**

In fiscal year 2018, Other Liabilities (Note 8) include Intragovernmental of \$5 million and Other Liabilities with the Public of \$14 million.



**FEDERAL CROP INSURANCE CORPORATION/RISK MANAGEMENT AGENCY'S  
FINANCIAL STATEMENTS FOR FISCAL YEARS 2018 AND 2017**

**ANALYSIS OF STATEMENT OF NET COST**

The following table presents the results of net cost of operations for each fiscal year.

<b>Statement of Net Costs</b>		
<b>Cost</b>	<b>Fiscal Year 2018 (millions)</b>	<b>Fiscal Year 2017 (millions)</b>
Total Intragovernmental Costs	\$ 83	\$ 76
Indemnities	4,232	7,270
Program Delivery Costs	1,530	1,488
Other Program Costs	71	74
<b>Total Costs</b>	<b>\$ 5,916</b>	<b>\$ 8,908</b>
Less:		
Premium Revenue	3,670	3,667
Net (Gain)/Loss on Business Ceded from AIPs	(3,264)	(1,590)
Other Revenue	46	48
<b>Total Revenue</b>	<b>\$ 452</b>	<b>\$ 2,125</b>
<b>Net Cost of Operations</b>	<b>\$ 5,464</b>	<b>\$ 6,783</b>

FCIC's net cost of operations decreased \$1.32 billion from fiscal year 2017 to fiscal year 2018. The changes in indemnities and net gain on business ceded from AIPs are the two components impacting the variance in net cost of operations. The differential between the Reinsurance Year 2017 loss estimates at September 30, 2017 (.99) versus the actual loss at September 30, 2018 (.53) is the major factor contributing to the changes.

**FEDERAL CROP INSURANCE CORPORATION/RISK MANAGEMENT AGENCY'S  
FINANCIAL STATEMENTS FOR FISCAL YEARS 2018 AND 2017**

**ANALYSIS OF STATEMENT OF BUDGETARY RESOURCES**

The following table presents the components of the Statement of Budgetary Resources for each fiscal year.

<b>Statement of Budgetary Resources</b>		
<b>Resource</b>	<b>Fiscal Year 2018 (millions)</b>	<b>Fiscal Year 2017 (millions)</b>
Budgetary Resources	\$ 10,897	\$ 9,426
Net Outlays	\$ 6,525	\$ 4,293

Overall, FCIC had \$1.5 billion more in budgetary resources at the end of fiscal year 2018. The budgetary resources are comprised of appropriations, collections from the public, and excess funds returned to Treasury. In fiscal year 2018, FCIC/RMA received \$112 million more in appropriations and returned \$1.3 billion less to Treasury due to higher losses paid in the fiscal year. This was offset by \$85 million more in spending authority from offsetting collections in fiscal year 2018.

Net Outlays are total cash disbursements less collections. Net outlays were \$2.2 billion more in fiscal year 2018.



## **SYSTEMS, CONTROLS AND LEGAL COMPLIANCE**

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### **MANAGEMENT ASSURANCES**

#### **Federal Manager's Financial Integrity Act (FMFIA) Assurance**

RMA management is responsible for establishing and maintaining effective internal controls to ensure the effectiveness of operations, reliability of reporting, compliance with applicable laws and regulations, and safeguarding of assets. RMA has conducted its assessment of internal controls and financial systems pursuant to Sections 2 and 4 of FMFIA. Based on the results of this evaluation, RMA can provide an unmodified statement of assurance that its internal control over the effectiveness and efficiency of operations and compliance with laws and regulations, as of September 30, 2018 and 2017, was operating effectively with the exception of one material weakness found in the internal controls over financial reporting, as it relates to the estimated losses on insurance claims calculation for fiscal year 2018.

#### **Federal Financial Management Improvement Act (FFMIA) Assurance**

RMA has evaluated its financial management systems under FFMIA for the period ended September 30, 2018. Based on the result of our evaluation, the Agency is in substantial compliance with the FFMIA for the following sections:

1. Federal Financial Management System Requirements;
2. Applicable Federal Accounting Standards; and
3. United States Standard General Ledger at the Transaction Level.

#### **Assurance for Internal Control over Financial Reporting**

In addition, RMA conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding assets and compliance with applicable laws and regulations, in accordance with the requirements of the Office of Management and Budget's (OMB), Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. Based on the results of this evaluation, FCIC can provide reasonable assurance that its internal control over financial reporting as of June 30, 2018 and 2017 was operating effectively and no material weaknesses were found in the design or operation of internal control over financial reporting.

#### **Compliance with Laws and Regulations**

No non-compliance with laws and regulations was noted by RMA.

## **Limitations on Financial Statements**

Financial statements have been prepared to report the financial position and results of FCIC/RMA's operations, pursuant to the requirements of Financial Statements of Agencies, Title 31 United States Code 3515 (b). While the statements have been prepared from the books and records of FCIC/RMA in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the understanding they are for a component of the United States Government, a sovereign entity.

## **Improper Payments Elimination and Recovery Improvement Act (IPERIA)**

RMA uses an OMB approved statistical sampling methodology to estimate the amount of improper payments in the Federal crop insurance program. FCIC had an improper payment rate of 1.81% in 2018 and 1.96% in 2017, which surpassed the reduction targets of 1.95% and 2.01%, respectively.

## **OTHER MANAGEMENT INFORMATION, INITIATIVES AND ISSUES**

### **DIGITAL ACCOUNTABILITY AND TRANSPARENCY ACT (DATA ACT)**

The Digital Accountability and Transparency Act (DATA Act) was enacted on May 9, 2014. This Act amends the Federal Funding Accountability and Transparency Act of 2006 (FFATA) and requires reporting of all Federal Funds, as well as Financial Assistance and Procurement transactions, to a public website. FFATA requires reporting of obligations and award-related information for all Federal financial assistance and procurement awards. The DATA Act expands upon FFATA by adding U.S. Department of the Treasury (Treasury) account level reporting; this includes reporting all Treasury Account Symbols that fund each award and contract transaction, budget authority, program activity, outlays, and budget object classes, among other data elements. The DATA Act also requires the Federal Government to collectively standardize the data elements that will be reportable under the DATA Act.

RMA OCFO is currently reporting under the requirements for DATA Act and continues to work closely with USDA OCFO Financial Management Services to ensure the information meets all the standards and formats required.

# FINANCIAL STATEMENTS

**FEDERAL CROP INSURANCE CORPORATION/RISK MANAGEMENT AGENCY'S  
FINANCIAL STATEMENTS FOR FISCAL YEARS 2018 AND 2017**

**RISK MANAGEMENT AGENCY  
FEDERAL CROP INSURANCE CORPORATION  
BALANCE SHEETS  
As of September 30, 2018 and 2017  
(in millions)**

	2018	2017
<b>Assets</b>		
Intragovernmental		
Fund Balance with Treasury (Note 2)	\$ 4,805	\$ 4,736
With the Public		
Cash Held Outside Treasury (Note 3)	119	157
Accounts Receivable, Net (Note 4)	242	305
General Property, Plant and Equipment (Note 5)	18	18
Total Public Assets	<u>379</u>	<u>480</u>
<b>Total Assets</b>	<u>\$ 5,184</u>	<u>\$ 5,216</u>
<b>Liabilities (Note 11)</b>		
Intragovernmental		
Other Liabilities	\$ 5	\$ 1
With the Public		
Accounts Payable (Note 6)	1,515	1,474
Federal Employee Benefits	2	2
Other Liabilities		
Estimated Losses on Insurance Claims (Note 7)	6,091	7,908
Unearned Revenue (Note 10)	613	636
Underwriting Gain (Note 9)	4,235	3,577
Other Liabilities (Note 8)	14	17
Total Other Liabilities	<u>10,953</u>	<u>12,138</u>
<b>Total Liabilities</b>	<u>\$ 12,475</u>	<u>\$ 13,615</u>
<b>Commitments and Contingencies (Note 12)</b>		
<b>Net Position (Note 14)</b>		
Capital Stock	\$ 500	\$ 500
Additional Paid-in Capital	38	38
Unexpended Appropriations	67	64
Cumulative Results of Operations	(7,896)	(9,001)
<b>Total Net Position</b>	<u>\$ (7,291)</u>	<u>\$ (8,399)</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 5,184</u>	<u>\$ 5,216</u>

The accompanying notes are an integral part of these statements.

