USDA
United States Department of Agriculture

Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2017 and 2016

Audit Report 05401-0009-11

November 2017

OFFICE OF INSPECTOR GENERAL

Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2017 and 2016

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OIG audited the financial statements of FCIC/RMA for fiscal years 2017 and 2016.

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) supplementary information was materially consistent with other sources.

REVIEWED

We conducted our audits at RMA offices in Kansas City, Missouri and Washington, D.C.

RECOMMENDS

We recommended that FCIC/RMA establish an effective disaster recovery program, failover system and alternate processing facility, as well as perform annual testing of its contingency plan. We also recommended RMA develop and implement an effective process for the timely maintenance, monitoring and reporting of the Plan of Action and Milestones (POA&M) as well as implement a process to verify that vulnerabilities that continue to exist over 30 days are entered as POA&Ms, approved and remediated timely.

WHAT OIG FOUND

The Federal Crop Insurance Corporation/Risk Management Agency's (FCIC/RMA) received an unmodified opinion from the Office of Inspector General's audit of FCIC/RMA's financial statements. We determined that the agency's financial statements for the 2017 and 2016 fiscal years present FCIC/RMA's financial position as of September 30, 2017 and 2016 fairly, 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 one significant deficiency. Specifically, improvements are needed in RMA's general information technology controls. Our consideration of FCIC/RMA's compliance with applicable laws and regulations did not identify exceptions.

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

DATE: November 8, 2017

AUDIT NUMBER: 05401-0009-11

TO: Heather Manzano
Acting Administrator
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 2017 and 2016

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, 2017 and 2016. The report contains an unmodified opinion on the financial statements, as well as the results or 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 A.

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. 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

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 2017 and 2016. 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.

Exhibit A presents FCIC/RMA’s response in its entirety.

Report on the Financial Statements

We have audited the accompanying financial statements of FCIC/RMA, which are comprised of the balance sheets as of September 30, 2017 and 2016, 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 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin 17-03 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, 2017 and 2016, 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 6 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., require that the information in the Management's Discussion and Analysis (MD&A), Required Supplementary Stewardship Information (RSSI), and Required Supplementary Information (RSI) be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A, RSSI, and RSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic 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 or on management's assertion on internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of FCIC/RMA's internal control or on management's assertion on internal control included in the MD&A. 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 purposes 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 17-03 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 2017 audit, we noted a certain matter involving internal control that we consider to be a significant deficiency. Specifically, we identified weaknesses in FCIC/RMA's information technology general controls. This deficiency is discussed in the "Findings and Recommendations," Section 1, of this report. We did not identify any deficiencies in internal control that were considered material weaknesses during our audits.

Report on Compliance and Other Matters

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 amounts and disclosures in the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audits 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 FMFIA, (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 disclosures in the financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly established by FMFIA, 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 in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to a risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

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 disclosures in the financial statements that we deemed applicable to FCIC/RMA's financial statements for the fiscal year ended September 30, 2017. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes. Also, our work on FFMIA would not necessarily disclose all instances of noncompliance with FFMIA requirements.

Management's Response

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

Purpose of the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters

The purpose of the "Report on Internal Control Over Financial Reporting" and the "Report on Compliance and Other Matters" 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 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

Gil H. Harden
Assistant Inspector General for Audit

Washington, D.C.
November 7, 2017

Findings and Recommendations

Section 1: Significant Deficiency in Internal Control Over Financial Reporting

Finding 1: Improvements are Needed in RMA's Information Technology General Controls

During our fiscal year 2017 audit, we evaluated information systems managed by RMA. Our review of contingency planning and security management identified weakness in RMA's planning for disaster recovery and management of overall plans of action and milestones (POA&M).

<u>RMA's Data Center Contingency Planning for Disaster Recovery</u>

During our review of contingency planning, we found that RMA's contingency planning for disaster recovery needs improvement and does not meet the National Institute of Standards & Technology (NIST) and Departmental requirements. 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, including necessary agreements to permit the resumption of information system operations for essential missions and business functions within 24 hours of when the primary telecommunications capabilities are unavailable, and,
- at the time of our review RMA had not tested its contingency plan for fiscal year 2017.

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.

NIST Special Publication (SP) 800-53 Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*, states an organization must establish an alternate processing site including necessary agreements to permit the storage and retrieval of information system backup information. Additionally, agencies are to establish alternate telecommunications services including necessary agreements to permit the resumption of essential mission/business functions when the primary processing capabilities are unavailable. NIST SP 800-53 further requires the contingency plan to be tested to determine the effectiveness of the plan and the organizational readiness to execute the plan. Also, 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.

<u>RMA's Overall Plan of Action and Milestones Management</u>

Our review of security management identified that improvements are needed in RMA's overall management of POA&Ms.

POA&Ms are used at the program level to identify and track vulnerabilities across enterprise-level initiatives and at the system level to identify and track system-specific vulnerabilities. Our review of all RMA systems, found six POA&Ms that were in delayed status. Three of the six POA&Ms did not have an actual start date and of those three, two were scheduled to be completed in 2014, and one was scheduled to be completed in 2016. Additionally, we found that 247 vulnerabilities affecting 697 devices where the patch was not applied within 30 days as required by the Department. If a patch is not applied within 30 days, the Department requires a POA&M be submitted, however, we did not find a POA&M present for the fiscal year 2017 missing patches.

We determined that the delayed POA&Ms were mainly due to a lack of resources. POA&Ms are an effective way of tracking outstanding vulnerabilities where the corrective action cannot be performed timely. Without accurate tracking and an approved POA&M, it would be possible for vulnerabilities to not be mitigated placing the systems and the network where they reside at risk for compromise.

Departmental Regulation 3565-003, *Plan of Action and Milestones Policy*, requires agencies to manage the prompt and proper resolution of identified material weaknesses, significant deficiencies, control deficiencies, and non-conformance conditions that exist in the official's functional area, including the development, maintenance, monitoring , and reporting of corrective actions. POA&Ms shall be entered into and managed in the Department's official system of record when a vulnerability is identified (and evaluated for severity) and cannot be remediated within 30 days.

Recommendation 1:

Establish an effective disaster recovery program, failover system and alternate processing facility.

Recommendation 2:

Perform annual testing of the contingency plan.

Recommendation 3:

Develop and implement an effective process for the timely maintenance, monitoring and reporting of POA&Ms.

Recommendation 4:

Develop and implement a process to verify that vulnerabilities that continue to exist over 30 days are entered as POA&Ms, approved and remediated timely.

Abbreviations

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
MD&A .... Management's Discussion and Analysis
NIST............................ National Institute of Standards and Technology
OMB .... Office of Management and Budget
POA&M...................... Plan of Action and Milestones
RSI .... Required Supplementary Information
RSSI .... Required Supplementary Stewardship Information
SP .... Special Publication
U.S. .... United States of America

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

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

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

Margo Erny

Digitally signed by Margo Erny
DN: dc=net, dc=usda, ou=Agencies, ou=RMA, ou=Users, ou=rma, cn=Margo Erny, email=margo.erny@rma.usda.gov
Date: 2017.11.07 09:27:50 -05'00'

SUBJECT: FCIC/RMA's Financial Statements for Fiscal Years 2017 and 2016, Audit Report No. 05401-0009-11

RMA is pleased to respond to your audit report on the Financial Statements for fiscal years 2017 and 2016.

We concur with the findings in the report. We agree with the recommendations in the report and corrective action plans with milestones to address the finding have been developed.

