United States Department of Agriculture

Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2020 and 2019

Audit Report 05401-0012-11

December 2020

OFFICE OF INSPECTOR GENERAL

Federal Crop Insurance Corporation/ Risk Management Agency's Financial Statements for Fiscal Years 2020 and 2019

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OIG audited the financial statements of FCIC/RMA for fiscal years 2020 and 2019.

OBJECTIVE

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

REVIEWED

We conducted our audits on the information relevant to the audit objectives as obtained through systems or from officials and personnel located at the RMA and Farm Production and Conservation Business Center offices in Kansas City, Missouri.

RECOMMENDS

In general we recommended that RMA design and document policies, procedures, and controls at an appropriate level of precision to identify errors or inconsistencies within the loss estimation process.

WHAT OIG FOUND

The Federal Crop Insurance Corporation/Risk Management Agency (FCIC/RMA) received an unmodified opinion from the Office of the Inspector General's (OIG) audits of FCIC/RMA's financial statements. We determined that the agency's financial statements present fairly FCIC/RMA's financial position as of September 30, 2020 and 2019 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 material weakness in FCIC/RMA's controls over estimating losses on insurance claims. Our consideration of compliance with laws and regulations noted no instances of noncompliance.

USDA OFFICE OF INSPECTOR GENERAL
United States Department of Agriculture

DATE: December 8, 2020

AUDIT NUMBER: 05401-0012-11

TO: Martin Barbre
Administrator
Risk Management Agency

Margo Erny
Chief Financial Officer
Farm Production and Conservation Business Center

ATTN: Kenneth Hill
Performance, Accountability, and Risk Division Director
Farm Production and Conservation Business Center

Gary Weishaar
Branch Chief for the External Audits
And Investigations Division
Farm Production and Conservation Business Center

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2020 and 2019

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, 2020 and 2019. This report contains an unmodified opinion on the financial statements, as well as the results of our assessments of FCIC/RMA's internal control over financial reporting and compliance with laws and regulations. Your response is included in its entirety in Exhibit 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 fieldwork and subsequent discussions. This report contains publicly available information and will be posted in its entirety to our website (http://www.usda.gov/oig) in the near future.

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Independent Auditor's Report

The Board of Directors, Federal Crop Insurance Corporation

The Department of Agriculture's Office of Inspector General (OIG) audited the financial statements of the Federal Crop Insurance Corporation/Risk Management Agency (FCIC/RMA) for fiscal years 2020 and 2019. 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, 2020, and 2019, 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").

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 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 United States; the standards applicable to financial audits contained in government auditing standards, issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin 19-03, *Audit Requirements for Federal Financial Statements.* Those standards and OMB Bulletin 19-03 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, 2020 and 2019, 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 United States.

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 8 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

Interactive Data

Management has elected to reference information on websites or other forms of interactive data outside the financial statements to provide additional information for the users of its financial statements. Such information is not a required part of the basic financial statements or supplementary information required by the Federal Accounting Standards Advisory Board (FASAB). The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and, accordingly, we do not express an opinion or provide any assurance on it.

Required Supplementary Information

Accounting principles generally accepted in the United States issued by the FASAB require that the required supplementary information (RSI)[1] be presented to supplement the basic financial statements. Although the RSI is not a part of the basic financial statements, FASAB considers this information to be an essential part of financial reporting for placing the basic financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the

[1] The RSI consists of the Management's Discussion and Analysis, which is included with the financial statements.

United States, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The "Other Information" section is presented for the purpose of additional analysis, and is not a required part of the basic financial statements or the RSI. 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 audit of the financial statements as of and for the year ended September 30, 2020, we considered FCIC/RMA's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FCIC/RMA's internal control. Accordingly, we do not express an opinion on the effectiveness of FCIC/RMA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

Our consideration of internal control was for the limited 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 19-03 requires us to describe significant deficiencies and material weaknesses identified during our audit, and, in the event that no material weaknesses were identified, to so report.

In our FY 2020 audit, we noted a deficiency involving internal control that we consider to be a material weakness. Specifically, we identified a weakness in FCIC/RMA's controls over estimating losses on insurance claims. This material weakness is discussed in Finding 1 of this report.

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

As part of obtaining reasonable assurance about whether FCIC/RMA's financial statements as of and for the year ended September 30, 2020, are free of material misstatement, we performed tests of its compliance with certain provisions of applicable laws, regulations, contracts, grant agreements, and Governmentwide policy requirements—noncompliance with which could have a direct effect on the determination of material financial statement amounts and disclosure in the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

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

Management's Responsibility for Internal Control and Compliance

FCIC/RMA's management is responsible for: (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under 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 disclosure 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, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

We did not test compliance with all laws, regulations, contracts, and grant agreements applicable to FCIC/RMA. We limited our tests of compliance to certain provisions of laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosure in the financial statements that we deemed applicable to FCIC/RMA's financial statements for the fiscal year ended September 30, 2020. We caution that noncompliance may occur and not be detected by these tests.

Management's Response

Management's response to the report is presented in Exhibit 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 with Laws, Regulations, Contracts, and Grant Agreements

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

Gil H. Harden

Gil H. Harden
Assistant Inspector General for Audit
Washington, D.C.
December 7, 2020

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

Finding 1: Improvements are Needed Over the Insurance Loss Estimation Process

According to the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, management is responsible for developing effective control activities—policies, procedures, techniques and mechanisms that enforce management's directives to fulfill defined responsibilities, achieve the entity's objectives, and address related risks—and overall internal control system. For example, control activities used in information processing include edit checks of data entered; accounting for transactions in numerical sequences; comparing file totals with control accounts; and controlling access to data, files, and programs.

Additionally, management must develop and maintain documentation of its internal control system. Management also processes relevant data from reliable sources into quality information within the entity's information system. Finally, management should document in policies its responsibilities for an operational process's objectives and related risks, and control activity design, implementation, and operating effectiveness.[2]

Although the insurance loss estimation is a long-standing estimate within RMA's financial statements, we noted several areas in the loss estimation process that need improvement.

Estimate Model

While management designed a control to review the yearend indemnities estimate model results, the control is not precise enough to identify data input errors or inconsistencies between original source data and data used within the indemnities estimate model. Because of an error in a query utilized by RMA, the total liabilities estimate was overstated by more than $177 million, which RMA subsequently corrected. In making this correction, RMA made additional errors that resulted in an overstatement of the total liabilities estimate by more than $29 million. The error in RMA's query also affected FY 2019, resulting in a net effect on FY 2020 net cost of operations by more than $81 million.

Estimate Calculations/Inconsistencies

We identified further errors in the review of the insurance loss estimation process.

- RMA utilized data with the incorrect as-of date to calculate the "incurred but not reported estimate"—resulting in a $42 million classification difference on the

[2] GAO, *Standards for Internal Control in the Federal Government* (September, 2014).

balance sheet, overstating the liability for unpaid insurance claims and understating the liability for losses on remaining coverage.
- RMA applied inconsistent estimation methodologies to its reinsurance year 2021 Dairy Revenue Protection (DRP) Program calculations—resulting in more than a $37 million overstatement of the liability for losses on remaining coverage.

Estimate Documentation

Management also did not appropriately perform a continuous evaluation of its methods, inputs, and assumptions, and did not consistently update or maintain formal, cohesive, and robust documentation to support its critical estimates. Some of the areas noted include a lack of:

- adequate documentation of analyses to support that assumptions, inputs, and methods used in the estimation process were reasonable and appropriate;
- documentation regarding model changes and changes in methodologies;
- consistency between model documentation and the model programs used;
- formal documentation supporting the process and assumptions used for the DRP Program;
- documentation of review over the results for reasonableness for the DRP Program; and
- formal analyses and documentation supporting the reasonableness of a critical input to the insurance loss estimate—resulting in a possible understatement risk of more than $98 million to the underwriting gain/loss liability.