**FEDERAL CROP INSURANCE CORPORATION/RISK MANAGEMENT AGENCY'S  
FINANCIAL STATEMENTS FOR FISCAL YEARS 2018 AND 2017**

**RISK MANAGEMENT AGENCY  
FEDERAL CROP INSURANCE CORPORATION  
STATEMENTS OF NET COST  
For the Years Ended September 30, 2018 and 2017  
(in millions)**

	<b>2018</b>	<b>2017</b>
<b>Program Costs</b>		
Intragovernmental Gross Costs		
Benefit Program Costs	\$ 13	\$ 13
Imputed Costs	17	14
Reimbursable Costs	53	49
Total Intragovernmental Costs	<u>\$ 83</u>	<u>\$ 76</u>
Gross Costs with the Public		
Indemnities	\$ 4,232	\$ 7,270
Program Delivery Costs	1,530	1,488
Other Program Costs	71	74
Total Gross Costs with the Public	<u>\$ 5,833</u>	<u>\$ 8,832</u>
Less: Earned Revenue from the Public		
Premium Revenue	\$ 3,670	\$ 3,667
Net (Gain)/Loss on Business Ceded from AIPs	(3,264)	(1,590)
Other Revenue	46	48
Total Earned Revenue with the Public	<u>\$ 452</u>	<u>\$ 2,125</u>
Net Costs with the Public	<u>5,381</u>	<u>6,707</u>
<b>Net Cost of Operations</b>	<u><u>\$ 5,464</u></u>	<u><u>\$ 6,783</u></u>

The accompanying notes are an integral part of these statements.

**FEDERAL CROP INSURANCE CORPORATION/RISK MANAGEMENT AGENCY'S  
FINANCIAL STATEMENTS FOR FISCAL YEARS 2018 AND 2017**

**RISK MANAGEMENT AGENCY  
FEDERAL CROP INSURANCE CORPORATION  
STATEMENTS OF CHANGES IN NET POSITION  
For the Years Ended September 30, 2018 and 2017  
(in millions)**

	<b>2018</b>	<b>2017</b>
<b>Capital Stock</b>	<u>\$ 500</u>	<u>\$ 500</u>
<b>Additional Paid-in-Capital</b>	<u>\$ 38</u>	<u>\$ 38</u>
<b>Unexpended Appropriations</b>		
Beginning Balance	\$ 64	\$ 64
<b>Budgetary Financing Sources</b>		
Appropriations Received	12,047	11,935
Appropriations Transferred (Out)	(5)	(5)
Return to Treasury (Indefinite & Canceled Authority)	(5,491)	(6,758)
Appropriations Used	<u>(6,548)</u>	<u>(5,172)</u>
Total Unexpended Appropriations	<u>\$ 67</u>	<u>\$ 64</u>
<b>Cumulative Results of Operations</b>		
Beginning Balance	\$ (9,001)	\$ (7,408)
<b>Budgetary Financing Sources</b>		
Appropriations Used	6,548	5,172
Transfers without Reimbursement	4	4
<b>Other Financing Sources (Non-exchange)</b>		
Imputed Financing Sources	<u>17</u>	<u>14</u>
Total Financing Sources	6,569	5,190
Net Cost of Operations	<u>(5,464)</u>	<u>(6,783)</u>
Net Change	<u>1,105</u>	<u>(1,593)</u>
<b>Cumulative Results of Operations (Note 14)</b>	<u>\$ (7,896)</u>	<u>\$ (9,001)</u>
<b>Net Position</b>	<u>\$ (7,291)</u>	<u>\$ (8,399)</u>

The accompanying notes are an integral part of these statements.

**FEDERAL CROP INSURANCE CORPORATION/RISK MANAGEMENT AGENCY'S  
FINANCIAL STATEMENTS FOR FISCAL YEARS 2018 AND 2017**

**RISK MANAGEMENT AGENCY  
FEDERAL CROP INSURANCE CORPORATION  
COMBINED STATEMENTS OF BUDGETARY RESOURCES  
For the Years Ended September 30, 2018 and 2017  
(in millions)**

	<b>2018</b>	<b>2017</b>
<b>Budgetary Resources</b>		
Unobligated Balance from Prior Year Budget Authority, net	\$ 584	580
Appropriations (Note 15)	6,553	5,171
Spending Authority from Offsetting Collections	3,760	3,675
Total Budgetary Resources	<u>\$ 10,897</u>	<u>\$ 9,426</u>
<b>Status of Budgetary Resources</b>		
New Obligations and Upward Adjustments	\$ 10,315	\$ 8,846
Unobligated Balance, End of Year		
Apportioned	578	577
Expired Unobligated Balance, End of Year	4	3
Unobligated Balance, End of Year	<u>582</u>	<u>580</u>
Total Budgetary Resources	<u>\$ 10,897</u>	<u>\$ 9,426</u>
<b>Net Outlays</b>		
Outlays, net	<u>\$ 6,525</u>	<u>\$ 4,293</u>

The accompanying notes are an integral part of these statements.

## **NOTES TO THE FINANCIAL STATEMENTS**

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### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of Presentation and Accounting**

The accompanying financial statements have been prepared to report balance sheet, net cost, changes in net position, and budgetary resources. The financial statements have been prepared from books and records in accordance with Generally Accepted Accounting Principles (GAAP). GAAP for Federal financial reporting entities recognizes the Federal Accounting Standards Advisory Board as the standard-setting body. The financial statements are presented in accordance with the Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, which was revised in July 2018.

Accounting transactions are recorded on both an accrual and budgetary basis of accounting. Accrual accounting recognizes revenues when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

Three types of years are referred to in this financial report. The financial statements are for fiscal years which run from October 1 to September 30. Crop year refers to the year in which a crop is harvested. Reinsurance year is based on the yearly reinsurance agreements with Approved Insurance Providers (AIPs) and runs from July 1 to June 30. Statistics are maintained for policies, farmer paid premium, premium subsidy, total premium, indemnities, loss ratio, and insurance protection on a crop year basis. General ledger transactions include reinsurance year attributes. Multiple reinsurance years are active during each fiscal year.

#### **Fund Balance with Treasury**

Fund Balance with Treasury (FBWT) represents the aggregate amount of funds in FCIC's accounts with Treasury for which FCIC is authorized to make expenditures and pay liabilities. FCIC's FBWT consists of appropriated funds and receipts collected from non-Federal entities.

#### **Cash Held Outside Treasury**

Cash Held Outside Treasury (CHOT) consists of amounts funded into escrow accounts for which AIP's indemnity checks have not yet cleared.

### **Accounts Receivable**

Accounts Receivable with the public represents premiums from AIPs due to FCIC for crop insurance written by AIPs and reinsured by FCIC. AIPs are responsible for collecting premium from the producer and paying FCIC, whether or not premium has been collected from the producer. Accounts receivable also includes producers' accounts receivable that represents amounts due from individual producers for interest, overpaid indemnities, and debts which are payable directly to FCIC.

The Accounts Receivable due from AIPs and Accounts Payable due to AIPs on the monthly settlement are listed as gross amounts on the balance sheet.

### **General Property, Plant, and Equipment**

General Property, Plant, and Equipment consist of office furniture, computer equipment, and computer software. Property, plant, and equipment with an acquisition cost of \$25,000 or more; internal use software with an acquisition cost of \$100,000 or more; and an estimated useful life of at least two years is capitalized. Property and equipment with an acquisition cost of less than \$25,000 is expensed when purchased. Property and equipment is depreciated using the straight-line method over useful lives that range from 6 to 10 years. There are no restrictions on the use or convertibility of FCIC's property and equipment.

### **Accounts Payable**

Accounts Payable includes amounts due to AIPs for reimbursement of Administrative and Operating (A&O) expenses associated with delivering the crop insurance program. The Standard Reinsurance Agreement (SRA) provides for reimbursement to the insured companies for program delivery costs. The payments for program delivery costs are due the first month of the following fiscal year.