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

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

Federal Crop Insurance Corporation/ Risk Management Agency's

FISCAL YEARS 2017 AND 2016 FINANCIAL STATEMENTS

Prepared By FCIC/RMA

FEDERAL CROP INSURANCE CORPORATION/ RISK MANAGEMENT AGENCY FINANCIAL STATEMENTS FISCAL YEARS 2017 AND 2016

Management's Discussion and Analysis

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

MISSION

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
- 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

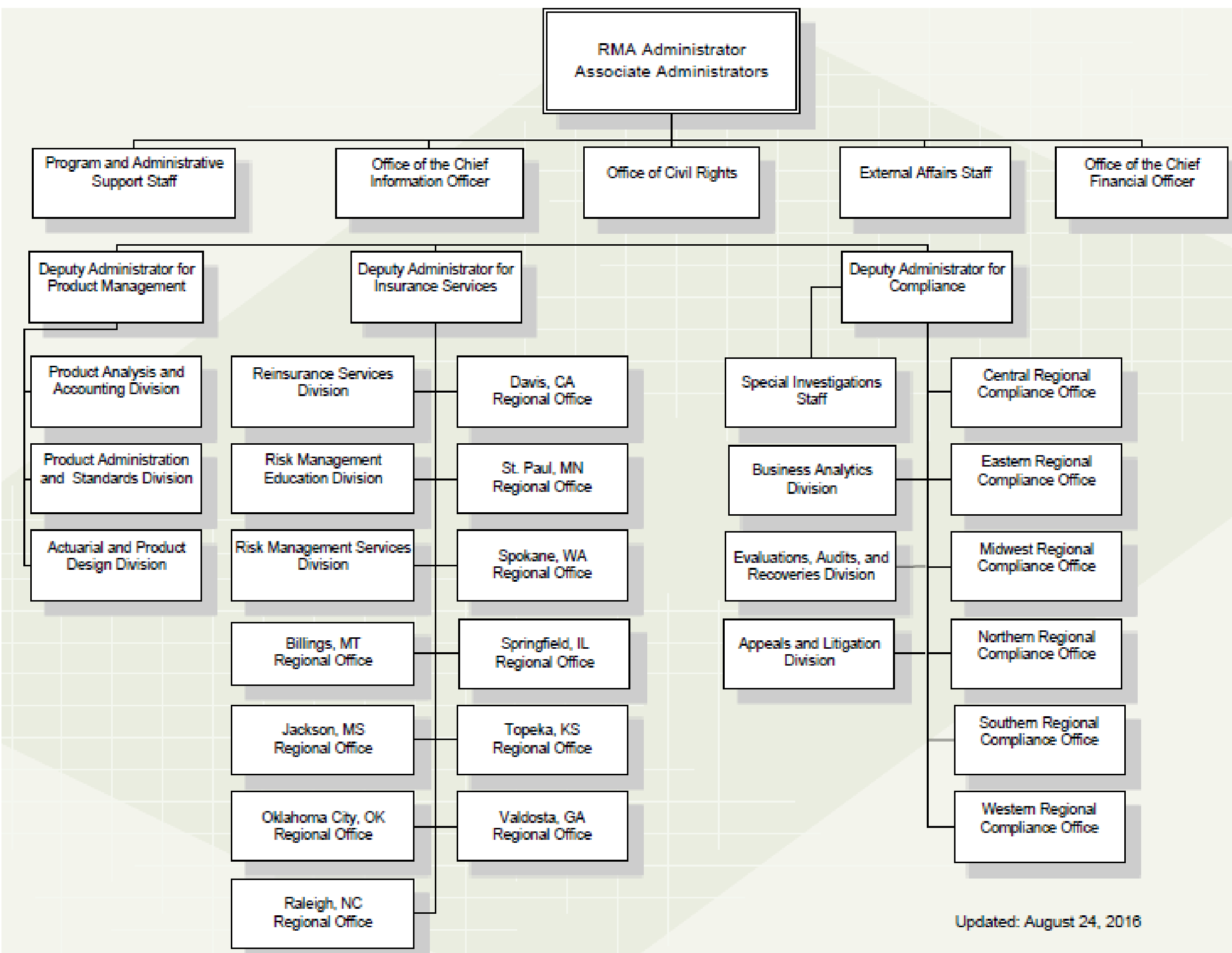
The Federal Crop Insurance Act, as amended, is hereafter referred to as the Act.

ORGANIZATIONAL STRUCTURE

RMA employs approximately 470 people in offices around the country. Heather Manzano is the acting 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



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 ten Insurance Services regional offices and six Compliance offices located throughout the country, as shown in the table below.

Insurance Services Regional Offices			
Billings, MT Raleigh, NC	Davis, CA Spokane, WA Topeka, KS	Jackson, MS Springfield, IL Valdosta, GA	Oklahoma City, OK St. Paul, MN
Compliance Offices			
Dallas, TX	Davis, CA Kansas City, MO	Eagan, MN Raleigh, NC	Indianapolis, IN

ORGANIZATIONAL FUNCTIONS

Board members left to right: Heather Manzano, Ellen Linderman, Margaret Goode, John Finston, Iris Saenz, James Bardenhagen, Dr. Robert Johansson, and Kenneth Ray Sneed.

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 regards to employment opportunities, recognition, promotions, and other employee benefits.

- 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 and 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

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:

- Livestock Risk Protection
- Livestock Gross Margin

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
- Vegetation Index

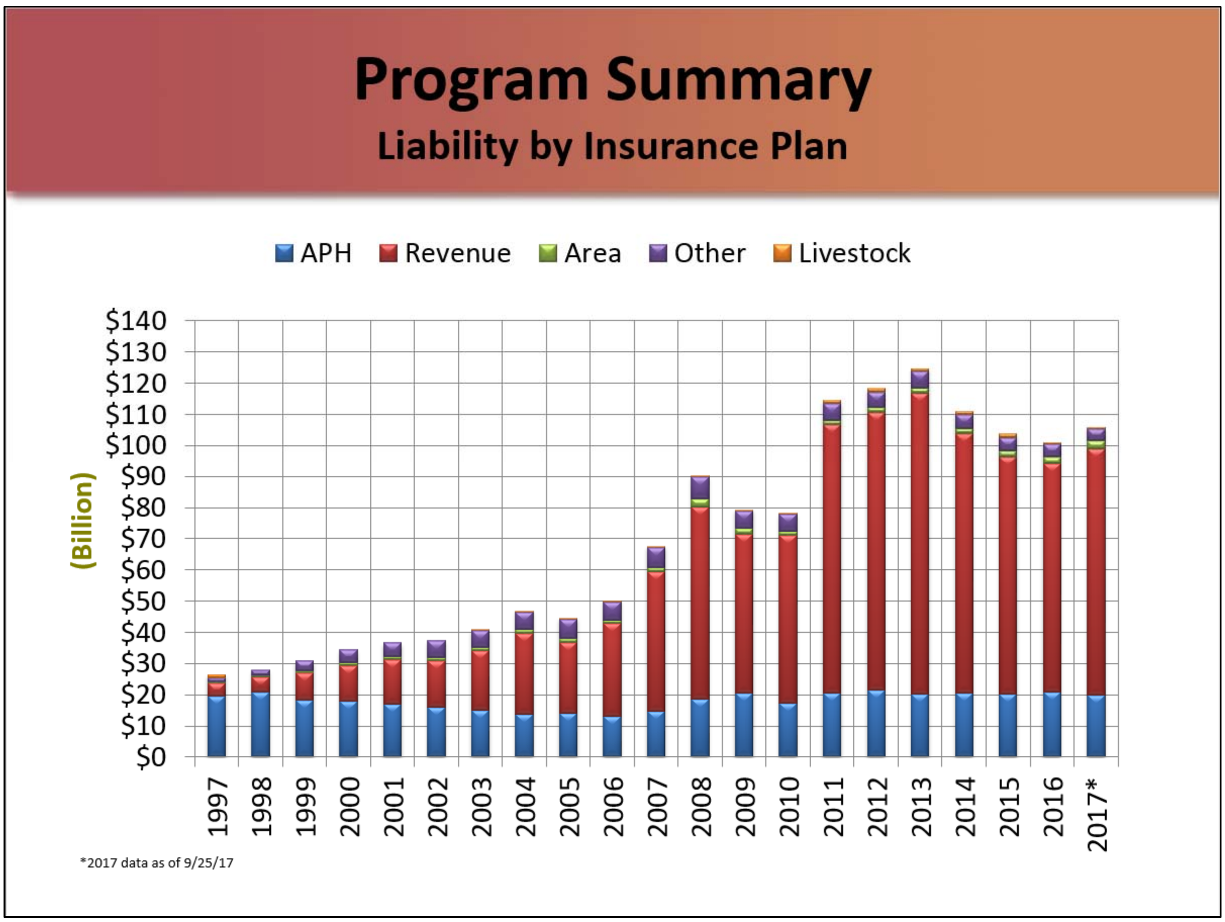
Other Policies

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/

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



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 2017 reimbursement amount is approximately $1.5 billion. Reimbursement rates are the same for 2017 and 2016 reinsurance years. The table below lists reimbursement rates under the current SRA:

Insurance Plans	Reimbursement Rates (depending on coverage level)
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 http://www.rma.usda.gov/pubs/) 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 2017, RMA had 2 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

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.

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.