Without controls designed and documented at an appropriate level of precision to identify inconsistencies and errors, RMA may not adequately prevent or timely detect and correct material misstatements related to its insurance loss estimates. To address these weaknesses, we provided detailed recommendations in separate findings to management. In summary, we made the following recommendations:

Recommendation 1

Perform a risk assessment to identify critical data inputs and risk points within the indemnities estimate model, identify areas in the model execution process that can be prone to manual error, and design procedures to evaluate the completeness and accuracy of critical data inputs and respond to the risk of errors within the model execution process.

Recommendation 2

Review, update and document policies, procedures, and controls (including reviewing official roles and responsibilities) to review any model program or data preparation query changes to validate the appropriateness of the changes.

Recommendation 3

Design a review checklist to include a secondary review or validation to ensure completeness and accuracy of files used in the model execution process.

Recommendation 4

Perform and document a formal assessment on the reasonableness and appropriateness of the critical inputs for its insurance loss estimates.

Recommendation 5

Enhance documentation related to the methods, inputs and assumptions used in its insurance loss estimates, including their relevance and reliability for financial reporting objectives. Periodically, evaluate and formally document its evaluation of the continued appropriateness of critical methods, inputs and assumptions that support the accounting estimates.

Recommendation 6

Create and maintain process documentation supporting the process and assumptions used for the Dairy Revenue Protection Program estimate and periodically, evaluate and document the appropriateness of the critical methods, inputs, and assumptions used.

Abbreviations

DRP............................. Dairy Revenue Protection
FASAB........................ Federal Accounting Standards Advisory Board
FCIC/RMA .... Federal Crop Insurance Corporation/Risk Management Agency
GAO............................ Government Accountability Office
FFMIA .... Federal Financial Management Improvement Act of 1996
FMFIA .... Federal Managers' Financial Integrity Act of 1982
OIG .... Office of Inspector General
OMB .... Office of Management and Budget
RSI .... Required Supplementary Information

FCIC/RMA's
Response to Audit Report

United States Department of Agriculture

Farm Production and Conservation Business Center

Risk Management Agency

1400 Independence Avenue, SW
Stop 0801
Washington, DC
20250-0501

December 7, 2020

TO: Gil H. Harden
Assistant Inspector General
USDA

FROM: Margo E. Erny
Chief Financial Officer
Farm Production and Conservation

MARGO ERNY

Digitally signed by MARGO ERNY
Date: 2020.12.07 15:42:53 -05'00'

SUBJECT: Federal Crop Insurance Corporation/Risk Management Agency (FCIC/RMA) Audit Report Response

We have reviewed the OIG Independent Auditors' Report dated December 7th, 2020. We are very pleased with the Auditors' unmodified opinion on FCIC/RMA's Fiscal Year (FY) 2020 and 2019 consolidated financial statements.

FCIC/RMA agrees with the finding presented in the auditors' report. FCIC/RMA is in the process of developing and implementing corrective actions to remediate the finding and will continue to work with the USDA Office of Inspector General to ensure effective remediation in FY 2021.

Please feel free to reach out to Kathleen Carroll at (816)835-5081 if you have any questions.

FCIC/RMA's FYs 2020 and 2019 Financial Statements Prepared by FCIC/RMA

FEDERAL CROP INSURANCE CORPORATION/ RISK MANAGEMENT AGENCY FINANCIAL STATEMENTS FISCAL YEARS 2020 AND 2019

Management's Discussion and Analysis

Message from Martin Barbre, Administrator, Risk Management Agency

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

On behalf of the Risk Management Agency (RMA), it is my pleasure to present this comprehensive financial report detailing the exceptional work of the agency and its employees for the past two years. The above-stated mission of the agency is further enhanced by RMA's strategic goal of maximizing the ability of American agricultural producers to prosper by feeding and clothing the world. The objective is to provide an effective financial safety net for farmers and ranchers to sustain economically viable agricultural production and support rural jobs and economic growth.

Crop insurance is a vital part of the farm safety net. RMA manages the Federal Crop Insurance Program, which provides effective, market-based risk management tools to strengthen the economic stability of agricultural producers. RMA continued to focus efforts to raise awareness and make improvements to existing programs that help producers to better manage their risk. RMA worked with Approved Insurance Providers (AIPs), agents, and stakeholder groups to respond to multiple disasters throughout the past three years.

Total liability in the program is more than $126.6 billion on more than 396 million acres for crop year 2020. In October of 2018, RMA implemented Dairy Revenue Protection, which has grown to now cover 218 billion pounds of milk, which represents about 30 percent of total milk production. This is only its third year of sales. The 2018 Farm Bill recognized the importance of crop insurance in addressing disasters by directing RMA to develop coverage that specifically addresses hurricanes. RMA implemented the new hurricane policy for the 2020 hurricane season. It is off to a strong start with over 27 thousand policies providing around $600 million in coverage.

Of the more than 1 million policies in effect, RMA issued nearly 14,000 written agreements. Written agreements are manually underwritten policies that offer coverage not available in the county or offer specific improved coverage or terms. This process provides significant flexibility, which covered over $743 million, of the total $126.6 billion in liability for our nation's farmers annually. This process also naturally identifies changing farming practices and crops grown in areas ensuring that our program is adaptive and effective. Over the last three years RMA has expanded crops to over 181 new counties, insuring approximately $120 million during that 3-year period.

In fiscal year 2020, RMA expanded its program compliance reviews to improve program integrity. In an ongoing effort to identify and reduce errors, RMA conducted reviews of the Rainfall Index plans of insurance and initiated a spot check of prevented planting claims as a result of widespread flooding in the 2019 crop year. These program reviews help RMA recover overpayments while creating awareness of potential program vulnerabilities.

The Federal Crop Insurance Corporation's (FCIC) financial statements report the financial positions for both 2020 and 2019 fiscal years, net costs of operation, changes in net position, and status of budgetary resources. Financial management performance measures also accompany the financial results. These performance measures include the annual results and the strategic targets.

FCIC/RMA again earned an unmodified audit opinion on fiscal year 2020 financial statements. During the fiscal year 2020 audit, a material weakness related to internal control over Estimating Losses on Insurance Claims was identified. FCIC/RMA is in the process of developing and implementing corrective actions to remediate the findings and will continue to work with the USDA Office of Inspector General to ensure effective remediation in FY2021.

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

CONTENTS

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:

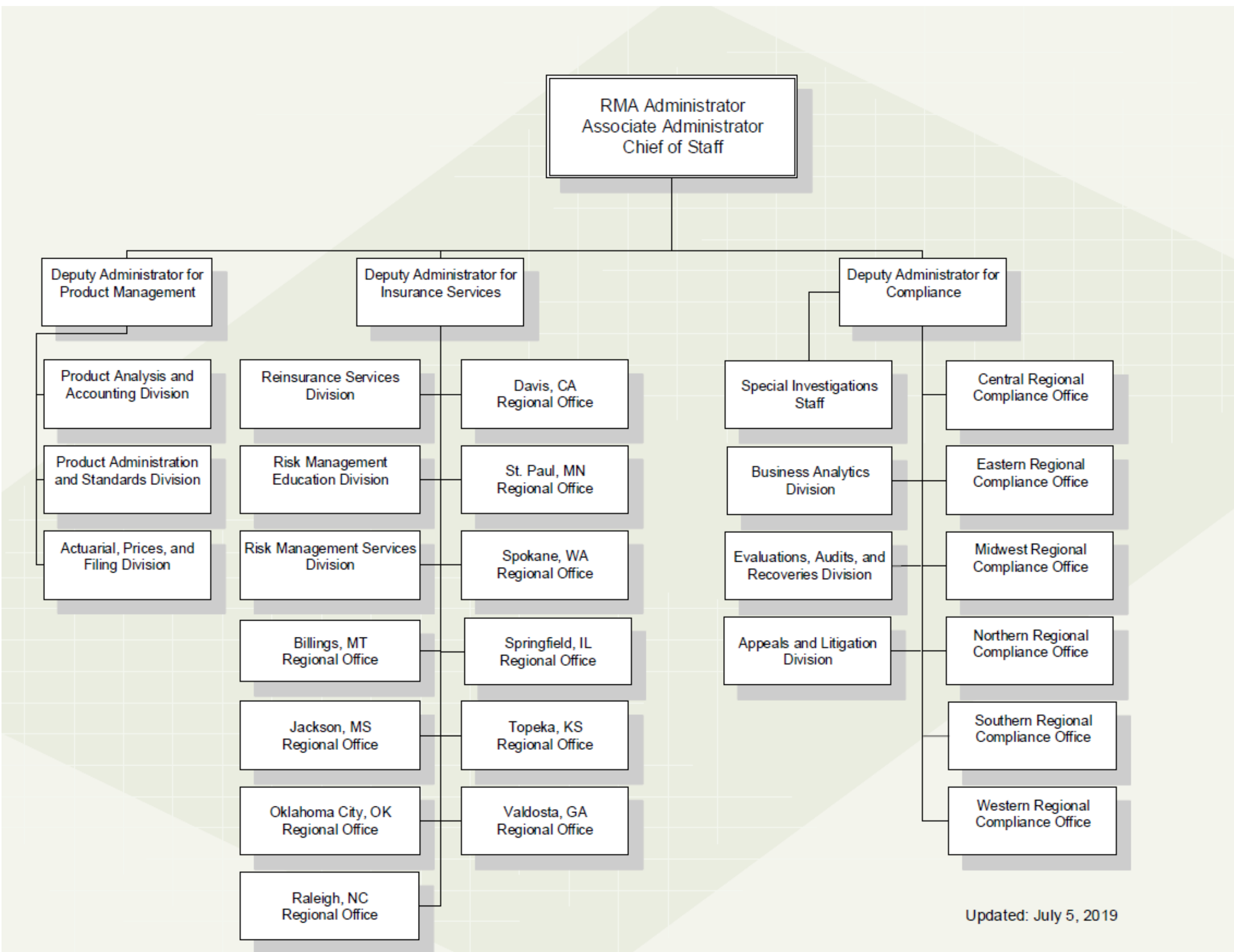
- Federal Crop Insurance Act of 1980
- Federal Crop Insurance Reform and Department of Agriculture Reauthorization Act of 1994
- Federal Agriculture Improvement and Reform Act of 1996 (established RMA)
- Agriculture Research, Extension & Education Reform Act of 1998
- Agriculture, Rural Development, Food & Drug Administration, & Related Agencies Appropriations Act of 1999
- Agriculture Risk Protection Act of 2000
- Food, Conservation, and Energy Act of 2008
- Agricultural Act of 2014
- The Agriculture Improvement Act of 2018
- Additional Supplemental Appropriations for Disaster Relief Act, 2019

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

ORGANIZATIONAL STRUCTURE

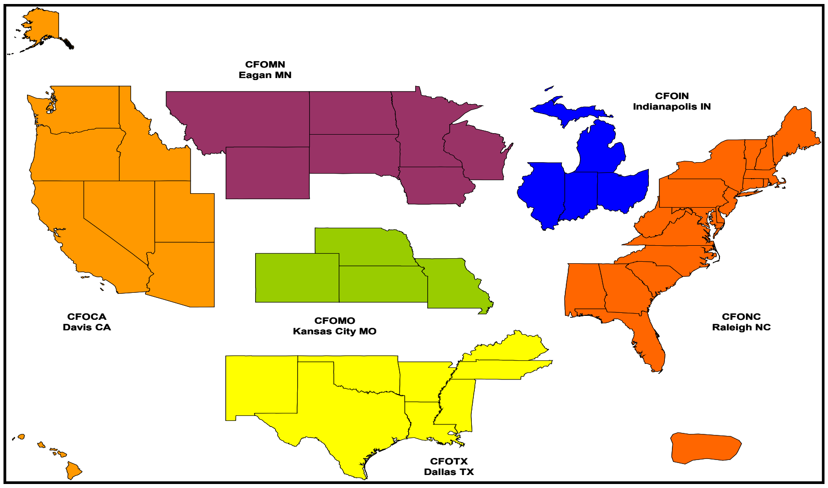
RMA employs approximately 360 people in offices around the country. Martin Barbre is the RMA Administrator and Manager of FCIC. The Agency has three divisions: Insurance Services, Product Management, and Compliance. Insurance Services is responsible for program delivery (for example, managing contracts 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



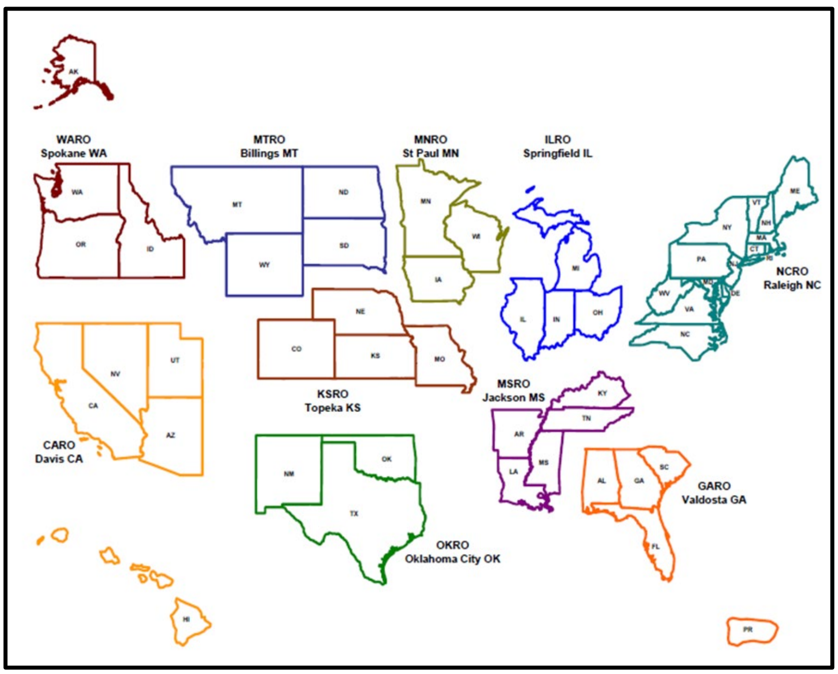
RMA Office Locations

RMA is headquartered in Washington, DC. There is a National Operations office located in Kansas City, MO. In addition, there are six Compliance offices and ten Insurance Services Regional offices located throughout the country, as shown in the table below.



Regional Compliance Offices locations

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



Insurance Services Regional Office locations

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

ORGANIZATIONAL FUNCTIONS

Board members left to right: Michael Clemens, Rickey Bearden, Dr. Robert Johansson, Martin Barbre, Iris Saenz, John Finston, James Bardenhagen, 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 (Secretary). The Board includes three members from the United States Department of Agriculture (USDA). They are the USDA Chief Economist (Chairman); the USDA Under Secretary for Farm Production and Conservation; and the Risk Management Agency Administrator (non-voting) who serves as the Manager. In addition, there are 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

The Office of the Administrator provides overall leadership and management for the agency. The Office of the Administrator promotes the agency mission to serve America's agricultural producers through effective, market-based risk management tools to strengthen the economic stability of agricultural producers and rural communities.