### **Retirement Plans**

SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, requires Federal entities to recognize an expense for pensions and other retirement benefits at the time the employee's services are rendered. The purpose of recognizing this expense is to record and report the full cost of each entity's operation. A corresponding revenue, Imputed Financing Sources, is recognized to the extent pension and other retirement benefit expenses exceed the amount paid to the United States Office of Personnel Management.

## **Net Position**

Net position is the residual difference between assets and liabilities and is composed of capital stock, additional paid-in capital, contingency fund, unexpended appropriations, temporary reduction (due to sequestration), and cumulative results of operations. Unexpended appropriations represent the amount of unobligated and unexpended budget authority. Unobligated balances are the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available. Cumulative results of operations are the net result of FCIC's operations since inception.

## **Unearned Revenue**

Premium revenue is comprised of producer paid premium. Producer paid premium is recognized as earned proportionately over each crop's growing season. The portion of producer paid premium not recognized at the conclusion of the fiscal year is classified as Unearned Revenue in the balance sheet. Just as a liability is established for the unearned portion of producer paid premium, a liability is also established for the premium subsidy deferred to next fiscal year where it will be used to pay out not yet incurred indemnities. The Premium Deficiency Reserve (PDR) is estimated at the same rate as unearned premium and is included in the Estimated Loss on Insurance Claims Liability in the balance sheet.

Insurance Fund appropriations, Salaries and Expense (S&E) Fund appropriations, and other financing sources are recognized when expended, which corresponds to when the expenses are incurred.

## **Loss Recognition**

Estimated losses are calculated based on SFFAS No. 5. Claims incurred during the period are recognized as losses. The liability for estimated losses on insurance claims represents those claims incurred but not reported to FCIC as of the balance sheet date and reported unpaid claims. The estimation of these liabilities relies on calculations using historical-yield estimates provided by USDA's National Agricultural Statistical Service (NASS) and commodity futures prices. The September NASS report released on September 12 did not include information on the August and September hurricanes. As a result, RMA used data available from experts in the field to determine a reasonable estimate for losses related to hurricanes.

There are uncertainties associated with assumptions used to estimate losses on insurance claims. As a result, the ultimate liability may differ significantly from the recorded estimate. These uncertainties may include: actual yields which may be different than those provided by the NASS estimates; changes in weather patterns close to harvesting dates, which could affect yields but not be reflected in the NASS

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FINANCIAL STATEMENTS FOR FISCAL YEARS 2018 AND 2017**

estimates; commodity prices which may change from those in the market because of many factors (such as weather, yields, and economic conditions); and significant catastrophic weather events (i.e. hurricanes and freezes) occurring near the balance sheet date which could affect estimated crop yields and crop prices. Indemnity costs are paid from premium proceeds, including producer paid premium and premium subsidies. If indemnity costs exceed total premium, additional funds will be apportioned to FCIC.

### **Use of Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FCIC financial statements show estimates on the Balance Sheet and Statement of Net Cost on the following line items: Balance Sheet - Estimated Losses on Insurance Claims, Unearned Revenue, and Underwriting Gain; Statement of Net Cost – Indemnities, Program Delivery Costs, Premium Revenue, Net (Gain)/Loss on Business Ceded from AIPs, and Other Revenue.

### **Contingencies**

Various lawsuits, claims, and proceedings are pending against FCIC. In accordance with SFFAS No. 5, FCIC records accruals for such contingencies when it is probable that a liability will be incurred, and the amount of the loss can be reasonably estimated. If there is a reasonable possibility that a loss will occur, FCIC discloses the nature of the contingency and an estimate of the possible liability, an estimate of the range of the possible liability, or a statement that such an estimate cannot be made. See Note 12, Commitments and Contingencies, to the financial statements for related disclosures.

### **Apportionment Categories of Obligations Incurred**

The Insurance Fund receives a direct apportionment that is apportioned by program (Category B). Fiscal years 2018 and 2017 insurance fund obligations incurred were \$10.2 billion and \$8.8 billion, respectively. In each fiscal year 2018 and 2017, the S&E appropriation was \$74.8 million. The S&E fund is apportioned by time (Category A). According to Section 516 of the Act, RMA is authorized to annually transfer up to \$9 million (subject to sequestration) from the FCIC fund to the S&E fund. These funds are available to reimburse expenses incurred for the operations and review of policies, plans of insurance, and related materials; and to assist the Corporation in maintaining actuarial soundness and financial integrity. In fiscal year 2018, RMA transferred \$8.3

**FEDERAL CROP INSURANCE CORPORATION/RISK MANAGEMENT AGENCY'S  
FINANCIAL STATEMENTS FOR FISCAL YEARS 2018 AND 2017**

million and in fiscal year 2017, RMA transferred \$8.7 million. In fiscal year 2018 and fiscal year 2017, S&E obligations were \$83.2 million and \$83.1 million, respectively.

### **Premium Deficiency Reserve**

Premium Deficiency Reserve is a liability for premium subsidy deferred to next fiscal year where it will be used to pay out not yet incurred indemnities in excess of producer premiums. PDR is estimated at the same rate as unearned premium. Premium subsidy represents the subsidized portion, covered by appropriations, of total premiums on the crop insurance program.

### **Underwriting Gain/Loss**

Underwriting gain/loss is the AIPs portion of earnings or losses on the insurance book of business due from or to FCIC. A periodic settlement, as stipulated in the SRA, is calculated where results of business written by AIPs are determined and an experience-rated gain or loss on business ceded from AIPs is computed. Payments due to AIPs for a net gain are paid in the second fiscal year following the reinsurance year. Losses are paid to FCIC periodically.

### **Changes in Presentation**

Per instructions from the Office of Management and Budget (OMB), the presentation of the Statement of Budgetary Resources was changed in fiscal year 2018 to reflect requirements of the Federal Accounting Standards Advisory Board.

RMA implemented SFFAS 53, *Budget and Accrual Reconciliation* (BAR), that amends requirements for a reconciliation between budgetary and financial accounting information established by SFFAS 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*. The BAR replaces the Reconciliation of Net Cost of Operations (Proprietary) to Budget. The BAR displays the relationship between the net outlays on a budgetary basis and the net cost of operations during the reporting period. The 2017 presentation has been updated to reflect the new standard.

**FEDERAL CROP INSURANCE CORPORATION/RISK MANAGEMENT AGENCY'S  
FINANCIAL STATEMENTS FOR FISCAL YEARS 2018 AND 2017**

**NOTE 2 – FUND BALANCE WITH TREASURY**

Fund balance with treasury at September 30, 2018 and 2017 consists of:

<b>2018</b>	<b>S&amp;E Fund (millions)</b>	<b>Insurance Fund (millions)</b>	<b>Total (millions)</b>
Obligated not yet disbursed	\$ 14	\$ 4,180	\$ 4,194
Unobligated available	1	577	578
Unobligated unavailable	4	29	33
<b>Total Fund Balance with Treasury</b>	<b>\$ 19</b>	<b>\$ 4,786</b>	<b>\$ 4,805</b>
<b>2017</b>	<b>S&amp;E Fund (millions)</b>	<b>Insurance Fund (millions)</b>	<b>Total (millions)</b>
Obligated not yet disbursed	\$ 13	\$ 4,120	\$ 4,133
Unobligated available	1	576	577
Unobligated unavailable	3	23	26
<b>Total Fund Balance with Treasury</b>	<b>\$ 17</b>	<b>\$ 4,719</b>	<b>\$ 4,736</b>

FCIC maintains separate accounts for S&E (appropriated) and Insurance (revolving) funds. The S&E fund is used to pay administrative and operating expenses of RMA. The Insurance fund is used to pay losses, A&O subsidies known as program delivery costs, and other costs authorized in the Act. All funds are currently available to FCIC except for the prior year unobligated balances in the S&E fund and temporarily sequestered amounts in the Insurance fund. The unobligated unavailable amount includes sequestered funds.