	Baseline 2012	2016 Actual	2017 Actual	2018 Target
Annual normalized value of risk protection	$62.1 billion	$74.0 billion	$74.6 billion	$64.0 billion

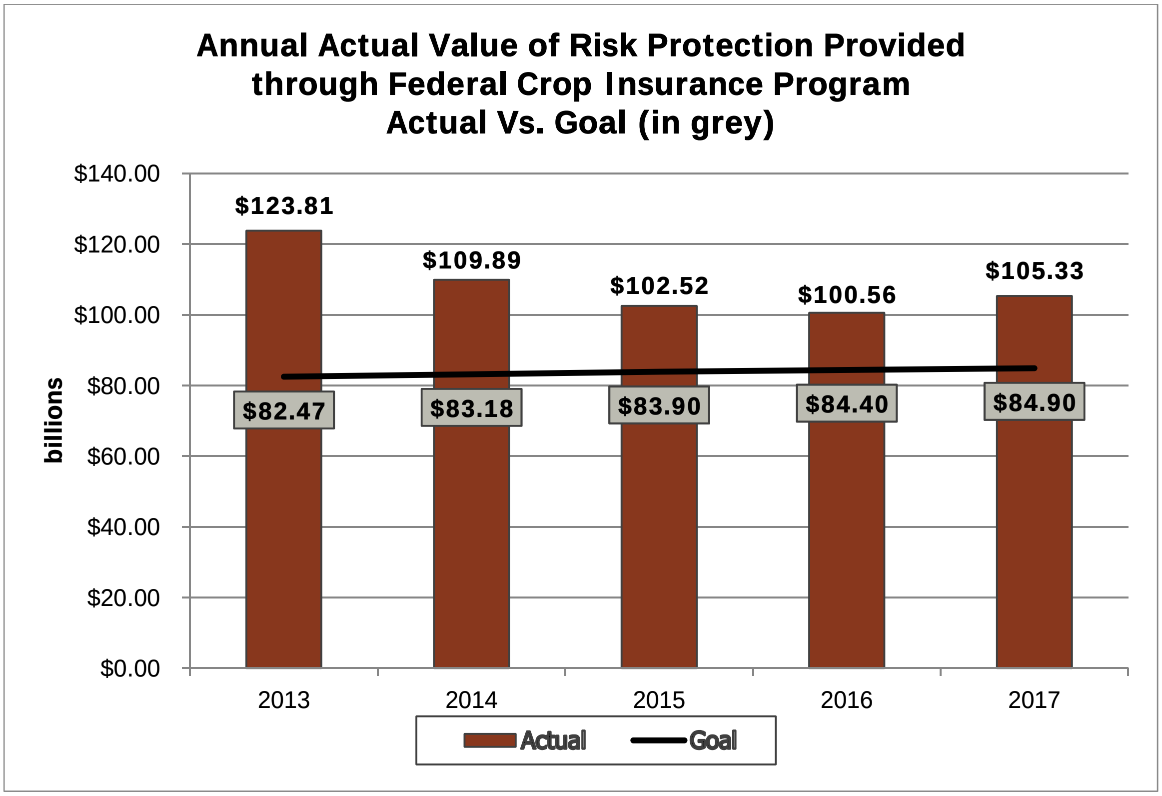
Additional activities that contribute to the goals of increased availability and effectiveness of the Federal crop insurance program are shown below.

- Beginning in crop year 2016 (July 2015), Whole-Farm Revenue Protection is available in every county in the United States. In addition, eligibility for Whole-Farm Revenue Protection was expanded to include beginning farmers and farms that are exclusively livestock or greenhouse. Whole-Farm program was enhanced to require more accurate record keeping, development of record keeping tools, and to allow for expanding farm operations.

- Pasture, Rangeland, and Forage, an area-based insurance plan that covers perennial pasture, rangeland, or forage used to feed livestock, has been expanded to an additional 19 states, which makes it available in all 48 contiguous states. In addition, updates to pricing better reflect the replacement costs of feed and the producers' loss experience.

- Price changes allow organic producers to receive a price guarantee that better reflects the value of their crop. These additions will bring the total number of crops with organic prices from 73 in crop year 2016 to 79 in crop year 2017.

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.

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.

	Baseline 2013	2016 Actual	2017 Estimate	2018 Target
Actual Value of Risk Protection in Underserved States	$1.6 billion	$2.0 billion	$2.1 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 2017 reinsurance year, there were more than 16,000 beginning farmers and ranchers insured spanning more than 4 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.

RMA measures the ability to educate stakeholders and ensure knowledge and access to risk management tools and products by a variety of measures including the following. During the current application cycle, RMA awarded 52 risk management education partnership agreements in the amount of $4.8 million and 24 cooperative agreements for Targeted States in the amount of $5 million.

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

	Baseline 2013	2014 Actual	2015 Actual	2016 Actual	2017 Estimate	2018 Target
Number of Producers Attending Risk Management Education	48,403	155,027	109,276	120,859	130,173	50,000
Number of Producers Provided Education through Regional Offices	104,373	156,581	55,195	39,635	52,125	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 drop off of participation after 2014 reflects a stable time in the program. The 2018 participation may be impacted if Farm Bill changes once again increase demand for education.

➢ Safeguard the integrity of the Federal crop insurance program

RMA safeguards the integrity of the program by ensuring that tax dollars are used appropriately. RMA addresses insurance fraud, waste, and abuse. RMA ensures that 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 2017 and 2016, RMA reported an improper payment rate of 1.96% and 2.02% respectively, which met the reduction target of 2.01% and 2.19% for those years.

- 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.

- During USDA High-Dollar Overpayments Reports Review, the Office of the Inspector General (OIG) audited RMA's fiscal year 2016 improper payment rate and review process. RMA received no recommendations from this audit.

- 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.

RMA used an OMB approved alternative sampling methodology in fiscal year 2016. For fiscal year 2017 and beyond, OMB has approved RMA's 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.

	Baseline 2013	2016 Actual	2017 Actual	2018 Target
Improper Payment Rate	5.23%	2.02%	1.96%	4.90%

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

RMA's incredible achievement of being ranked in the Federal Employee Viewpoint Survey as the best place to work in USDA is one performance measure which demonstrates RMA is becoming a high performing, efficient, and adaptable organization.

RMA has several other performance activities that contribute to the goal of improving the workplace as shown below:

- RMA continues to modernize its Information Technology (IT) infrastructure, allowing the organization to accomplish its mission more efficiently.

- As part of the USDA Secretary's Signature Process Improvement Effort, RMA sponsored internal process improvement projects that increased efficiency in 2016 using Lean Six Sigma methodology.

An example of RMA improvements is a new review process known as the AIP Performance Review (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. Statistics are maintained for policies, farmer paid premium, premium subsidy, total premium, indemnities, loss ratio, and insurance protection on a crop year basis. 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. General ledger transactions are based on reinsurance years. Multiple reinsurance years are active during each fiscal year.

Federal crop insurance program statistics are shown below. The indemnities and loss ratios for 2017 are estimated as they are not known at the time the financial statements are prepared.

Program Information Comparison	Crop Year 2017 (Estimated)	Crop Year 2016 (Actual)
Number of Policies	1.12 million	1.16 million
Farmer Paid Premium	$3.73 billion	$3.46 billion
Premium Subsidies	$6.35 billion	$5.86 billion
Total Premium	$10.08 billion	$9.32 billion
Indemnities	$10.01 billion	$3.86 billion
Loss Ratio	99%	41%
Insurance Protection	$106.05 billion	$100.56 billion

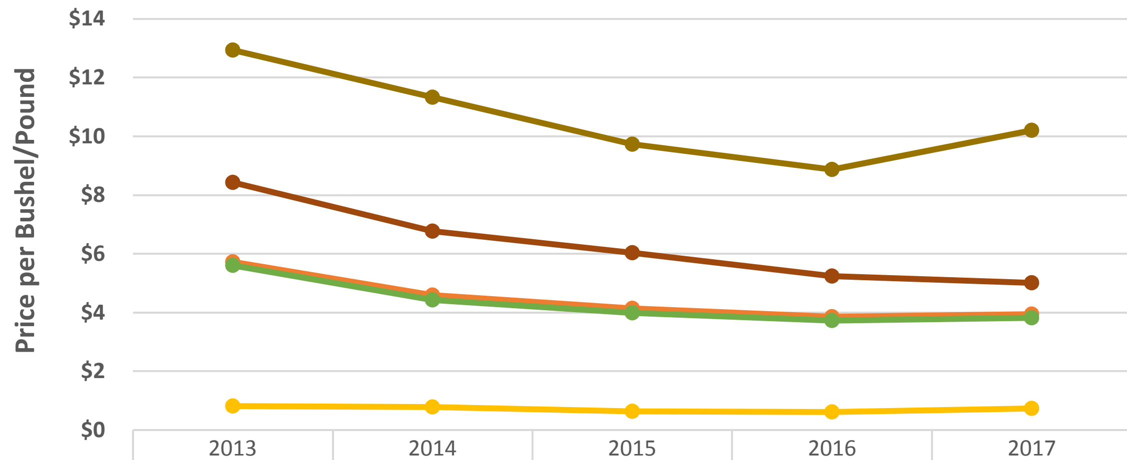
FCIC insures 124 types of crops for crop year 2017. The top crops in volume are listed below, with the remaining crops (pasture, rangeland, forage; apples; almonds; potatoes; beans, etc...) grouped together as All Other. The chart below illustrates premiums on the top five crops representing 79% of total premium.