Product Management

Product Management designs, develops, tests, reviews, implements, and maintains the risk management strategies, programs, policies, regulations, actuarial and underwriting methodologies, and business requirements analysis needed to ensure that federally administered crop and livestock insurance products are actuarially sound and provide an effective financial safety net for America's farmers and ranchers. Product Management is also 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 provides financial security to the agricultural community by providing effective, real-time risk management solutions and understanding of RMA programs which have been tailored to meet the needs of producers at a local level. Specifically, Insurance Services conducts program reviews, program maintenance, program evaluation, underwriting activities (rates, coverage levels, yields), stakeholder outreach, and approved insurance provider contract and performance oversight through headquarter's staff and ten Regional Offices located across the United States.

Compliance

Compliance safeguards the integrity of the Federal crop insurance program through a series of reviews, evaluations, and audits of the crop insurance program. Compliance also conducts operational reviews of AIPs. 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.

Farm Production and Conservation Business Center Transition

In October 2018, RMA transferred approximately 80 positions, formerly included in the Office of the Administrator Division, to the Farm Production and Conservation (FPAC) Business Center. The FPAC Business Center is a first-of-its-kind organization at USDA, combining the talent of employees from all three FPAC agencies into specialized teams that serve employees and customers across Farm Service Agency, Natural Resources Conservation Service, and RMA. The new business approach helps agencies further meet the Secretary's goal of making USDA the most effective, most efficient, and best-managed department in the federal government. FPAC Business Center is comprised of fifteen divisions which include: Civil Rights and EEO; Budget; Financial Management; Grants and Agreements; Information Solutions; Human Resources; Management Services; Acquisition and Procurement; Performance Accountability and Risk; Appeals and Litigation; Customer Experience; Homeland Security; External Affairs; Environmental Activities; and Economics and Policy Analysis.

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:

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

Area Policies

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

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

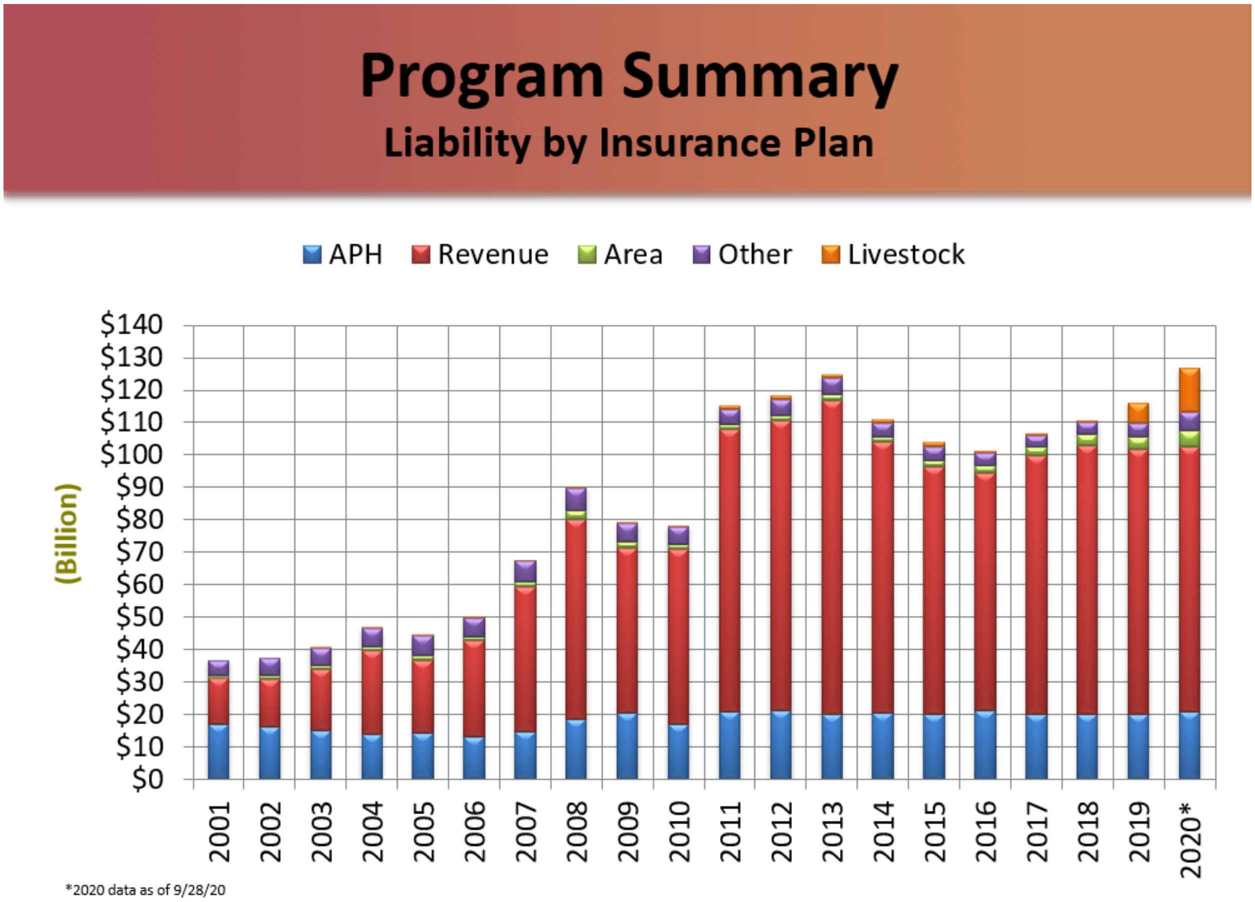
Other Policies

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

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

For more information on insurance plans visit: https://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 2020 reimbursement amount is $1.6 billion. Reimbursement rates are the same for 2020 and 2019 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 reports are available at https://www.rma.usda.gov/en/Topics/Specialty-Crops.

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.

PREVENTED PLANTING SUPPLEMENTAL DISASTER PROGRAM

The Prevented Planting Supplemental Disaster Payments Program was authorized by the Additional Supplemental Appropriations for Disaster Relief Act, 2019 (Disaster Relief Act; P.L. 116-20, June 6, 2019). The law provides supplemental appropriations for multiple USDA programs related to recent natural disasters occurring in calendar years 2018 and 2019 under such terms and conditions as determined by the Secretary. The Secretary assigned RMA to oversee the program. Producers participating in Federal crop insurance who received an indemnity payment for reinsurance year 2019 for prevented planting related to excess moisture/precipitation/rain, flood, cold wet weather, storm surge, tornado, volcanic eruption, hurricane/tropical depression, and cyclone and meet certain eligibility requirements will receive a supplemental payment calculated based on all qualified prevented planting payments received for insured crops. The values used for the factors will be 15 percent for those producers with revenue protection except those who select the harvest price exclusion option and 10 percent for those producers who do not have revenue protection. Of the $2.305 billion apportioned to the Office of the Secretary in fiscal year 2019, $540 million was assigned to RMA for the Prevented Planting Supplemental Relief Program. In fiscal year 2020, an additional $60.8 million was assigned.

RELIEF DURING COVID-19

RMA took numerous actions to provide relief in the face of the pandemic to ensure crop insurance continued to provide a farm safety net under such unprecedented times.

- **Crop Insurance Deadlines -** Gave AIPs additional time to submit written agreement requests. Allows policyholders to provide information over the phone.
- **Production Reporting Date -** Allowed AIPs to accept production reports through the earlier of acreage reporting date or 30 days after the production reporting date. Also allowed additional time to accept Regional Office Yield requests.
- **Deferral of Interest on Premiums -** Allowed additional time for policyholders to make payment of premium and administrative fees for early premium billing dates.
- **Self-Cert Replant Inspections & Assignment of Indemnity Witness Waiver -** Allowed self-certification replant inspections for up to 100 gross acres. Waives the witness signature requirement for Assignments.