**NOTE 3 – CASH HELD OUTSIDE TREASURY**

Cash held outside of treasury as of September 30, 2018 and 2017 is:

<b>CASH HELD OUTSIDE TREASURY</b>	<b>2018 (millions)</b>	<b>2017 (millions)</b>
Balance	\$ 119	\$ 157

Cash held outside of treasury consist of funds in FCIC escrow accounts. The accounts are used by AIPs to pay farmer losses. Accounts fluctuate as payables vary from day to day.

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FINANCIAL STATEMENTS FOR FISCAL YEARS 2018 AND 2017**

**NOTE 4 – ACCOUNTS RECEIVABLE**

Accounts receivable and allowance for uncollectible accounts as of September 30, 2018 and 2017 are:

Fiscal Year	Gross Accounts Receivable (millions)	Allowance for Uncollectible Accounts (millions)	Net Accounts Receivable (millions)
2018	\$ 246	\$ (4)	\$ 242
2017	\$ 306	\$ (1)	\$ 305

Accounts receivable includes premiums from AIPs due to FCIC. AIPs are responsible for collecting premium and paying FCIC whether or not they have received premium from the producer. Also included are amounts due from individual producers for interest, overpaid indemnities, and debts which are payable directly to FCIC. The allowance for uncollectible accounts is based on historical experience. The higher balance in 2017 is mostly due to RMA allowing AIPs to defer uncollected premium for areas affected by hurricanes.

There is approximately \$48.1 million of criminal restitution owed to FCIC. Of this amount, only \$3.4 million is currently included in the gross accounts receivable balance and is monitored by RMA. Most of the \$3.4 million is included in the calculation of the allowance for doubtful accounts. The remaining \$44.7 million is over 2 years old and has been removed from the accounts receivable balance and is categorized as Currently Not Collectible per OMB Circular No A-129, Policies for Federal Credit Programs and Non-Tax Receivables. The corresponding cases related to this amount have been turned over to the Department of Justice for monitoring and control of any collections. RMA believes the probability of significant collections for these cases are low.



**FEDERAL CROP INSURANCE CORPORATION/RISK MANAGEMENT AGENCY'S  
FINANCIAL STATEMENTS FOR FISCAL YEARS 2018 AND 2017**

**NOTE 5 – GENERAL PROPERTY, PLANT, AND EQUIPMENT**

General Property, Plant, and Equipment as of September 30, 2018 and 2017 is:

<b>2018 (in millions)</b>			
<b>Category</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Book Value</b>
Equipment	\$ 3	\$ (3)	\$ 0
Internal Use Software	57	(42)	15
Internal Use Software in Development	3	0	3
<b>Total</b>	<b>\$ 63</b>	<b>\$ (45)</b>	<b>\$ 18</b>
<b>2017 (in millions)</b>			
<b>Category</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Book Value</b>
Equipment	\$ 3	\$ (3)	\$ 0
Internal Use Software	51	(35)	16
Internal Use Software in Development	2	0	2
<b>Total</b>	<b>\$ 56</b>	<b>\$ (38)</b>	<b>\$ 18</b>

FCIC has implemented a new software to replace its reinsurance program systems. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 10, *Accounting for Internal Use Software*, contractor and RMA internal staff costs related to the new system will be amortized over a period of 5 years.

**NOTE 6 – ACCOUNTS PAYABLE**

Payment of delivery costs is made in October of each fiscal year following the reinsurance year. Therefore, delivery costs are included in the accounts payable line in each fiscal year.

Total accounts payable as of September 30, 2018 and 2017 are:

<b>Accounts Payable</b>	<b>2018 (millions)</b>	<b>2017 (millions)</b>
Delivery Costs	\$ 1,515	\$ 1,473
Other	0	1
<b>Total</b>	<b>\$ 1,515</b>	<b>\$ 1,474</b>

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**NOTE 7 – ESTIMATED LOSSES ON INSURANCE CLAIMS**

The following table summarizes the activity in the accrual for estimated losses on insurance claims and net balance as of September 30, 2018 and 2017:

<b>Estimated Losses on Insurance Claims</b>	<b>2018 (millions)</b>	<b>2017 (millions)</b>
Balance as of October 1	\$ 7,908	\$ 5,209
Incurring Related to:		
Current Year	6,998	8,427
Prior Years	(2,744)	(1,274)
Total Incurred	\$ 4,254	\$ 7,153
Paid Related to:		
Current Year	(2,088)	(1,756)
Prior Years	(3,961)	(2,815)
Total Paid	\$ (6,049)	\$ (4,571)
Change in Premium Deficiency Reserve	(22)	117
Net Balance as of September 30	\$ 6,091	\$ 7,908

This note breaks out Losses Incurred and Paid by reinsurance year the loss is related to.

The indemnity projection is based on two major factors: losses due to a shortfall in yield and changes in commodity prices impacting revenue plans. The principal data source for yield projections is the NASS Crop Production report. The Crop Production report is considered to represent USDA's official perspective on the current state of agricultural production. It is based on a survey of growers along with inspections of randomly selected sections of farms. Although the Crop Production report is scrutinized by multiple sources, it is still an estimate and is subject to some uncertainty. In 2017, RMA also used data available from experts in the field to determine a reasonable estimate for losses related to hurricanes. In 2018, RMA evaluated the impact of Hurricane Florence and determined the normal estimation process will be sufficient to cover the losses.

The revenue plans of insurance base their indemnities on the futures prices for specific contracts and exchanges. The best prediction of the final price for the futures contract is the most current price of the relevant commodities exchange. At the time the indemnity projection is made, up-to-date futures prices are taken from multiple exchanges' web sites. Again, this is subject to uncertainty due to fluctuations in markets.

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The change in liability is represented by expenses recognized for both current and prior reinsurance years' policies, and the claims paid for both current and prior insurance years' policies.

**Fiscal Year 2018**

The beginning balance in fiscal year 2018 represents the estimated losses for reinsurance year 2017 which was associated with a loss ratio of .99. The actual loss ratio for reinsurance year 2017 was .55 resulting in \$3 billion fewer losses than were estimated.

**Fiscal Year 2017**

The beginning balance in fiscal year 2017 represents the estimated losses for reinsurance year 2016 which was associated with a loss ratio of .66. The actual loss ratio at September 30, 2017 for reinsurance year 2016 was .42 resulting in \$2.3 billion fewer losses than were estimated.

**Comparing 2018 and 2017**

The estimated losses were higher in fiscal year 2017 compared to 2018. The higher amount in the estimated losses in 2017 was due to hurricane damage and other weather events throughout the country.

Commodity prices and detrimental weather conditions, including hurricanes and severe drought in the Upper Midwest contributed to higher estimated loss ratio in reinsurance year 2017.

**NOTE 8 – OTHER LIABILITIES**

Other Current Liabilities as of September 30, 2018 and 2017 consist of:

<b>Other Liabilities, Federal and Non-Federal</b>	<b>2018 (millions)</b>	<b>2017 (millions)</b>
Intragovernmental:		
Other Accrued Liabilities, Federal	\$ 5	\$ 1
With the Public:		
Estimated Delivery Costs	5	7
Annual Leave Liability	5	5
Accrued Payroll and Benefits	2	2
Other Accrued Liabilities	2	3
<b>Total Other Liabilities, with the Public</b>	<b>\$ 14</b>	<b>\$ 17</b>
<b>Total Other Liabilities</b>	<b>\$ 19</b>	<b>\$ 18</b>

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**NOTE 9 – UNDERWRITING GAIN**

The liability for underwriting gain as of September 30, 2018 and 2017 is:

<b>Underwriting Gain</b>	<b>2018 (millions)</b>	<b>2017 (millions)</b>
Current Year Estimated Gains	\$ 1,638	\$ 994
Actual Underwriting Gains	2,597	2,583
Total Underwriting Gain Liability	\$ 4,235	\$ 3,577

The Underwriting Gain Liability for fiscal year 2018 includes amounts for reinsurance year 2018 and 2017. The estimated reinsurance year 2018 underwriting gain was \$1,638 million and was based on an estimated loss ratio of .85. The reinsurance year 2017 actual Underwriting Gain \$2,597 million was based on an actual overall loss ratio of .53 and will be paid in fiscal year 2019.