Crop	Crop Year 2017* (billions)	Crop Year 2016 (billions)
Corn	$3,440	$3,535
Soybean	$2,541	$1,851
Wheat	$890	$1,110
Cotton	$924	$652
Sorghum	$153	$192
All Other	$2,066	$1,982
Total	$10,013	$9,322

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

As noted on the chart above total premiums have increased. This increase from 2016 to 2017 is primarily due to the increase in projected crop prices for some of the major crops. Below is the United States (US) National Pricing data by bushel, except for cotton which is by pound, as compiled by USDA Economic Research Service. As shown in the chart below, prices have increased from 2016 to 2017. Higher prices generally result in higher premiums.

US Price for Top Crops
2013-2017



	2013	2014	2015	2016	2017
Soybeans	$12.93	$11.32	$9.73	$8.87	$10.20
Wheat	$8.43	$6.76	$6.03	$5.24	$5.01
Corn	$5.72	$4.59	$4.14	$3.86	$3.94
Sorghum	$5.60	$4.43	$3.99	$3.73	$3.82
Cotton	$0.82	$0.78	$0.63	$0.61	$0.73

Losses (2016 and 2015 Cause of Loss, Indemnity by Region)

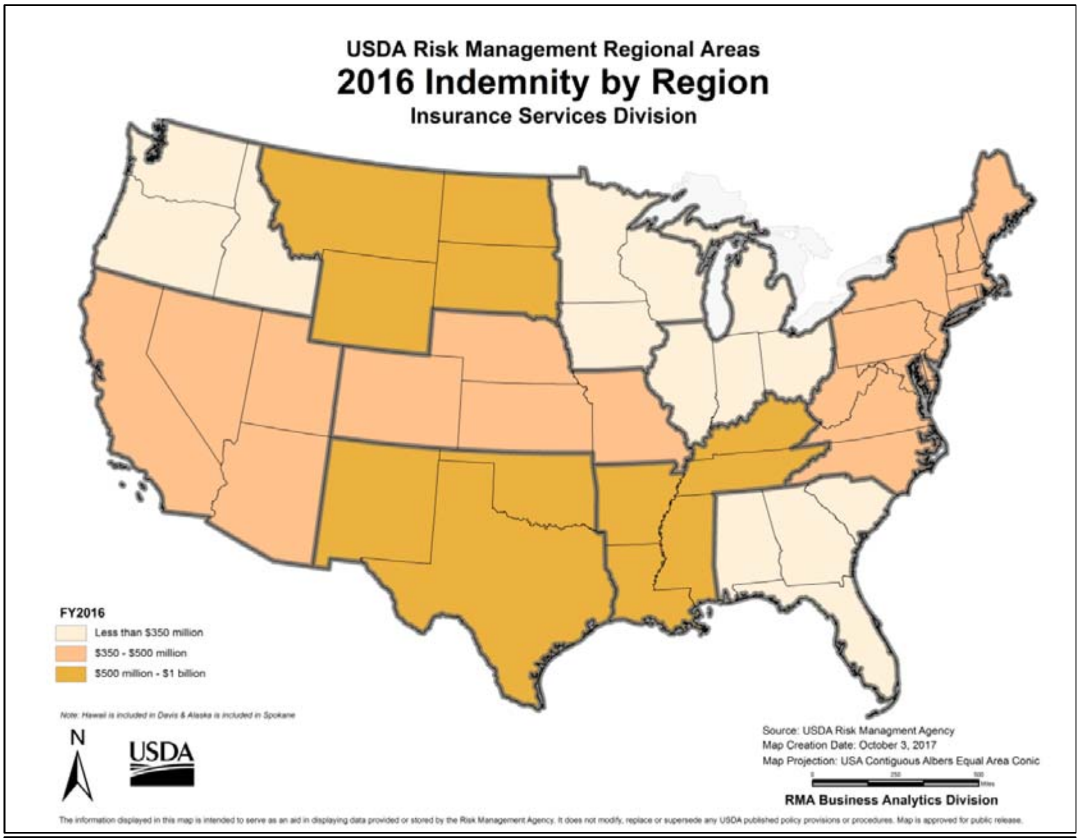
FCIC/RMA issues the annual financial report based on a fiscal year ending September 30. The growing season for the crops that constitute most of FCIC's book of business does not end until October or November. As a result, the majority of losses for a given crop year are paid out in the following fiscal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

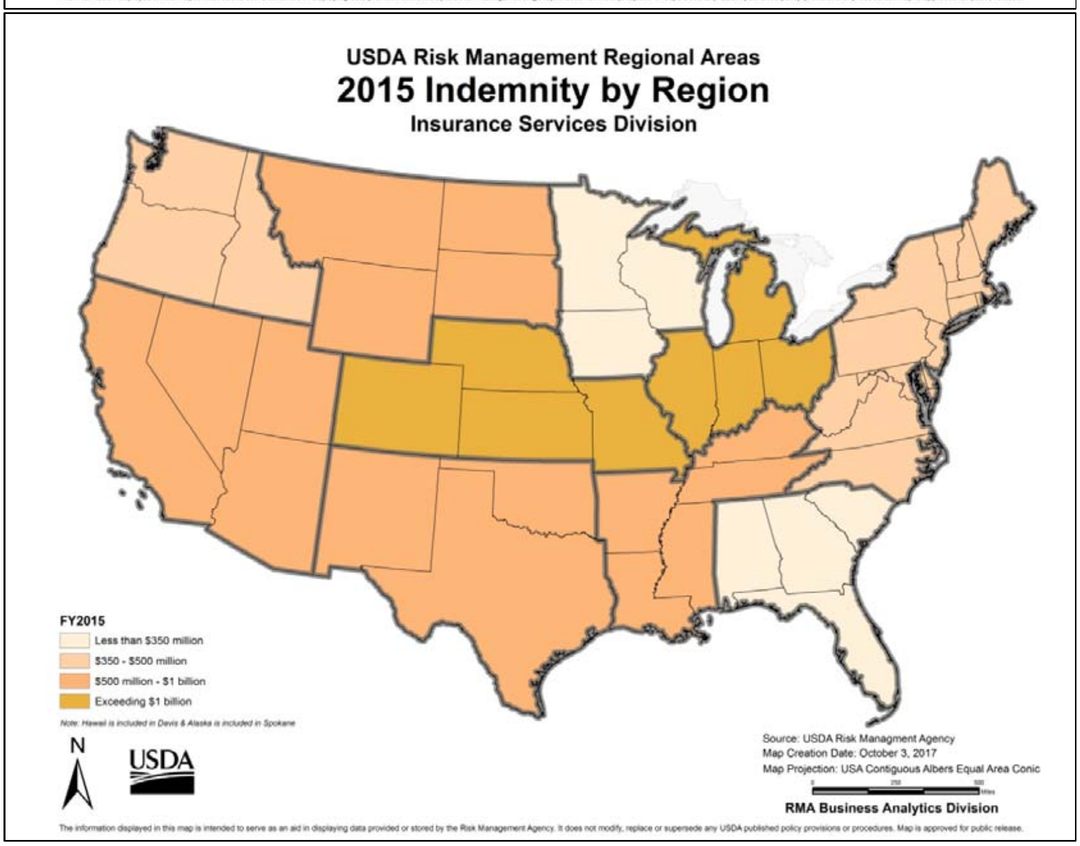
In crop year 2016, the overall loss ratio was .41 compared to a loss ratio of .65 in crop year 2015. In both 2016 and 2015, the top factor for losses was excess moisture.

- 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.

- In crop year 2015, the top causes of loss were: excess moisture in the Midwest, Central and Southern Plains and Southeast; drought primarily in the Northern, Central, and Southern Plains and the Pacific Northwest; heat in California; and hail in the Northern, Central, and Southern Plains.

The losses for crop year 2016 were historically low. Losses in 2015 were lower than most years. The following maps show the indemnities reported by region for crop year 2016 and 2015 (primarily paid in fiscal years 2017 and 2016, respectively).