- **Perennials and Specialty Crops** - Allowed additional time and flexibility for completing inspections for certain perennial and specialty crops. Also allowed written agreement offers to be signed after expiration date.
- **Dumped Milk on DRP and LGM Dairy** - Authorized AIPs to count dumped milk towards the milk marketing's (DRP) or actual marketing's (LGM). Removed testing requirements for dumped milk under the DRP component pricing option.
- **Organic Grower Plans/Certificates** - Allowed policyholders to certify they have requested their organic plan/certificate by the acreage reporting date to meet policy requirement. Organic plan/certificate existence will be verified prior to paying a claim.
- **Acreage Reporting** – Extended reconciliation time by 30 days allowing producers to reconcile differences between FSA-578's and crop insurance acreage reports for a full 60 days after the deadline. Further, RMA waived full acreage appraisal requirements for added acreage due to these reconciliations to ease burdens on AIP's and producers.
- **Deferral of Interest on Premiums** - Allowed additional time for policyholders to make payment of premium and administrative fees for the August 15 premium billing date, representing most of the year's premium due.

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 2020, RMA published 7 final rules with request for comments and 3 notices. 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 2018, USDA published its Strategic Plan as an agency-wide USDA Strategic Plan. The following section refers to the USDA Strategic Plan sections (Goals and Objectives) that apply to RMA and the FCIC Program. The Strategic Plan has seven goals with accompanying strategies and performance measures. Strategic Goal 2 and Objective 2.1 refer directly to the FCIC program.

Strategic Goal 2: Maximize the Ability of American Agricultural Producers to Prosper by Feeding and Clothing the World.

Objective 2.1: Provide an Effective Financial Safety Net for Farmers and Ranchers to Sustain Economically Viable Agricultural Production and Support Rural Jobs and Economic Growth.

A strong and prosperous agricultural sector is essential to the well-being of the U.S. economy. America's farmers and ranchers ensure a reliable food supply, support job growth, and promote economic development. To maintain a competitive agricultural sector, RMA will support farmers and ranchers' ability to start and maintain profitable businesses as well as offer financial support to producers affected by natural disasters.

RMA is committed to providing an effective safety net to more than 2 million agricultural producers who provide food and fiber to more than 320 million Americans and millions more around the globe. RMA works to strengthen the economic viability of the agricultural sector by providing eligible producers with risk management tools. FCIC programs help farmers and ranchers manage financial risks associated with commodity price fluctuations and recover from unpredictable weather events.

Federal crop insurance keeps many of our Nation's agricultural producers in business when adverse weather, pests, or low commodity prices cause financial hardships. Risks to these programs include ensuring the actuarial soundness of insurance policies (particularly after high loss years), reducing improper payments, and maintaining the reputation of Federal crop insurance as the primary Federal financial safety net provided to farmers and ranchers. Other risks include changing market conditions (such as periods of steep price declines) and widespread or prolonged natural disasters. RMA manages these and other risks through ongoing reviews of actuarial data, analyzing weather and climate information, data mining for anomalies, and overseeing the private sector insurance companies who sell and service the insurance policies to farmers to ensure that they meet financial and operational standards required to participate in the program.

STRATEGIES

To provide a farm safety net that helps American farmers weather times of economic stress without distorting markets. RMA provides programs and services that support the economic stability of American farmers and ranchers. RMA works to ensure that the American agriculture industry is competitive by providing farmers and ranchers with financial capital, risk management assistance through the Federal crop insurance program, and financial and other support in times of economic distress or disaster.

RMA's 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.

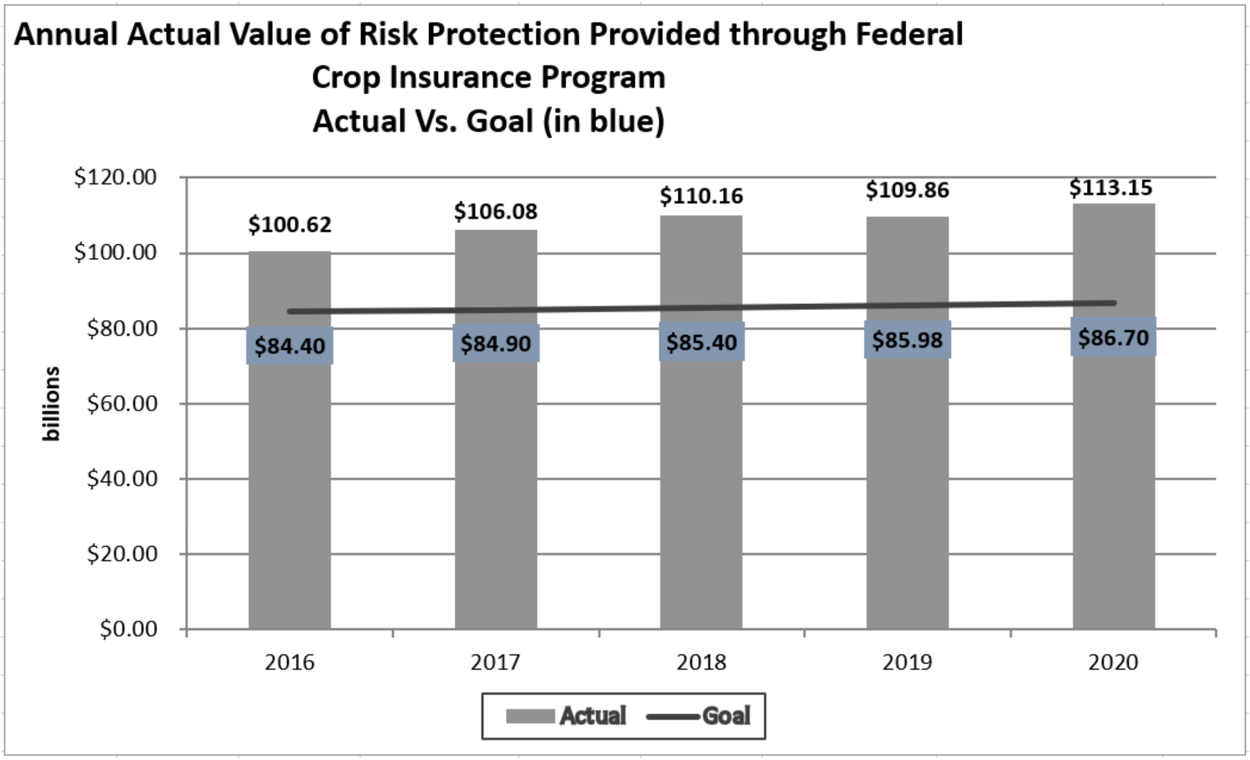
RMA's primary performance measure under this goal, as shown in the following table, is the annual normalized value of risk protection provided to agricultural producers through the Federal crop insurance program. By "normalizing" or adjusting the actual value of risk by parameters that smooth out the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

	Baseline 2012	2019 Actual	2020 Actual	2020 Target
Annual normalized value of risk protection	$62.1 billion	$78.2 billion	$84.2 billion	$77.6 billion

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

- The 2018 Farm Bill recognized the importance of crop insurance in addressing disasters by directing RMA to develop coverage that specifically addresses hurricanes. Hurricane Insurance Protection-Wind Index (HIP-WI) was developed and approved by the Federal Crop Insurance Corporation Board for availability in the 2020 crop year. HIP-WI is being used on more than 27,000 policies across the area in which it is available. RMA intends this product to increase in sales over time due to producers seeing the value in it the first year after having experienced named storms that have come ashore with hurricane force winds.
- In fiscal year 2020, RMA implemented multiple flexibilities related to the COVID-19 epidemic, as mentioned above.

The chart below demonstrates that RMA 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.



Crop and Insurance Statistics

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

Federal crop insurance program statistics for standard reinsurance and livestock products are shown below. The indemnities and loss ratios for 2020 are estimated as they are not known at the time the financial statements are prepared.