At the end of fiscal year 2017, the Underwriting Gain Liability includes amounts for reinsurance years 2017 and 2016. The estimated reinsurance year 2017 underwriting gain was \$994 million and was based on a loss ratio of .99. The reinsurance year 2016 Underwriting Gain \$2,583 million was based on an actual overall loss ratio of .42 and was paid in fiscal year 2018.

**NOTE 10 – UNEARNED REVENUE**

Unearned revenue at September 30, 2018 and 2017 is:

<b>Unearned Revenue</b>	<b>2018 (millions)</b>	<b>2017 (millions)</b>
Total Unearned Revenue	\$ 613	\$ 636

Premium revenue is comprised of producer paid premium. Producer paid premium is recognized as earned proportionately over each crop's growing season. The portion of producer paid premium not recognized at the conclusion of the fiscal year is classified as Unearned Revenue in the balance sheet.

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**NOTE 11 – LIABILITIES NOT COVERED BY BUDGETARY RESOURCES**

Liabilities not covered by budgetary resources at September 30, 2018 and 2017 are:

<b>Liabilities</b>	<b>2018 (millions)</b>	<b>2017 (millions)</b>
Estimated Losses on Insurance Claims	\$ 5,972	\$ 7,751
Underwriting Gain	1,638	994
Unfunded Leave	4	4
FECA	2	2
<b>Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 7,616</b>	<b>\$ 8,751</b>
<b>Total Liabilities Covered by Budgetary Resources</b>	<b>\$ 4,246</b>	<b>\$ 4,228</b>
<b>Total Liabilities Not Requiring Budgetary Resources</b>	<b>\$ 613</b>	<b>\$ 636</b>
<b>Total Liabilities</b>	<b>\$ 12,475</b>	<b>\$ 13,615</b>

Estimated losses on insurance claims liabilities not covered by budgetary resources were approximately \$6 billion as of September 30, 2018, and \$7.8 billion as of September 30, 2017. Reported unpaid claims that are funded by budgetary resources are excluded from estimated losses on insurance claims. Since FCIC is funded by "such sums as necessary," liabilities related to losses are usually funded in the year they will be disbursed.

Underwriting gains are paid two fiscal years after the end of the reinsurance year. Fiscal year 2018 underwriting gain liability of \$4.2 billion includes both 2018 and 2017 reinsurance years. However, only reinsurance year 2017 is funded as of September 30, 2018.

For fiscal years 2018 and 2017, Federal Employees Compensation Act (FECA) liability is \$2 million for both years. Included are Intragovernmental Other Liabilities of approximately \$.4 million for fiscal year 2018 and \$.5 million for fiscal year 2017 for an unfunded FECA liability. Unfunded annual leave is also a liability not covered by budgetary resources. Annual leave is accrued as it is incurred, and the accrual is reduced as it is taken. The balances in the accrued annual leave account were adjusted to reflect current pay rates and annual leave balances.

This note has been updated to include a separate line for liabilities not requiring budgetary resources which includes Unearned Revenue.

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**NOTE 12 – COMMITMENTS AND CONTINGENCIES**

FCIC is a defendant in litigation cases arising during the normal course of business. To defend its policies and procedures FCIC may pay litigation expenses and judgments over and above the indemnities found in the SRA for AIPs. For this reason, FCIC is consulted and approves significant decisions in the litigation process. After consultation with legal counsel, management believes that none of these items, other than those noted herein, are expected to have a materially adverse effect on FCIC's financial statements.

A contingency is considered probable when the chance of the future confirming event or events occurring is likely to occur. FCIC has two ongoing cases in which legal counsel believes the chances of unfavorable outcome is likely.

Payment for these cases have been deemed probable for an estimated amount of \$8 million. FCIC has recognized a liability in the financial statements for \$8 million but will continue to contest certain aspects of these cases.

**NOTE 13 – UNDELIVERED ORDERS AT THE END OF THE PERIOD**

Undelivered Orders as of September 30, 2018 and 2017 are:

	<b>2018 (millions)</b>	<b>2017 (millions)</b>
Undelivered Orders, Federal	\$ 44	\$ 40
Undelivered Orders, Non-Federal	24	21
Total Undelivered Orders	\$ 68	\$ 61

Undelivered Orders are goods and services obligated but not received as of the end of the fiscal year.

**NOTE 14 – NET POSITION – STATEMENT OF CHANGES IN NET POSITION**

Net position is the difference between assets and liabilities of an agency as of the financial statement date. Net position consists of cumulative results of operations and unexpended appropriations. The Cumulative Results of Operations is the net difference between expenses, net appropriations, revenue, and transfers from the inception of the program.

The beginning balance of Cumulative Result of Operations in fiscal year 2018 was \$1.6 billion lower than fiscal year 2017 due to normal program variability. The Cumulative Results of Operations at the end of fiscal year 2018 was (\$7.9) billion.

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Unexpended appropriations consist of appropriations received less appropriations used or returned to Treasury. Based on expected higher premiums in fiscal year 2018, FCIC requested \$112 million more appropriations than fiscal year 2017. The amount of appropriations used was approximately \$1.4 billion more in fiscal year 2018 than fiscal year 2017. FCIC returned \$5.5 billion to Treasury in fiscal year 2018, compared to \$6.8 billion in fiscal year 2017.

**Capital Stock**

Section 1504 (a) of the Act authorizes capital stock of \$500 million subscribed by the United States, and issued to the Secretary of the Treasury. There has been no change in the capital stock issued since August 15, 1985.



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**NOTE 15 – STATEMENT OF BUDGETARY RESOURCES**

Budgetary Resources/Appropriations as of September 30, 2018 and 2017 are:

<b>Budgetary Resources/ Appropriations</b>	<b>2018 (millions)</b>	<b>2017 (millions)</b>
Appropriations Received Program Fund	\$ 11,973	\$ 11,860
Appropriations Received S&E Fund	75	75
Return to Treasury	(5,490)	(6,759)
Other	(5)	(5)
<b>Appropriations</b>	<b>\$ 6,553</b>	<b>\$ 5,171</b>

FCIC receives a permanent indefinite appropriation for the Insurance Fund each fiscal year for premium subsidy, reinsurance administrative and operating reimbursement expense, and other programs specified in the Act. At the end of the fiscal year FCIC returns unobligated balances to Treasury.

**NOTE 16 – EXPLANATION OF DIFFERENCES BETWEEN THE SBR  
AND BUDGET OF THE U.S. GOVERNMENT**

<b>Fiscal Year 2017 Statement of Budgetary Resources v. President's Budget (in millions)</b>				
	<b>Account</b>	<b>Budgetary Resources</b>	<b>Obligations Incurred</b>	<b>Net Outlays</b>
<u>Statement of Budgetary Resources:</u>				
	Insurance Fund	\$ 9,339	\$ 8,763	\$ 4,207
	S&E	87	83	86
	Total	\$ 9,426	\$ 8,846	\$ 4,293
<u>Reconciling Items:</u>				
	Expired Accounts	(3)	0	0
	Rounding Difference	1	0	0
	Total	\$ (2)	\$ 0	\$ 0
	Budget of the United States Government	\$ 9,424	\$ 8,846	\$ 4,293

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FCIC's Statement of Budgetary Resources serves as a tool to link budget execution data to information reported in the "actual" column of the Program and Financing Schedules in the Appendix of the Budget of the United States Government (referred to as the President's Budget) as well as information reported in the Report on Budget Execution and Budgetary Resources (SF-133). The permanent indefinite appropriation for the crop insurance program is used to cover premium subsidy, delivery expenses, losses in excess of premiums, and initiatives. Some reporting differences do exist between comparable amounts in the Statement of Budgetary Resources (SBR), the President's Budget, and the SF-133. The table above is a comparison of the fiscal year 2017 Statement of Budgetary Resources, and the President's Budget. The comparison between the fiscal year 2018 Statement of Budgetary Resources and the fiscal year 2018 actual numbers presented in the fiscal year 2020 Budget cannot be performed as the fiscal year 2020 Budget is not yet available. The fiscal year 2020 Budget is expected to be published in February 2019 and will be available from the Government Printing Office.