USDA Risk Management Regional Areas
2016 Indemnity by Region
Insurance Services Division
FY2016
Less than $350 million
$350 - $500 million
$500 million - $1 billion
Note: Hawaii is included in Davis & Alaska is included in Spokane
N
USDA
Source: USDA Risk Managment Agency
Map Creation Date: October 3, 2017
Map Projection: USA Contiguous Albers Equal Area Conic
RMA Business Analytics Division
The information displayed in this map is intended to serve as an aid in displaying data provided or stored by the Risk Management Agency. It does not modify, replace or supersede any USDA published policy provisions or procedures. Map is approved for public release.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Source: USDA Risk Managment Agency
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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

Fiscal Year 2017 – Assets (millions)	
Fund Balance with Treasury	$ 4,736
Cash Held Outside of Treasury	$ 157
Accounts Receivable, Net	$ 305
Other	$ 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 2017, RMA returned $6.8 billion compared to the $6.2 billion returned in 2016. Large returns to Treasury are caused by the normal collection of revenue due to FCIC on the last day of the fiscal year and lower than budgeted losses.

FBWT (Note 2) is a cash-like account which represents funds available which have not been disbursed and CHOT (Note 3) 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 (Note 4) 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.

LIABILITIES

Liabilities

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

Fiscal Year 2017 – Liabilities (millions)	
Estimated Losses on Insurance Claims (Note 6)	$ 7,908
Underwriting Gain (Note 8)	$ 3,577
Accounts Payable (Note 5)	$ 1,474
Unearned Revenue (Note 9)	$ 636
Federal Employee Benefits	$ 2
Other Liabilities (Note 7)	$ 18

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 that there are less losses than premium. A loss ratio greater than 1.0 means that 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.

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, 2017. In fiscal year 2017, three major hurricanes occurred late in the year and caused significant damage to crops. Based on initial estimates from the RMA Regional Offices and statements from public officials, RMA management believes the dollar value of insurance claims from these events will be material to the financial statements.

- Hurricane Harvey made landfall in Texas on August 25 and impacted both Texas and Louisiana.
- Hurricane Irma made landfall in Florida on September 9 and impacted Florida, Georgia, South Carolina and Alabama.
- Hurricane Maria made landfall in Puerto Rico on September 20.

RMA's normal process for projecting losses is based on the September NASS report which was released on September 12 and did not include information on the hurricanes. RMA used data available at the time to determine a reasonable estimate for losses related to hurricanes.

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.

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 2016 were reported and paid in fiscal year 2017.

Reinsurance Year	2017 (est.) (millions)	2016 (millions)
Losses Claimed and Paid in Current Fiscal Year	$ 1,756	$ 1,045
Losses Paid in Subsequent Fiscal Years	8,281	2,809
Total Losses	$ 10,037	$ 3,854

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 41% 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 2017 and summarizes premiums and losses by crop year.

Summary of Premium and Losses by Crop Year					
Actual (millions)			Loss Ratio		
Crop Year	Premiums ($)	Losses ($)	Actual	Projected	Difference
2007	6,562	3,548	54%	67%	13%
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	12,084	102%	76%	(26%)
2014	10,072	9,131	91%	74%	(17%)
2015	9,765	6,309	65%	84%	19%
2016	9,322	3,857	41%	66%	25%
2017 EST	10,081	10,006		99%	

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 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 $1.5 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 conclusion of the fiscal year is classified as Unearned Revenue in the balance sheet.

Other Liabilities

In fiscal year 2017, Other Liabilities (Note 7) include Intragovernmental of $1 million and Other Liabilities with the Public of $17 million.

ANALYSIS OF STATEMENT OF NET COST

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

Statement of Net Costs		
Cost	**Fiscal Year 2017 (millions)**	**Fiscal Year 2016 (millions)**
Total Intragovernmental Costs	$ 76	$ 81
Indemnities (Note 12)	7,270	4,675
Program Delivery Costs	1,488	1,471
Other Program Costs (Note 12)	74	64
Total Costs	**$ 8,908**	**$ 6,291**
Less:		
Premium Revenue (Note 13)	3,667	3,534
Net (Gain)/Loss on Business Ceded from AIPs (Note 13)	(1,590)	(2,298)
Other Revenue	48	51
Total Revenue	**$ 2,125**	**$ 1,287**
Net Cost of Operations	**$ 6,783**	**$ 5,004**

FCIC's net cost of operations increased $1.78 billion from fiscal year 2016 to fiscal year 2017. Commodity prices and detrimental weather conditions, including hurricanes, severe drought in the Upper Midwest, and other weather patterns contributed to a higher estimated loss ratio in reinsurance year 2017. In addition, the difference between estimated losses and actual results contributes to the fluctuation in net cost.

ANALYSIS OF STATEMENT OF BUDGETARY RESOURCES

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

Statement of Budgetary Resources		
Resource	**Fiscal Year 2017 (millions)**	**Fiscal Year 2016 (millions)**
Budgetary Resources	$ 9,426	$ 9,276
Obligated Balance at End of Year	$ 4,290	$ 3,416
Net Outlays	$ 4,293	$ 4,239

Overall, FCIC had $150 million more in budgetary resources at the end of fiscal year 2017. The budgetary resources are comprised of appropriations, collections from the public, and excess funds returned to Treasury. In fiscal year 2017, FCIC/RMA received $802 million more in appropriations and returned $568 million more to Treasury due to fewer losses paid in the fiscal year. This was offset by $87 million less in spending authority from offsetting collections in fiscal year 2017.

The Obligated Balance at End of Year increased by $874 million in fiscal year 2017 compared to fiscal year 2016. The obligated balance primarily consists of program delivery costs and underwriting gain/loss. Reinsurance year 2016 underwriting gain obligated in fiscal year 2017 was higher than reinsurance year 2015 underwriting gain obligated in fiscal year 2016.

Net Outlays are total cash disbursements less collections. Net outlays were $54 million more in fiscal year 2017.

SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

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, 2017 and 2016, was operating effectively.

Federal Financial Management Improvement Act (FFMIA) Assurance

RMA has evaluated its financial management systems under FFMIA for the period ended September 30, 2017. 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, Appendix A. Based on the results of this evaluation, FCIC can provide reasonable assurance that its internal control over financial reporting as of June 30, 2017 and 2016 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 lack of 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 that 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 1.96% in 2017 and 2.02% in 2016 which surpassed the reduction targets of 2.01% and 2.19%, 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

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
BALANCE SHEETS
As of September 30, 2017 and 2016
(in millions)

	2017	2016
Assets		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$ 4,736	$ 3,904
With the Public		
Cash Held Outside Treasury (Note 3)	157	108
Accounts Receivable, Net (Note 4)	305	207
General Property, Plant and Equipment	18	21
Total Public Assets	480	336
Total Assets	$ 5,216	$ 4,240
Liabilities		
Intragovernmental		
Other Liabilities	$ 1	$ 1
With the Public		
Accounts Payable (Note 5)	1,474	1,435
Federal Employee Benefits	2	2
Other Liabilities		
Estimated Losses on Insurance Claims (Note 6)	7,908	5,209
Unearned Revenue (Note 9)	636	575
Underwriting Gain (Note 8)	3,577	3,807
Other Liabilities (Note 7)	17	17
Total Other Liabilities	12,138	9,608
Total Liabilities	$ 13,615	$ 11,046
Commitments and Contingencies (Note 11)		
Net Position (Note 14)		
Capital Stock	$ 500	$ 500
Additional Paid-in Capital	38	38
Unexpended Appropriations	64	64
Cumulative Results of Operations	(9,001)	(7,408)
Total Net Position	$ (8,399)	$ (6,806)
Total Liabilities and Net Position	$ 5,216	$ 4,240

See accompanying notes to the financial statements.

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
STATEMENTS OF NET COST
For the Years Ended September 30, 2017 and 2016
(in millions)

	2017	2016
Program Costs		
Intragovernmental Gross Costs		
Benefit Program Costs	$ 13	$ 13
Imputed Costs	14	15
Reimbursable Costs	49	53
Total Intragovernmental Costs	$ 76	$ 81
Gross Costs with the Public (Note 12)		
Indemnities	$ 7,270	$ 4,675
Program Delivery Costs	1,488	1,471
Other Program Costs	74	64
Total Gross Costs with the Public	$ 8,832	$ 6,210
Less: Earned Revenue from the Public (Note 13)		
Premium Revenue	$ 3,667	$ 3,534
Net (Gain)/Loss on Business Ceded from AIPs	(1,590)	(2,298)
Other Revenue	48	51
Total Earned Revenue with the Public	$ 2,125	$ 1,287
Net Costs with the Public	6,707	4,923
Net Cost of Operations	$ 6,783	$ 5,004

See accompanying notes to the financial statements.