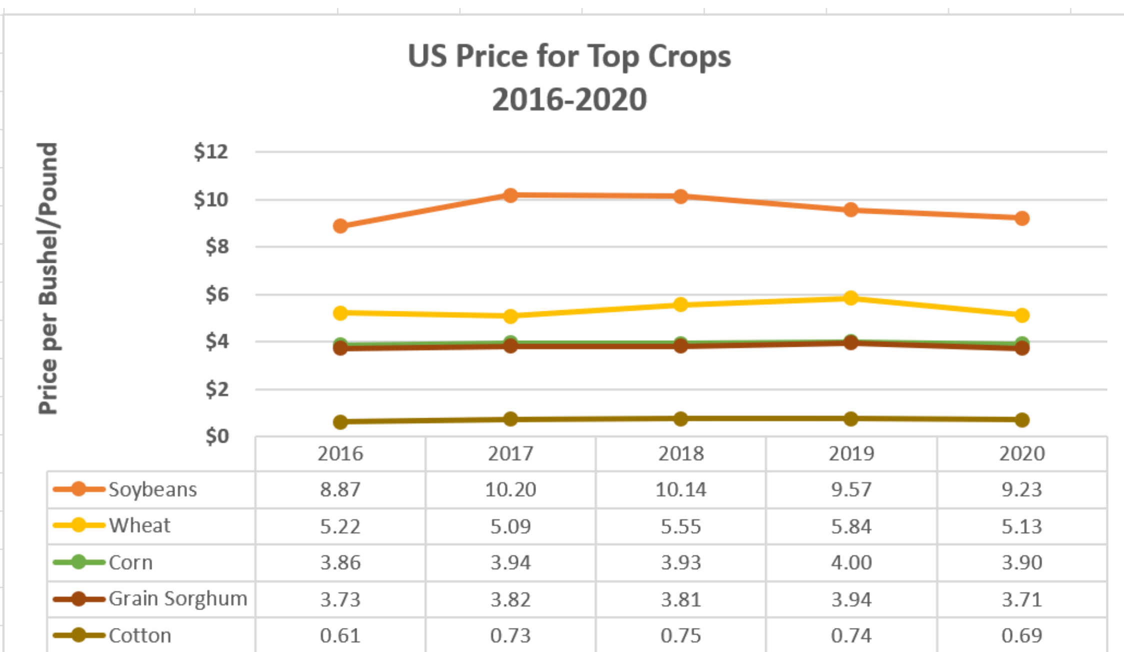
Program Information Comparison	Crop Year 2020 (Estimated)	Crop Year 2019 (Actual)
Number of Policies	1.11 million	1.11 million
Farmer Paid Premium	$3.94 billion	$3.82 billion
Premium Subsidies	$6.46 billion	$6.41 billion
Total Premium	$10.40 billion	$10.23 billion
Indemnities	$8.61 billion	$10.51 billion
Loss Ratio	83%	103%
Insurance Protection	$126.63 billion	$115.99 billion

FCIC insures 127 types of commodities under the Standard and Livestock Reinsurance Agreements for crop year 2020. The top commodities in volume are listed below, with the remaining commodities (pasture, rangeland, forage; apples; almonds; potatoes; beans, milk, etc...) grouped together as All Other. The chart below illustrates premiums on the top five commodities representing 72% of total premium in crop year 2020 and 77% of total premium in crop year 2019.

Commodity	Crop Year 2020* (millions)	Crop Year 2019 (millions)
Corn	$3,540	$3,777
Soybean	$1,987	$1,882
Wheat	$889	$1,111
Cotton	$883	$971
Sorghum	$161	$158
All Other	$2,870	$2,329
Total	$10,331	$10,228

*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. The projected crop prices remained relatively stable between 2019 and 2020 at acreage reporting dates. Below is the RMA's projected price data for top crops as of acreage reporting dates. The projected prices are different than the final harvest price which is used to calculate indemnities.



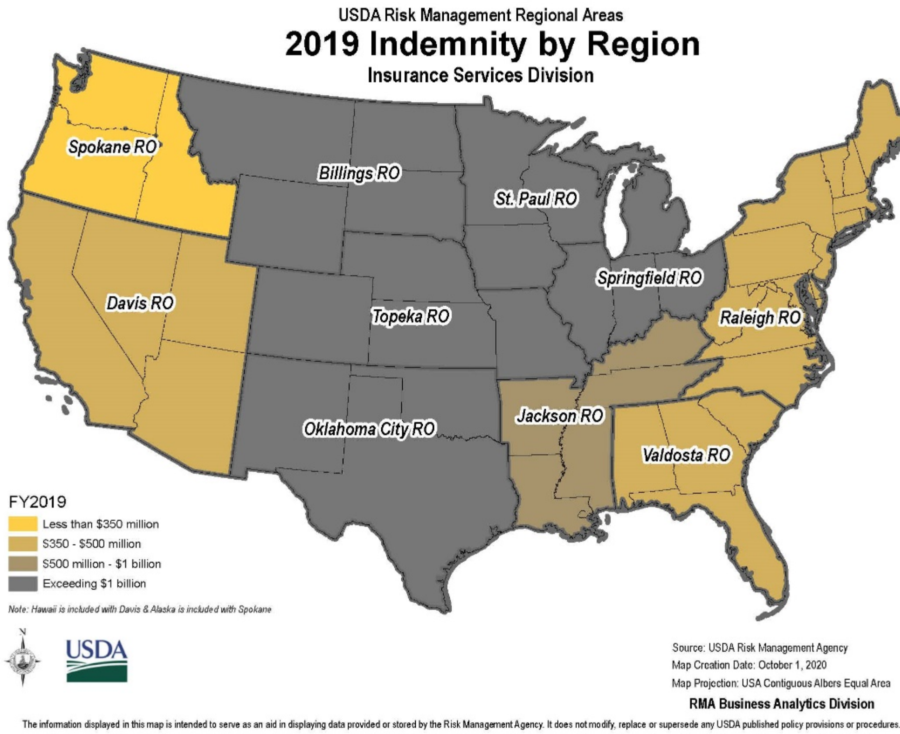
Losses (2019 and 2018 Cause of Loss, Indemnity by Region)

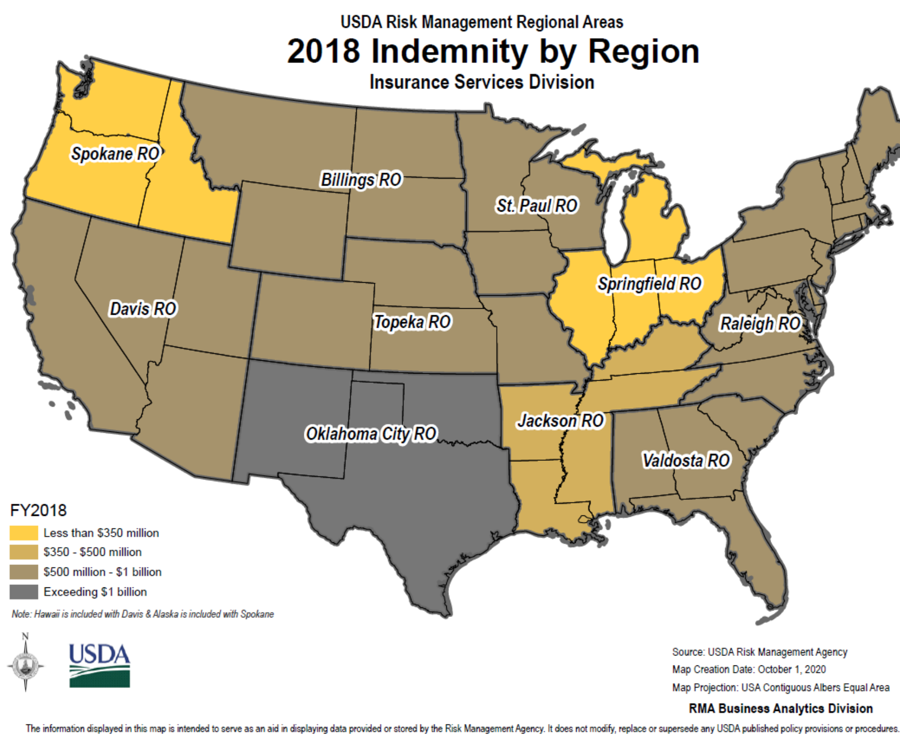
FCIC/RMA issues the annual financial report based on a fiscal year ending September 30. The growing season for the crops that constitute most of FCIC's book of business does not end until October or November. As a result, the majority of losses for a given crop year are paid out in the following fiscal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

In crop year 2019, the overall loss ratio was 1.03 compared to a loss ratio of .74 in crop year 2018. In 2019, the top factor for loss was excess moisture and 2018, the top factor for losses was drought.