### **NOTE 17 – BUDGET AND ACCRUAL RECONCILIATION**

FCIC early implemented SFFAS 53, Budget and Accrual Reconciliation (BAR) beginning in fiscal year 2018. The BAR replaces the statement of financing. The BAR explains the relationship between the entity's net outlays on a budgetary basis and the net cost of operations during the reporting period.

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position. It presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting. The schedule on the follow page illustrates this reconciliation by listing the key differences between net cost and net outlays.

Generally, insurance loss estimates are expensed in the year prior to being funded and disbursed. Changes in the loss estimate from year to year contribute to variances in Components of Net Cost that are Not Part of Net Outlays.

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<b>Budgetary Accrual Reconciliation</b>	<b>2018 (millions)</b>	<b>2017 (millions)</b>
<b>Net Cost</b>	\$ 5,464	\$ 6,783
<b>Components of Net Cost that are Not Part of Net Outlays</b>		
Property, plant, and equipment depreciation	\$ (7)	\$ (8)
Accounts receivable	(63)	97
Accounts payable	(41)	(38)
Insurance and guarantee program liabilities	(2,577)	(2,650)
Other liabilities	3,759	119
Federal employee retirement benefits costs paid by Office of Personnel Management (OPM) and imputed agency	(17)	(14)
Total Components of Net Cost that are Not Part of Net Outlays	\$ 1,054	\$ (2,494)
<b>Components of Net Outlays that are Not Part of Net Cost</b>		
Acquisition of capital assets	\$ 7	\$ 4
Total components of Net Outlays that are not part of Net Cost	\$ 7	\$ 4
<b>Net Outlays</b>	\$ 6,525	\$ 4,293
<b>Related amounts of the Statement of Budgetary Resources</b>		
Outlays, gross	\$ 10,286	\$ 7,970
Actual offsetting collections	(3,761)	(3,677)
<b>Net Outlays</b>	\$ 6,525	\$ 4,293

**NOTE 18 – SUBSEQUENT EVENT**

Hurricane Michael struck southeast United States in October 2018 after the balance sheet date but prior to the release of the financial statements. The hurricane resulted in significant flooding impacting crops covered in the Federal Crop Insurance program; however, the full impact is not yet known.

## REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION (UNAUDITED)

### **Risk Management Education Partnerships**

FCIC provides education and training on crop insurance programs and risk management strategies to agricultural producers and ranchers. Requests for Applications (RFAs) are prepared each year and announce solicitations for partners in that effort in Grants.gov.

RFAs were announced in 2018 for Crop Insurance in Targeted States Program and the Risk Management Education Partnership Program. Partnerships with qualified applicants provide education, outreach assistance and related tools and information on crop insurance programs and risk management strategies. Awards are given on a competitive basis and awarded for a one-year term. Awardees must demonstrate non-financial benefits and agree to substantial involvement by FCIC in the project. Funding for this work is authorized in section 522 and 524 of the Act.

Partnerships were established with the private industry and these organizations work with Women, Hispanics, African Americans, Asian Americans, Native Americans, Immigrants, Military Veterans, Organic Crops, Beginning Producers, Specialty Crop Producers & Ranchers, New Markets, Livestock Farmers, Limited Resource, Retiring-Transitioning, Strikeforce, Socially Disadvantaged, Sustainable Producers, Traditional, Value-Added and Small Farms & Ranches.

Education efforts are improved by expanding State and Regional education partnerships; encouraging the development of information and technology-based decision aids; facilitating local crop insurance education and risk management training workshops throughout the nation through cooperative agreements with educational institutions, community-based outreach organizations, and other qualified entities.

Summary of RME Initiatives Since Fiscal Year 2013	2018 Estimate	2017	2016	2015	2014
RME obligations (millions)	\$ 11	\$ 10	\$ 9	\$ 7	\$ 9
Number of producers attending RME sessions	120,000	113,948	120,859	109,276	155,027*

\*2014 number was higher due to increased outreach associated with the rollout of the Farm Bill.

FCIC awarded agreements under two distinct programs: (1) Risk Management Education Partnerships Program, Catalog of Federal Domestic Assistance (CFDA) 10.460; and, (2) Crop Insurance in Targeted States Program, CFDA 10.458.

FCIC awarded 56 cooperative agreements for \$6.1 million for the delivery of training to U.S. farmers and ranchers in managing production, marketing, financial, legal, and human risk. The program gives priority to educating producers of crops currently not

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insured under Federal crop insurance, specialty crops, and underserved commodities, including livestock and forage; and providing collaborative partnerships to develop and deliver crop insurance education and other risk management training.

**Targeted States**

FCIC awarded 24 cooperative agreements for \$4.7 million in underserved states for crop insurance education to producers under the Crop Insurance in Targeted States Program. The Act directs FCIC to increase crop insurance education in certain areas of the country that have been historically underserved by the Federal crop insurance program. The Secretary determined that seventeen states met the underserved criteria. These states are Alaska, Connecticut, Delaware, Hawaii, Maine, Maryland, Massachusetts, Nevada, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Utah, Vermont, West Virginia, and Wyoming.

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

**2018 Risk Assumed**

FCIC identifies the risk assumed as the total amount of premium for the current reinsurance year. The total premium has been calculated using generally accepted actuarial methods to attain a forecasted break-even loss ratio of 1.0. As a result, the risk assumed is equal to the total premium.

Risk Assumed is \$9,937 million, less the actual losses recorded of \$2,088 million resulting in an Estimate of Unpaid Losses of \$7,849 million.

<b>Risk Assumed</b>	<b>(millions)</b>
Estimate of Losses	\$ 7,849
Risk Assumed	\$ 9,937

## OTHER INFORMATION (UNAUDITED)

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### **PAYMENT INTEGRITY**

Since fiscal year 2000, agencies have reported efforts to reduce improper payments. The Improper Payments Information Act of 2002 (IPIA), the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), require that executive agencies identify programs that may be susceptible to significant improper payments, estimate the annual amount of improper payments, and submit those estimates to Congress. A program with significant improper payments (a high-risk program) has both a 1.5 percent improper payment rate of the total program outlays and at least \$10 million in improper payments or exceeds \$100 million dollars in improper payments. Implementing guidance for IPERIA is located in OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments. RMA is identified by USDA as susceptible to significant improper payments (a high-risk program). In fiscal year 2018 and 2017, FCIC had an improper payment rate of 1.81% and 1.96% respectively, which exceeded the reduction target of 1.95% and 2.01%.

For fiscal years 2017 and prior, RMA was identified by USDA as a high-priority program. A high-priority program is a program that has \$750 million in estimated improper payments in one year. A program that is identified as high-priority in one year, but in subsequent years reports an improper payment estimate below \$750 million can be taken off this list. RMA was below this threshold for the last three consecutive reporting years. As of October 2017, RMA received notification that it has been removed from the annual high-priority improper payment reporting.

More detailed information on improper payments and data reported in prior audit report can be found at <https://paymentaccuracy.gov/>.

### **Sampling and Estimation**

RMA uses a statistically valid estimate of the improper payment rate and of the dollar amount of improper payments for FCIC. The improper payment reviews include all payment categories (premium subsidies, A&O subsidies, and indemnity payments) and consider how an improper payment can occur. A simple random sample is used to select the policies for review.

For fiscal year 2017 and beyond, OMB has approved RMA's statistically valid sampling methodology. Sampling period for fiscal year 2018 is reinsurance year 2016, which is based on the yearly reinsurance agreements in effect with AIPs for the period July 2015 to June 2016.

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**Improper Payment Reporting**

RMA's most recent IPERIA data is for fiscal year 2018, examining reinsurance year 2016 data. Table 1 shows the sampling and estimation results by reinsurance year for the FCIC Program Fund.

**Table 1: Payment Integrity Outlook (\$ in millions) – by reinsurance year (RY)**

<b>FCIC Program Fund</b>	<b>RY 2015</b>	<b>RY 2016</b>	<b>RY 2017 Est.</b>
Outlays \$	9,162	10,170	7,883
Properly Paid %	98.04%	98.19%	
Improper Payment (IP) %	1.96%	1.81%	1.80%
Properly Paid \$	8,982	9,986	
IP \$	180	184	142
Overpayment \$	168	154	
Underpayment \$	12	30	

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Table 2 provides information on the estimated amount of improper payments made directly by the Government and the amount of improper payments made by recipients of Federal money.