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2017 and 2016
(in millions)

	2017	2016
Capital Stock	$ 500	$ 500
Additional Paid-in-Capital	$ 38	$ 38
Cumulative Results of Operations		
Beginning Balance	$ (7,408)	$ (7,385)
Budgetary Financing Sources		
Appropriations Used	5,172	4,962
Transfers without Reimbursement	4	4
Other Financing Sources (Non-exchange)		
Imputed Financing Sources	14	15
Total Financing Sources	5,190	4,981
Net Cost of Operations	(6,783)	(5,004)
Net Change	(1,593)	(23)
Cumulative Results of Operations (Note 14)	$ (9,001)	$ (7,408)
Unexpended Appropriations		
Beginning Balance	$ 64	$ 89
Budgetary Financing Sources		
Appropriations Received	11,935	11,133
Appropriations Transferred (Out)	(5)	(5)
Return to Treasury	(6,758)	(6,191)
Appropriations Used	(5,172)	(4,962)
Total Unexpended Appropriations	$ 64	$ 64
Net Position	$ (8,399)	$ (6,806)

See accompanying notes to the financial statements.

RISK MANAGEMENT AGENCY
FEDERAL CROP INSURANCE CORPORATION
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2017 and 2016
(in millions)

	2017	2016
Budgetary Resources		
Unobligated Balance Brought Forward, October 1	$ 578	$ 573
Recoveries of Prior Year Unpaid Obligations	2	3
Unobligated Balance from Prior Year Budget Authority	580	576
Appropriations (Note 15)	5,171	4,938
Spending Authority from Offsetting Collections	3,675	3,762
Total Budgetary Resources	$ 9,426	$ 9,276
Status of Budgetary Resources		
New Obligations and Upward Adjustments	$ 8,846	$ 8,698
Unobligated Balance, End of Year		
Apportioned	577	576
Unapportioned	3	2
Unobligated Balance, End of Year	580	578
Total Budgetary Resources	$ 9,426	$ 9,276
Change in Obligated Balances		
Unpaid Obligations Brought Forward October 1 (Gross)	$ 3,416	$ 2,725
New Obligations and Upward Adjustments	8,846	8,698
Outlays, Gross	(7,970)	(8,004)
Recoveries of Prior Year Unpaid Obligations	(2)	(3)
Unpaid Obligations, End of Year	$ 4,290	$ 3,416
Budget Authority and Outlays		
Budget Authority, Gross	$ 8,847	$ 8,701
Actual Offsetting Collections	(3,677)	(3,765)
Recoveries of Prior Year Paid Obligations	0	1
Budget Authority, Net	$ 5,170	$ 4,937
Outlays, Gross	$ 7,970	$ 8,004
Actual Offsetting Collections	(3,677)	(3,765)
Net Outlays	$ 4,293	$ 4,239

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Federal Crop Insurance Corporation (FCIC) is a wholly-owned government corporation within United States Department of Agriculture (USDA). FCIC is under the direction and control of a board of directors, which is appointed by the Secretary of Agriculture. These financial statements include Risk Management Agency (RMA) and FCIC; hereafter the combined entity will be referred to as FCIC.

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 August 2017.

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. Statistics are maintained for policies, farmer paid premium, premium subsidy, total premium, indemnities, loss ratio, and insurance protection on a crop year basis. 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. General ledger transactions are based on reinsurance years. 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.

FCIC is continuing to develop a new system to replace its current 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 once the software is implemented.

General Property, Plant, and Equipment as of September 30, 2017 and 2016 is:

2017 (in millions)			
Category	**Cost**	**Accumulated Depreciation**	**Book Value**
Equipment	$ 3	$ (3)	$ 0
Internal Use Software	51	(35)	16
Internal Use Software in Development	2	0	2
Total	$ 56	$ (38)	$ 18

2016 (in millions)			
Category	**Cost**	**Accumulated Depreciation**	**Book Value**
Equipment	$ 3	$ (3)	$ 0
Internal Use Software	46	(27)	19
Internal Use Software in Development	2	0	2
Total	$ 51	$ (30)	$ 21

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 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 11, 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 2017 and 2016 insurance fund obligations incurred were $8.8 billion and $8.6 billion, respectively. In each fiscal year 2017 and 2016, 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 2017, RMA transferred $8.7 million and in fiscal year 2016, RMA transferred $8.1 million. S&E fund obligations incurred were $83.1 million and $83.7 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.

NOTE 2 – FUND BALANCE WITH TREASURY

Fund balance with treasury at September 30, 2017 and 2016 consists of:

2017	S&E Fund (millions)	Insurance Fund (millions)	Total (millions)
Obligated not yet disbursed	$ 13	$ 4,120	$ 4,133
Unobligated available	1	576	577
Unobligated unavailable	3	23	26
Total Fund Balance with Treasury	$ 17	$ 4,719	$ 4,736
2016	**S&E Fund (millions)**	**Insurance Fund (millions)**	**Total (millions)**
Obligated not yet disbursed	$ 17	$ 3,290	$ 3,307
Unobligated available	1	575	576
Unobligated unavailable	3	18	21
Total Fund Balance with Treasury	$ 21	$ 3,883	$ 3,904

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, 2017 and 2016 is:

CASH HELD OUTSIDE TREASURY	2017 (millions)	2016 (millions)
Balance	$ 157	$ 108

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.

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable and allowance for uncollectible accounts as of September 30, 2017 and 2016 are:

Fiscal Year	Gross Accounts Receivable (millions)	Allowance for Uncollectible Accounts (millions)	Net Accounts Receivable (millions)
2017	$ 306	$ (1)	$ 305
2016	$ 209	$ (2)	$ 207

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 increase in 2017 from 2016 is mostly due to RMA allowing AIPs to defer uncollected premium for areas affected by hurricanes.

NOTE 5 – 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, 2017 and 2016 are:

Accounts Payable	2017 (millions)	2016 (millions)
Delivery Costs	$ 1,473	$ 1,434
Other	1	1
Total	$ 1,474	$ 1,435

NOTE 6 – 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, 2017 and 2016:

Estimated Losses on Insurance Claims	2017 (millions)	2016 (millions)
Balance as of October 1	$ 5,209	$ 5,891
Incurred Related to:		
Current Year	8,427	5,183
Prior Years	(1,274)	(474)
Total Incurred	$ 7,153	$ 4,709
Paid Related to:		
Current Year	(1,756)	(1,045)
Prior Years	(2,815)	(4,312)
Total Paid	$ (4,571)	$ (5,357)
Change in Premium Deficiency Reserve	117	(34)
Net Balance as of September 30	$ 7,908	$ 5,209

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.

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.

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 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 for reinsurance year 2016 was .41 resulting in $2.3 billion fewer losses than were estimated.

Fiscal Year 2016
The beginning balance in fiscal year 2016 represents the estimated losses for reinsurance year 2015 which was associated with a loss ratio of .84. The actual loss ratio for reinsurance year 2015 was .64 resulting in $1.9 billion fewer losses than were estimated.

Comparing 2017 and 2016
The estimated losses were higher in fiscal year 2017 compared to 2016. The increase in the estimated losses is 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 7 – OTHER LIABILITIES

Other Current Liabilities as of September 30, 2017 and 2016 consist of:

Other Liabilities, Federal and Non-Federal	2017 (millions)	2016 (millions)
Intragovernmental:		
Other Accrued Liabilities, Federal	$ 1	$ 1
With the Public:		
Estimated Delivery Costs	7	8
Annual Leave Liability	5	4
Accrued Payroll and Benefits	2	2
Other Accrued Liabilities	3	3
Total Other Liabilities, with the Public	$ 17	$ 17
Total Other Liabilities	$ 18	$ 18

NOTE 8 – UNDERWRITING GAIN

The liability for underwriting gain as of September 30, 2017 and 2016 is:

Underwriting Gain	2017 (millions)	2016 (millions)
Current Year Estimated Gains	$ 994	$ 1,998
Actual Underwriting Gains	2,583	1,809
Total Underwriting Gain Liability	$ 3,577	$ 3,807

The Underwriting Gain Liability for fiscal year 2017 includes amounts for reinsurance year 2017 and 2016. The estimated reinsurance year 2017 underwriting gain was $994 million and was based on an estimated loss ratio of .99. The reinsurance year 2016 actual Underwriting Gain $2,583 million was based on an actual overall loss ratio of .41 and will be paid in fiscal year 2018.