- In crop year 2019, the top causes of loss were: excess moisture in the Midwest, Northern and Southern Plains and Eastern Regions; drought primarily in the Midwest, Northern and Southern Plains and Eastern Regions; and hail in the Midwest, Northern and Southern Plains.
- In crop year 2018, the top causes of loss were: drought in the Midwest, Northern and Southern Plains; excess moisture primarily in the Eastern Regions, Midwest, Southwest, and Southern region; and hail in the Midwest and Northern Plains.

The following maps show the indemnities reported by region for crop year 2019 and 2018 (primarily paid in fiscal years 2020 and 2019, respectively).





FINANCIAL STATEMENT HIGHLIGHTS AND ANALYSIS

ASSETS

Funding

RMA maintains three separate funds: The Insurance Fund, Salaries and Expenses (S&E) Fund, and Disaster Relief Fund. The financial statements present all three funds. 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 Disaster Relief Fund, established in FY2019, provides funding for expenses related to recent natural disasters including losses of crops prevented from planting in 2019.

Assets

Fiscal Year 2020 – Assets (millions)	
Fund Balance with Treasury (Note 3)	$ 2,853
Cash Held Outside of Treasury (Note 4)	$ 299
Accounts Receivable, Net (Note 5)	$ 2,947
General Property, Plant and Equipment (Note 6)	$ 9

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 FCIC unobligated funds excluding the balances for Capital Stock, Paid-in Capital, and the Contingency Fund to the U.S Treasury. In 2020, RMA returned $939 million compared to the $5.1 billion returned in 2019. In 2020, the FBWT includes $5 million in Disaster Relief funds.

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

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

To provide COVID relief, RMA allowed additional time for policyholders to make payment of premium and administrative fees for the August 15 premium billing date, representing most of the year's premium due. The estimated deferred collections in fiscal year 2020 is a $2.5 billion increase in Accounts Receivable.

In fiscal year 2019, there was widespread severe flooding and excess moisture conditions in many parts of the nation, causing catastrophic damages to crops. In order to provide relief, RMA deferred collection of any unpaid producer premium, without interest, by two months. The total amount of deferred collections was approximately $2.5 billion.

LIABILITIES

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

Fiscal Year 2020 – Liabilities (millions)	
Estimated Losses on Insurance Claims (Note 8)	$ 4,891
Underwriting Gain (Note 10)	$ 2,058
Accounts Payable (Note 7)	$ 1,578
Unearned Revenue (Note 11)	$ 750
Federal Employee Benefits	$ 2
Intragovernmental Other Liabilities	$ 3
Other Liabilities (Note 9)	$ 6

Estimated Losses on Insurance Claims

The Estimated Losses on Insurance Claims make up most liabilities. Estimated losses were calculated based on Statement of Federal Financial Accounting Standards (SFFAS) 51, *Insurance Programs.* The Liability for Unpaid Insurance Claims and Liability for Losses on Remaining Coverage make up the Estimated Losses on Insurance Claims. The claims Incurred but Not Reported (IBNR), the claims reported and not paid, and changes in CHOT make up the Liability for Unpaid Insurance Claims. The Liability for Losses on Remaining coverage as of the end of the reporting period represents the estimated amounts to be paid to settle claims for the remaining open arrangement period in excess of related unearned premiums as of the end of the reporting period.

Estimating Losses

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

Uncertainty in Estimating Losses

Estimated losses are calculated as of September 30, 2020. RMA's process for projecting losses is based on the September NASS report which was released on September 11.

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.

Typically, most reinsurance year losses are paid in next fiscal year. In Reinsurance Year 2019, there was widespread severe flooding and excess moisture conditions in many parts of the nation, causing catastrophic damages to crops. This resulted in more reinsurance year 2019 loss claims reported and paid in the current year. This chart includes standard and livestock reinsurance products.

Reinsurance Year	2020 (est.) (millions)	2019 (millions)
Losses Claimed and Paid in Current Fiscal Year	$ 3,283	$ 4,262
Losses Paid in Subsequent Fiscal Years	5,325	6,171
Total Losses	$ 8,608	$ 10,433

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 in every year. In the same time period, the difference between the actual and estimated loss ratio has exceeded 20 points 50% of the time (5 out of 10 years). The relatively high variance of this estimate reflects the large degree of uncertainty inherent in predicting losses before the end of the reinsurance year. Actual loss ratios in the last 10 years have varied from a low of 42% to a high of 157%. The average actual loss ratio for the past ten years was 84%.

The following table is updated as of the end of September 2020 and summarizes premiums and losses by crop year for policies under the Standard Reinsurance Agreement.

Summary of Premium and Losses by Crop Year					
Actual (millions)			Loss Ratio (Percentage)		
Crop Year	Premiums ($)	Losses ($)	Actual	Projected	Difference
2011	11,972	10,869	91%	112%	21%
2012	11,117	17,451	157%	185%	28%
2013	11,808	12,085	102%	76%	(26%)
2014	10,073	9,136	91%	74%	(17%)
2015	9,769	6,316	65%	84%	19%
2016	9,328	3,912	42%	66%	24%
2017*	10,072	5,428	54%	99%	45%
2018	9,896	7,315	74%	85%	11%
2019	10,127	10,454	103%	91%	12%
2020 est.	10,024	8,160		81%	

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

Underwriting Gain

Underwriting gain is the AIP portion of earnings on the insurance book of business. A periodic settlement, as stipulated in the SRA, is calculated where the results of business written by AIPs are determined and an experience-rated gain or loss on business ceded 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 $1.48 billion over the past 10 years. There is a cap stipulated in the SRA that limits administrative and operating reimbursement on most policies.

Unearned Revenue

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

Prevented Planting Supplemental Disaster Relief Program

In fiscal year 2019, the Prevented Planting Supplemental Disaster Relief Program (Disaster Relief) incurred a liability of $501 million. There was no liability at the end of fiscal year 2020. The Disaster Relief Program closes in December 2020.

Other Liabilities

In fiscal year 2020, Other Liabilities (Note 9) include Intragovernmental of $3 million, and Other Liabilities with the Public of $6 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 2020 (millions)**	**Fiscal Year 2019 (millions)**
FCIC Program Costs		
Total Intragovernmental Costs	$ 58	$ 51
Indemnities	9,937	7,828
Program Delivery Costs	1,687	1,564
Other Program Costs	65	74
Total Costs	$ 11,747	$ 9,517
Less:		
Premium Revenue	3,880	3,786
Net (Gain)/Loss on Business Ceded from AIPs	(881)	(1,647)
Other Revenue	58	46
Total Revenue	$ 3,057	$ 2,185
Net Cost of Operations FCIC	$ 8,690	$ 7,332
Disaster Relief Program Costs		
Gross Costs with the Public	$ 95	$ 501
Net Cost of Operations Disaster Relief	$ 95	$ 501
Total Gross Cost	$ 11,842	$ 10,018
Less Total Earned Revenue	(3,057)	(2,185)
Total Net Cost of Operations	$ 8,785	$ 7,833

FCIC's Net Cost of Operations increased $1.36 billion from fiscal year 2019 to fiscal year 2020. The changes in Indemnities and Net Gain on Business Ceded to AIPs are the two components impacting the variance in Net Cost of Operations.