**Table 2: Improper Payment Additional Breakdown (\$ in millions)**

<b>Reinsurance Year 2016 Reported in Fiscal Year 2018</b>		
<b>Program</b>	<b>Federal Government</b>	<b>Recipients of Federal Money</b>
FCIC Program Fund	\$ 0	\$ 184

Table 3 provides the breakdown of FCIC Program Fund overpayment and underpayment dollars for reinsurance year 2016.

**Table 3: Type of Improper Payment (\$ in millions)**

<b>Reinsurance Year 2016 Reported in Fiscal Year 2018</b>		
<b>FCIC Program Fund</b>	<b>Overpayments \$</b>	<b>Underpayments \$</b>
Inability to Authenticate Eligibility		
Data Needed Does Not Exist	\$ 108	\$ 16
Administrative or Process Error made by Other Party	46	14
TOTAL	\$ 154	\$ 30

**Improper Payment Corrective Actions**

RMA has developed Corrective Action Plans that includes the following actions taken to recover and prevent future improper payments:

**Inability to Authenticate Eligibility: Data Needed Does Not Exist**

**Corrective Actions:**

Almost half of the Inability to Authenticate errors were related to Audit of Production History (APH), which includes the acceptability of production records and the accuracy of production certification. To clarify consequences of production certification audits, RMA made changes in the 2018 Crop Insurance Handbook outlining exceptions to assigned yield procedures. In addition, for the 2019 Crop Insurance Handbook, RMA will be editing the production evidence language to improve clarity and minimize burdensome reporting requirements for acceptable records. Action will be completed by December 2018.

Acreage reporting issues were the other primary cause of Inability to Authenticate errors. A Regional Compliance Office, in collaboration with RMA's Business Analytics Division and geographic information system specialists, will be conducting a program review to help identify land that's chronically unavailable for planting and/or ineligible for inclusion on an acreage report. Action will be completed by September 2019.

**Administrative or Process Error Made by Other Party**

**Corrective Actions:**

Each year, RMA provides a broad overview to the Approved Insurance Providers (AIPs, the private-sector partners) of the types of errors identified during the IPERIA review process. To address the diverse types of administrative or process errors (e.g., acreage reporting, APH, application, claim), RMA will provide a more detailed analysis to the AIPs to help them better identify and control the specific types of problems, such as a signature type, contributing to the errors.

**Internal Control over Improper Payments**

Table 4 shows RMA has implemented internal controls to prevent improper payments, but there is room for improvement. RMA has communicated updated policies and guidance to staff. Managers built an atmosphere in which reducing improper payments is a top priority. RMA established accountability through performance standards, examined root causes of error, developed appropriate corrective actions, and engaged critical stakeholders through communication and educational efforts.

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**Table 4: Status of Internal Controls for Federal Crop Insurance Program Payments**

Internal Control Standards	FCIC Program Fund
Control Environment	3
Risk Assessment	3
Control Activities	3
Information and Communication	3
Monitoring	3

- 4 = Sufficient controls are in place to prevent Improper Payments (IP)
- 3 = Controls are in place to prevent IPs but there is room for improvement
- 2 = Minimal controls are in place to prevent IPs
- 1 = Controls are not in place to prevent IPs

### **Accountability**

RMA senior accountable officials' annual performance plans are tied to Goal #4 of the RMA Strategic Plan – "Safeguarding the integrity of the Federal crop insurance program." The performance measure is to reduce the improper payment rate from 5.23% in 2013 to 4.9% by 2018. RMA exceeded its strategic targets. Actual improper payment rate was reduced to 1.81% and 1.96% for fiscal years 2018 and 2017, respectively.

RMA incorporated standards in fiscal year 2018 annual performance plans to ensure compliance personnel conduct IPERIA reviews to measure the Federal crop insurance program improper payment error rate and perform data mining reviews to identify, reduce, and collect improper payments. RMA conducted IPERIA reviews between April 2017 - March 2018 using statistical sampling and data mining reports.

### **Agency Information Systems and Other Infrastructure**

One of RMA's primary tools for assessing AIPs' compliance with all crop insurance program requirements is the AIP Performance Review (APR). During fiscal year 2018, RMA completed APRs of six AIPs to evaluate their internal controls to identify and address program vulnerabilities.

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**Barriers**

RMA is not subject to any critical statutory or regulatory barriers to reducing improper payments.

**Recapture of Improper Payments Reporting**

In fiscal year 2018, USDA required all programs over \$1 million in annual expenditures to perform payment recapture audits. The following table highlights the payment recapture activities completed by RMA in fiscal year 2018.

**Table 5: Overpayments Recaptured through Payment Recapture Audits (\$ in millions)**

<b>Overpayments Recaptured through Payment Recapture Audits - Other</b>			
<b>Fiscal Year</b>	<b>Amount Identified</b>	<b>Amount Recaptured</b>	<b>Recapture Rate</b>
2018	\$11	\$7	59%

<b>Overpayments Recaptured through Payment Recapture Audits - Other</b>	
<b>Fiscal Year</b>	<b>Recapture Rate Target</b>
2019	100%
2020	100%

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The following table shows the amount recaptured and disposition of those funds.

**Table 6: Disposition of Funds Recaptured Through Payment Recapture Audit Programs (\$ in millions)**

<b>Fiscal Year 2017</b>			
<b>Program</b>	<b>Amount Recovered</b>	<b>Type of Payment</b>	<b>Original Purpose</b>
FCIC Program Fund	\$ 7	Crop Insurance	\$ 7

Any overpayments recovered will be returned to the Federal Crop Insurance Program Fund to be used for its original purpose.

The following table presents the aging of outstanding overpayments identified in the payment recapture audits.

**Table 7: Aging of Outstanding Overpayments Identified in the Payment Recapture Audits (\$ in millions)**

<b>Program</b>	<b>Type of Payment</b>	<b>Amount Outstanding (0-6 months)</b>	<b>Amount Outstanding (6 months to 1 year)</b>	<b>Amount Outstanding (over 1 year)</b>	<b>Amount Determined to not be collectable</b>
FCIC Program Fund	Crop Insurance	\$ 0	\$ 0	\$ 1	\$ 0

The table identifies amounts not yet collected as of 3<sup>rd</sup> quarter fiscal year 2018.

**Reduction of Improper Payments with the Do Not Pay Initiative (DNP)**

RMA has incorporated the Do Not Pay (DNP) databases as listed below.

- RMA has integrated Social Security Administrator’s full death file into its system to verify insurance policies received from AIPs prior to acceptance. Once crop insurance is awarded, any subsequent payments for indemnities are required regardless of DNP matches. Most of the award verification process is performed by the AIPs, not RMA.
- RMA verifies the AIPs registration in System for Award Management (SAM) and checks AIPs in the DNP website before the SRA is approved.

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- RMA payments for reinsurance funds to a payee other than AIPs (e.g., refund of overpaid debt to a producer) are reviewed against the death master file through the DNP working system on a pre-payment basis.
- Risk Management Education Cooperative Agreements are awarded annually with a one-year period of performance. Before awarding the agreement, RMA staff reviews SAM for Exclusion Records (referred to in IPERIA as Excluded Parties List System/EPLS) Public & Restricted [General Services Administration] and the Federal Awardee Performance and Integrity Information System (FAPIIS) through SAM.



## **FRAUD REDUCTION REPORT**

As required under the Fraud Reduction and Data Analytics Act of 2015, RMA is reporting on its efforts to reduce fraud. RMA has developed policies and procedures to identify fraud risks (i.e., program vulnerability reporting tool, data analytics, and hotlines) and determine appropriate responses. RMA CFO and CIO staff document and assess the internal controls related to financial reporting each year. The results of the assessment are communicated to USDA's OCFO staff.

RMA conducts annual Risk Assessments under the OMB Circular, A-123 review process. The A-123 Risk Assessment identifies overall program assessment. The A-123, Appendix A risk assessments specifically identifies risks that impact financial statement accounts and disclosures for each of the business cycles and the related computer controls. RMA provides an annual Statement of Assurance for FMFIA and FFMIA.