At the end of fiscal year 2016, the Underwriting Gain Liability includes amounts for reinsurance years 2016 and 2015. The estimated reinsurance year 2016 underwriting gain was $1,998 million and was based on a loss ratio of .66. The reinsurance year 2015 Underwriting Gain $1,809 million was based on an actual overall loss ratio of .64 and was paid in fiscal year 2017.

NOTE 9 – UNEARNED REVENUE

Unearned revenue at September 30, 2017 and 2016 is:

Unearned Revenue	2017 (millions)	2016 (millions)
Total Unearned Revenue	$ 636	$ 575

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.

NOTE 10 – LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources at September 30, 2017 and 2016 are:

Liabilities	2017 (millions)	2016 (millions)
Estimated Losses on Insurance Claims	$ 7,751	$ 5,101
Underwriting Gain	994	1,998
Unfunded Leave	4	4
FECA	2	3
Total Liabilities Not Covered by Budgetary Resources	$ 8,751	$ 7,106
Total Liabilities Covered by Budgetary Resources	$ 4,864	$ 3,940
Total Liabilities	$ 13,615	$ 11,046

Estimated losses on insurance claims liabilities not covered by budgetary resources were $7.8 billion as of September 30, 2017, and $5.1 billion as of September 30, 2016. 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 2017 underwriting gain liability of $3.6 billion includes both 2016 and 2017 reinsurance years. However, only reinsurance year 2016 is funded as of September 30, 2017.

For fiscal years 2017 and 2016, Federal Employees Compensation Act (FECA) liability is $2 million and $3 million, respectively. Included are Intragovernmental Other Liabilities of approximately $.5 million for fiscal year 2017 and $.5 million for fiscal year 2016 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.

NOTE 11 – 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 one ongoing case in which legal counsel believes the chances of unfavorable outcome is likely.

Payment for this case has been deemed probable for an estimated amount of $3 million. FCIC has recognized a liability in the financial statements for $3 million but will continue to contest certain aspects of this case.

NOTE 12 – GROSS COSTS

The components of Gross Costs are indemnity costs, program delivery costs, and other program costs. Indemnity costs for the year ending September 30, 2017 and 2016 consist of:

Insurance Indemnity Costs	2017 (millions)	2016 (millions)
Current Year		
Incurred	$ 8,427	$ 5,183
Premium Deficiency Reserve	1,077	960
Total Current Year	9,504	$ 6,143
Prior Years		
Incurred	$ (1,274)	$ (474)
Premium Deficiency Reserve	(960)	(994)
Total Prior Year	$ (2,234)	$ (1,468)
Indemnities	$ 7,270	$ 4,675

The majority of variance in indemnities between fiscal years is associated with the estimated versus actual indemnities. Estimated indemnities are based on estimated premium with the addition of current information on prices and yield to determine estimated loss ratio.

The indemnity costs were $2.6 billion higher in fiscal year 2017. Reinsurance year 2017 estimated indemnity costs were significantly higher due to hurricane damage and other weather events throughout the country.

Program delivery costs are calculated according to the SRA and are approximately $1.5 billion in fiscal year 2017.

Other Program Costs with the Public	2017 (millions)	2016 (millions)
Salaries and Expenses	$ 54	$ 50
Other Program Costs	20	14
Total Other Program Costs	$ 74	$ 64

Other program costs consist of bad debt expense, initiatives, insurance program technology projects, and amortization on insurance program technology projects.

NOTE 13 – EARNED REVENUE WITH THE PUBLIC

Earned revenue with the public as of September 30, 2017 and 2016 is:

Comparative Premium Revenue	2017 (millions)	2016 (millions)
Premium Revenue	$ 3,667	$ 3,534

In 2017, higher commodity prices and price volatility contributed to $133 million variance in premium revenue. 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.

Net (Gain)/Loss on Business Ceded from AIPs	2017 (millions)	2016 (millions)
Downward Revision of Prior Year Estimates	$ (586)	$ (280)
Other Prior Year Gains	(10)	(25)
Adjustment to Underwriting Losses	0	5
Current Year Estimated Gains	(994)	(1,998)
Total	$ (1,590)	$ (2,298)

Premiums and losses are reported monthly by AIPs to FCIC. A periodic settlement, as stipulated in the SRA, is calculated where the results of the business written by AIPs are determined and an experience-rated gain or loss on business ceded from AIPs is computed. Payments to AIPs for the net gain are paid in the second fiscal year following the reinsurance year.

The components of Underwriting Gain include reversal of prior year estimates, actuals for prior years, and an estimate for the current year. If RMA overestimates the gain for the prior year, it decreases the balance for this account. If RMA underestimates the prior year, the balance is increased. If the current year estimate is based on a higher loss ratio than the previous year, then the Underwriting Gain is lower. However, if it is based on a lower loss ratio than the previous year, then the Underwriting Gain is higher, increasing the balance.

Reinsurance year 2017 underwriting gain estimate was $1 billion less than reinsurance year 2016. Detrimental weather conditions contributed to a higher estimated loss ratio in reinsurance year 2017. Offsetting this $1 billion, was a $295 million increase in prior year estimates.

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 2017 was $23 million lower than fiscal year 2016 due to normal program variability. The Cumulative Results of Operations at the end of fiscal year 2017 was ($9.0) billion.

Unexpended appropriations consists of appropriations received less appropriations used or returned to Treasury. Based on expected higher premiums in fiscal year 2017, FCIC requested $802 million more appropriations than fiscal year 2016. The amount of appropriations used was $210 million more in fiscal year 2017 than fiscal year 2016. FCIC returned $6.8 billion to Treasury in fiscal year 2017, compared to $6.2 billion in fiscal year 2016.

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.

NOTE 15 – STATEMENT OF BUDGETARY RESOURCES

Budgetary Resources/Appropriations as of September 30, 2017 and 2016 are:

Budgetary Resources/ Appropriations	2017 (millions)	2016 (millions)
Appropriations Received Program Fund	$ 11,860	$ 11,058
Return to Treasury	(6,759)	(6,190)
Appropriations Received S&E Fund	75	75
Other	(5)	(5)
Appropriations	$ 5,171	$ 4,938

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.

Undelivered Orders as of September 30, 2017 and 2016 are:

	2017 (millions)	2016 (millions)
Undelivered Orders	$ 61	$ 50

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

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

Fiscal Year 2016 Statement of Budgetary Resources v. President's Budget (in millions)

	Account	Budgetary Resources	Obligations Incurred	Net Outlays
Statement of Budgetary Resources:				
	Insurance Fund	$ 9,189	$ 8,614	$ 4,157
	S&E	87	84	82
	Total	$ 9,276	$ 8,698	$ 4,239
Reconciling Items:				
Expired Accounts		(4)	(2)	0
Rounding Difference		1	0	0
	Total	$ (3)	$ (2)	$ 0
Budget of the United States Government		$ 9,273	$ 8,696	$ 4,239

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 2016 Statement of Budgetary Resources, and the President's Budget. The comparison between the fiscal year 2017 Statement of Budgetary Resources and the fiscal year 2017 actual numbers presented in the fiscal year 2019 Budget cannot be performed as the fiscal year 2019 Budget is not yet available. The fiscal year 2019 Budget is expected to be published in February 2018 and will be available from the Government Printing Office.

NOTE 17 – RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET

Budgetary and proprietary accounting information are inherently different because of the types of information and the timing of their recognition. The reconciliation of budgetary resources obligated and the net cost of operations provides a link between budgetary and proprietary accounting information. It serves not only to explain how information on net obligations relates to the net cost of operations but also to assure integrity between budgetary and proprietary accounting.

The schedule on the following page bridges the gap between the sources and uses of budgetary resources and the Statement of Net Cost of Operations.

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 Resources Used to Finance Items Not part of Net Cost of Operations.