RMA has also taken steps to follow guidance on establishing and reporting entity level controls associated with Enterprise Risk Management.

Additionally, RMA's Compliance Office is responsible for assessing program vulnerability, fraud, and abuse; investigating alleged/indicated instances of fraud and abuse; and recommending changes in policies, procedures, and agreements within the Federal crop insurance program. The Compliance Office conducts operational reviews of the AIPs on a tri-annual basis to analyze and assess the AIP's compliance with the reinsurance agreements. RMA utilizes data mining to identify anomalous crop insurance records requiring additional scrutiny.

RMA Compliance is also responsible for reviewing all reports of suspected fraud or abuse referred by the USDA, Office of Inspector General, Farm Service Agency, AIPs, and the public. RMA has a Special Investigations Branch (SIB) within the Compliance Office that investigates complex, high-profile cases of alleged fraud, waste, and abuse.

SIB works in conjunction with the Office of Inspector General (OIG), RMA Compliance Offices, and the Farm Service Agency when conducting its investigations. If a case of fraud is substantiated, SIB investigators work with the OIG to investigate and prepare the case for referral for criminal prosecution or Federal civil action. SIB also refers cases to the RMA Administrator for disqualification, civil fine, suspension, and debarment.

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**REDUCE THE FOOTPRINT**

RMA does not own buildings or real property but leases all of its office space. RMA's management utilizes the Reduce the Footprint policy by consolidating regional and compliance offices at existing locations into USDA offices, if space is available.

In fiscal years 2017 and 2018, no consolidation of office space occurred. The consolidations that were originally planned for fiscal year 2018 are scheduled to be completed as noted below.

- Spokane, WA Regional Office into a Spokane area Federal lease that combines several USDA and other government agencies into one location (scheduled completion 2nd quarter fiscal year 2019)
- St. Paul, MN Regional Office and Eagan, MN Compliance Office into one co-located RMA Minneapolis/St. Paul area office (scheduled completion 1<sup>st</sup> quarter fiscal year 2019)

RMA maintains a real estate inventory database. RMA continues to evaluate offices as leases expire with the goal of saving space and co-locating wherever possible.

The following summarizes the square footage and total annual costs for RMA leases. All RMA leases are full service leases with no operation and maintenance costs.

<b>Square Footage (in thousands)</b>	<b>Fiscal Year 2015 Baseline</b>	<b>Fiscal Year 2017</b>	<b>Change in Square Footage</b>
RMA GSA Lease Assignments	119	123	(4)
RMA Leases	16	12	4
<b>Total</b>	<b>135</b>	<b>135</b>	<b>0</b>

<b>Lease Costs (in thousands)</b>	<b>Fiscal Year 2015 Baseline</b>	<b>Fiscal Year 2017</b>	<b>Change in Lease Costs</b>
RMA GSA Lease Assignments	\$ 2,848	\$ 2,710	\$ 138
RMA Leases	250	185	65
<b>Total</b>	<b>\$ 3,098</b>	<b>\$ 2,895</b>	<b>\$ 203</b>

## **GRANTS OVERSIGHT & NEW EFFICIENCY (GONE) ACT**

Management Procedures Memorandum 2016-04 (GONE Act Reporting of Unclosed Grant and Cooperative Agreement Awards for Which the Period of Performance Has Expired More Than Two Years, Summary of Required Agency Actions) requires RMA to present information related to Federal grant and cooperative agreement awards and balances that have not been closed out.

Agencies are required to report the total number of Federal grant and cooperative agreement awards and balances where closeout has not yet occurred, but the period of performance has elapsed by more than two years. RMA has no cooperative agreements that meet this criteria. RMA does not issue any grants. RMA has experienced no challenges that would cause delays in cooperative agreement award closeout.



## SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

FCIC is required to undergo an annual independent audit of its financial statements. In addition, FCIC is required to conduct annual assessments of internal controls over financial reporting and compliance with laws and regulations. The following tables list the results of the audit and assessments.

**Table 1:**

<b>Summary of Financial Statement Audit</b>					
Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	1	0	0	1

**Table 2:**

<b>SUMMARY OF MANAGEMENT ASSURANCES</b>					
<b>Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)</b>					
Statement of Assurance	Unmodified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0
<b>Effectiveness of Internal Control over Operations (FMFIA Section 2)</b>					
Statement of Assurance	Unmodified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
N/A	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0

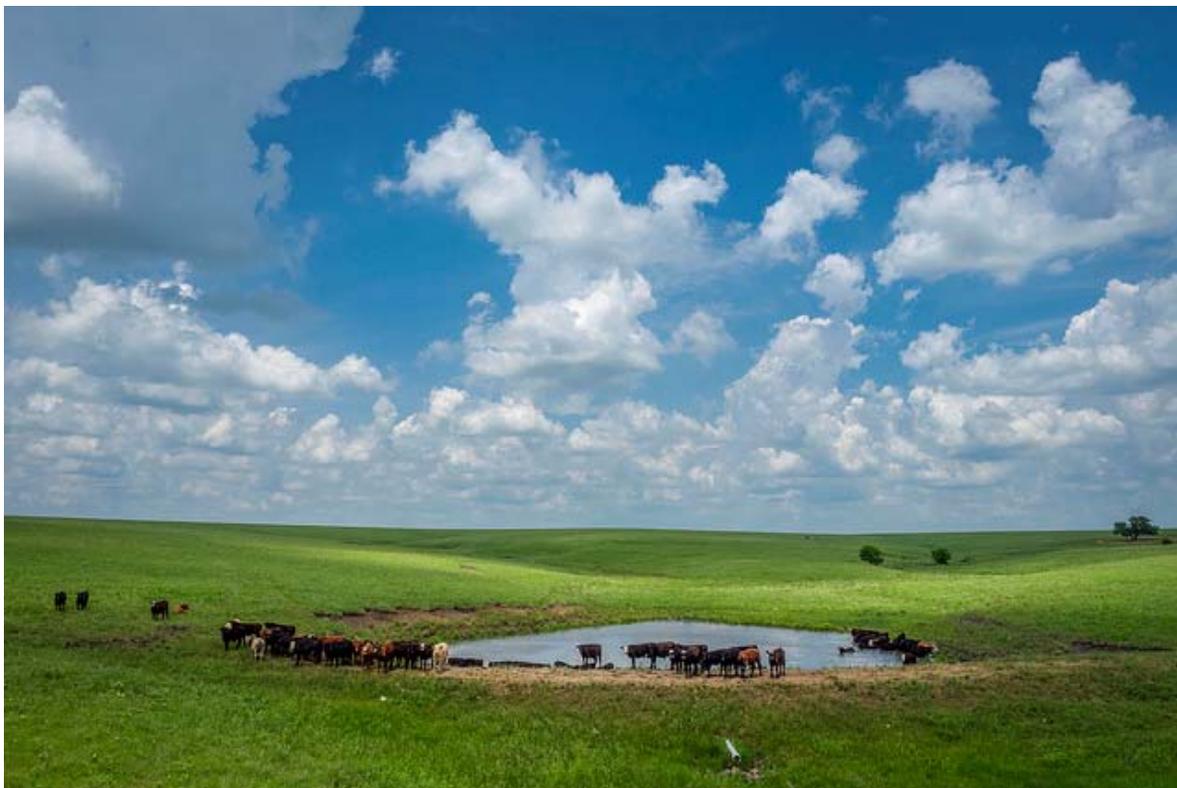
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**Conformance with Federal Financial Management System Requirements  
(FMFIA Section 4)**

Statement of Assurance	Federal systems conform				
Non-conformances	Beginning Balance	New	Resolved	Consolidated	Ending Balance
N/A	0	0	0	0	0
Total Non-conformances	0	0	0	0	0

**Compliance with Section 803(a) of the Federal Financial Management Improvement Act**

	Agency	Auditor
1. Federal Financial Management System requirements	Compliance noted	Compliance noted
2. Applicable Federal Accounting Standards	Compliance noted	Compliance noted
3. USSGL at Transaction Level	Compliance noted	Compliance noted





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