Reconciliation of Net Cost of Operations (Proprietary) to Budget	2017 (millions)	2016 (millions)
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations incurred	$ 8,846	$ 8,698
Less: Spending authority from offsetting collections and recoveries	(3,679)	(3,768)
Obligations net of offsetting collections and recoveries	$ 5,167	$ 4,930
Imputed financing from costs absorbed by others	14	15
Total resources used to finance activities	$ 5,181	$ 4,945
Resources Used to Finance Items Not part of Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	(12)	10
Resources that fund expenses recognized in prior periods (Decrease in Unfunded Insurance Estimates)	1,647	(129)
Resources that finance the acquisition of assets	(4)	(7)
Total resources used to finance items not part of the cost of operations	1,631	(126)
Total resources used to finance the net cost of operations	$ 6,812	$ 4,819
Components of the Net Cost of Operations that will Require or Generate Resources in the Current Period		
Components requiring or generating resources in future periods		
Increase (decrease) in exchange revenue receivable from the public	(38)	175
Other (Increase in Unfunded Insurance Estimates, program delivery costs)	1	6
Total components of net cost of operations that will require or generate resources in the future period	$ (37)	$ 181
Components Not Requiring or Generating Resources		
Depreciation and amortization	8	7
Bad debt expense	0	(3)
Total components of net cost of operations that will not require or generate resources	8	4
Total components of net cost of operations that will not require or generate resources in the current period	$ (29)	$ 185
Net Cost of Operations	$ 6,783	$ 5,004

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 2017 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	2017 Estimate	2016	2015	2014	2013
RME obligations (millions)	$ 10	$ 9	$ 7	$ 9	$ 10
Number of producers attending RME sessions	130,173	120,859	109,276	155,027*	89,100

*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 52 cooperative agreements for $4.8 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 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 $5 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)

2017 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 $10,117 million, less the actual losses recorded of $1,756 million resulting in an Estimate of Unpaid Losses of $8,361 million.

Risk Assumed	(millions)
Estimate of Losses	$ 8,361
Risk Assumed	$ 10,117

OTHER INFORMATION (UNAUDITED)

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 2017 and 2016, FCIC had an improper payment rate of 1.96% and 2.02% respectively, which exceeded the reduction target of 2.01% and 2.19%.

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.

RMA used an OMB approved alternative sampling methodology in fiscal year 2016. For fiscal year 2017 and beyond, OMB has approved RMA's statistically valid sampling methodology.

Improper Payment Reporting

RMA's most recent IPERIA data is for fiscal year 2017, examining reinsurance year 2015 data. Table 1 shows the sampling and estimation results by reinsurance year for the FCIC Program Fund.

Table 1: Improper Payment Reduction Outlook ($ in millions) – by reinsurance year (RY)

FCIC Program Fund	RY 2014	RY 2015	RY 2016 Est.	RY 2017 Est.	RY 2018 Est.
Outlays $	11,503	9,162	4,158	4,709	8,647
Properly Paid %	97.98%	98.04%			
Improper Payment (IP) %	2.02%	1.96%	1.95%	1.94%	1.93%
Properly Paid $	11,271	8,982			
IP $	232	180	81	91	167
Overpayment $	218	168			
% of Overpayments	93.99%	93.31%			
Underpayment $	14	12			
% of Underpayments	6.01%	6.69%			

*Breakout of actual overpayment and underpayment is required beginning in RY 2014.

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)

Reinsurance Year 2015 Reported in Fiscal Year 2017		
Program	**Federal Government**	**Recipients of Federal Money**
FCIC Program Fund	N/A	$ 180

Discussion of Supplemental Measures

RMA uses data mining techniques to implement a supplemental measure to reduce acreage reporting discrepancies. Producers report farmed acreage to their approved insurance provider (AIP) and to the Farm Service Agency (FSA). Using this data, RMA generates a spot-check list of producers with significant discrepancies (over 100 acres) between acreage reported to RMA and FSA. RMA provides this list to the AIPs for further review and reconciliation, as necessary.

There were 22,072 or 2.3% of 953,253 Eligible Crop Insurance Contracts (ECICs) nationwide having an acreage reporting discrepancy of 100 or more acres. Our review determined there are legitimate reasons for some of the discrepancies between RMA and FSA. Rather than ask the AIPs to address the discrepancies between RMA and FSA data, we used this data to determine our sample and asked the AIPs to verify the accuracy of the acreage reported to RMA only, and adjust the acreage reports, if necessary. This would promote the correctness of future crop insurance claim payments using the acreage data.

Out of the 1,130 ECICs sampled, it was necessary for the AIPs to adjust the reported acreage for 1,083 ECICs (95.8%). The acreage adjustments resulted in premium adjustments totaling $3,427,752.

Table 3 provides the breakdown of FCIC Program Fund overpayment and underpayment dollars for reinsurance year 2015.

Table 3: Improper Payment Root Cause Category Matrix ($ in millions)

Reinsurance Year 2015 Reported in Fiscal Year 2017				
FCIC Program Fund	**Overpayments $**		**Underpayments $**	
Inability to Authenticate Eligibility	$	105	$	6
Administrative or Process Error made by Other Party		63		6
TOTAL	$	168	$	12

Improper Payment Corrective Actions

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

Root Cause #1: Inability to authenticate eligibility.

Actions Planned:

- Issue informational memo reminding producers about record retention requirements outlined in the Common Crop Insurance Basic Provisions, Section 21. The Regional Compliance Offices (RCOs) will review the AIP's procedures and controls in place to reduce the amount of errors related to records retention. (March 2018)

Root Cause #2: Administrative or process error:

Actions Planned:

- Conduct outreach to applicable AIPs to incorporate acreage data verification into agent and adjustor training or notifications. The RCOs will review the AIP's procedures and controls in place to reduce the amount of administrative errors. (June 2018)

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.

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. Rate was reduced to 1.96% and 2.02% for fiscal years 2017 and 2016, respectively.

RMA incorporated standards in fiscal year 2017 annual performance plans to ensure IPERIA reviews are conducted 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 March 2016 – May 2017 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 APR. RMA completed a pilot APR of three AIPs which evaluated their internal controls to identify and address program vulnerabilities.

Barriers

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

Recapture of Improper Payments Reporting

In fiscal year 2017, 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 2017.

Table 5: Overpayment Payment Recaptures with and without Recapture Audit Programs ($ in millions)

	Overpayments Recaptured through Payment Recapture Audits - Other		
Fiscal Year	**Amount Identified**	**Amount Recaptured**	**Recapture Rate ***
2017	$5	$10	221%

Overpayments Recaptured through Payment Recapture Audits	
Fiscal Year	**Recapture Rate Target**
2018	100%
2019	100%

*Amount recaptured for 2017 includes amounts identified in previous years.

RMA's Recovery Audit Program was approved and started reporting in 3rd quarter of fiscal year 2016.

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)

Fiscal Year 2017			
Program	Amount Recaptured	Type of Payment	Original Purpose
FCIC Program Fund	$ 10	Crop Insurance	$ 10

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)

Program	Type of Payment	Amount Outstanding (0-6 months)	Amount Outstanding (6 months to 1 year)	Amount Outstanding (over 1 year)	Amount Determined to not be collectable
FCIC Program Fund	Crop Insurance	$ 1	$ 0	$ 5	$ 0

The table identifies amounts not yet collected as of 3rd quarter fiscal year 2017.

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

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

- During fiscal year 2016, RMA 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.

- 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.

The following table details the results of RMA's Do Not Pay initiative in preventing improper payments.

Table 8: Results of the Do Not Pay Initiative in Preventing Improper Payments (in millions)

Reinsurance Year 2015 Examined in Fiscal Year 2017						
	Number (#) of payments reviewed for possible improper payments	Dollars ($) of payments reviewed for possible improper payments	Number (#) of payments stopped	Dollars ($) of payments stopped	Number (#) of potential improper payments reviewed and determined accurate	Dollars ($) of potential improper payments reviewed and determined accurate
Reviews with the Do Not Pay databases	N/A	N/A	N/A	N/A	N/A	N/A
Reviews with databases not listed in IPERIA as Do Not Pay databases	680 case policies	$273	0	0	575	$267

RMA's most recent IPERIA data is for fiscal year 2017, examining reinsurance year 2015 data. RMA reviewed 680 case policies. RMA's IPERIA reviews occur after payments have been processed. These reviews can recoup improper payments but not stop improper payments in advance. RMA's improper payment rate includes all three payment categories: premium subsidies, administrative and operating payments, and indemnity payments.

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.

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 2016 and 2017, no consolidation of office space occurred. The consolidations that were originally planned for fiscal year 2017 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 4th quarter fiscal year 2018)

- St. Paul, MN Regional Office and Eagan, MN Compliance Office into one co-located RMA Minneapolis/St. Paul area office (scheduled completion 1st 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.

Square Footage (in thousands)	Fiscal Year 2015 Baseline	Fiscal Year 2016	Change in Square Footage
RMA GSA Lease Assignments	119	123	(4)
RMA Leases	16	12	4
Total	135	135	0

Lease Costs (in thousands)	Fiscal Year 2015 Baseline	Fiscal Year 2016	Change in Lease Costs
RMA GSA Lease Assignments	$ 2,848	$ 2,710	$ 138
RMA Leases	250	185	65
Total	$ 3,098	$ 2,895	$ 203

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:

Summary of Financial Statement Audit					
Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Table 2:

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

Effectiveness of Internal Control over Operations (FMFIA Section 2)					
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

Compliance with 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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