The widespread excess moisture and flooding or drought were major factors contributing to the increase in Indemnities in fiscal year 2020. In addition, the change in estimated losses versus actual losses resulted in lower Indemnity expense in fiscal year 2019 and a higher Indemnity expense than estimated in fiscal year 2020.

The Net Gain on Business Ceded to AIP's was $766 million more in fiscal year 2019 than fiscal year 2020. The lower loss ratio in fiscal year 2019 resulted in a higher Net Gain on Business Ceded to AIPs. The adjustment of previous year projected losses contributed to the lower amount of Net Loss on Business Ceded to AIPs in fiscal year 2019.

The Disaster Relief was a new program in fiscal year 2019 and resulted in a $501 million increase in total cost in the same year.

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 2020 (millions)**	**Fiscal Year 2019 (millions)**
Budgetary Resources	$ 12,905	$ 14,255
New Obligations	$ 12,303	$ 13,627
Net Outlays	$ 10,490	$ 11,995

Overall, FCIC had $1.3 billion more in budgetary resources in fiscal year 2019. The budgetary resources are comprised of appropriations, collections from the public, and excess funds returned to Treasury. In fiscal year 2020, FCIC had $4.1 billion less in appropriations due to lower losses paid in the fiscal year. In fiscal year 2019, RMA deferred collection of unpaid producer premium, without interest, by two months in order to provide relief to the producers who endured widespread severe flooding and excess moisture conditions in many parts of the nation, causing catastrophic damages to crops. The amount deferred was $2.5 billion.

The $1.3 billion decrease in obligations from fiscal year 2019 was primarily due to variance in underwriting gain and the implementation of the Prevented Planting Supplemental Relief program in fiscal year 2019.

Net Outlays decreased 1.5 billion in fiscal year 2020 as a result of the increase in collections due to the deferral of the reinsurance year 2019 premiums. The increased collections were offset by higher indemnities payments in fiscal year 2020.

SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

MANAGEMENT ASSURANCES

Federal Manager's Financial Integrity Act (FMFIA) Assurance

The Federal Managers' Financial Integrity Act (FMFIA) requires ongoing evaluation of internal controls and financial management systems. These evaluations lead to an annual statement of assurance that:

- Obligations and costs comply with applicable laws and regulations;
- Federal assets are safeguarded against fraud, waste, abuse and mismanagement;
- Transactions are accounted for and properly recorded; and
- Financial management systems conform to standards, principles and other requirements to ensure that Federal managers have timely, relevant and consistent financial information for decision-making purposes.

RMA operates a comprehensive internal control program. All RMA managers must ensure that their programs operate efficiently and effectively and comply with relevant laws. They must also ensure that financial management systems conform to applicable laws, standards, principles, and related requirements.

RMA remains committed to reducing and eliminating the risks associated with its deficiencies. It also strives to efficiently and effectively operate its programs in compliance with FMFIA, FFMIA, and other applicable laws and regulations.

Based on the results of the evaluations, RMA can provide reasonable assurance that internal controls over financial reporting are in place and operating effectively, with the exception of one material weakness related to the estimated losses on insurance claims for fiscal year 2020.

Assurance for Internal Control over Financial Reporting

Management conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding assets and compliance with applicable laws and regulations, in accordance with the requirements of the Office of Management and Budget's (OMB), Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. Based on the results of this evaluation, RMA can provide reasonable assurance that internal controls over financial reporting are in place and operating effectively, with the exception of one material weakness related to the estimated losses on insurance claims calculation for fiscal year 2020.

Federal Financial Management Improvement Act (FFMIA) Assurance

Management has evaluated its financial management systems under FFMIA for the period ended September 30, 2020. 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

Compliance with Laws and Regulations

One non-compliance with laws and regulations was noted.

The Digital Accountability and Transparency Act (DATA Act) was enacted on May 9, 2014. The DATA Act amends the Federal Funding Accountability and Transparency Act of 2006 (FFATA) and requires reporting of all Federal Funds and 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.

While RMA is currently reporting under the requirements for DATA Act, there is no process in place to ensure all required data is reported. RMA continues to work closely with USDA OCFO Financial Management Services to ensure the information meets all the standards and formats required.

The following is the fiscal year 2020 FMFIA and FFMIA Assurance Statement.

USDA

United States Department of Agriculture

Risk Management Agency

1400 Independence Ave, SW
Washington, DC 20250-0501

TO: Scott Soles
Principal Deputy Chief Financial Officer

THROUGH: William Northey
Under Secretary
Farm Production and Conservation

WILLIAM NORTHEY
Digitally signed by WILLIAM NORTHEY
Date: 2020.09.16 08:05:08 -04'00'

FROM: Martin R. Barbre
Administrator
Risk Management Agency

MARTIN BARBRE
Digitally signed by MARTIN BARBRE
Date: 2020.09.15 16:52:52 -04'00'

Margo E. Erny
Chief Financial Officer
Farm Production and Conservation

MARGO ERNY
Digitally signed by MARGO ERNY
Date: 2020.09.15 16:11:03 -04'00'

SUBJECT: Risk Management Agency's FY 2020 Annual Certification Statement – as of June 30, 2020

This memorandum provides the Risk Management Agency (RMA) assertions to support the Secretary's annual assurances in the *United States Department of Agriculture (USDA) Fiscal Year (FY) 2020 Agency Financial Report*. The assertions included in this statement cover RMA's assessment of the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA):

- Effectiveness of Internal Control over Operations (FMFIA-Section 2);
- Effectiveness of Internal Control over Reporting (FMFIA-Section 2);
- Compliance with Laws and Regulations (FMFIA-Section 2);
- Conformance with Federal Financial Management System Requirements (FMFIA-Section 4); and
- Compliance with Section 803(a) of the FFMIA.

RMA managers have assessed the effectiveness of operations based on the following management control reviews completed during FY 2020. Improper payment reviews were performed, and financial reviews were conducted on approved insurance providers. RMA also utilized data mining to identify and review data anomalies. Business processes and general computer controls related to financial reporting were evaluated through Office of Management and Budget (OMB) Circular A-123, Appendix A reviews. An annual assessment was conducted of Entity Level Controls based on each of the Green Book's Components and Principles of internal control. The assessment revealed

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deficiencies within certain principles, however, the overall system of internal control is designed, implemented and operating effectively in an integrated manner. As part of its efforts to ensure an effective control environment, managers are reminded annually that they are responsible for developing and maintaining effective internal controls. Agency senior leadership also submits an annual certification identifying any internal control weaknesses or instances of non-compliance with laws and regulations. As a result of these activities, RMA is making the following assertions.

A. Federal Managers' Financial Integrity Act Assertions

I. Internal Control over Operations (FMFIA-Section 2)
   a. Management is responsible for developing and maintaining internal control to ensure the effectiveness of operations, reliability of reporting, compliance with applicable laws and regulations, and the safeguarding of assets.
   b. Internal control encompasses accounting and administrative controls. Such controls include program, operational and administrative areas.
   c. Management has conducted its annual evaluations of internal control pursuant to Section 2, for the period ended June 30, 2020.
   d. Based on the results of the evaluations, RMA provides an unmodified statement of assurance that internal controls are operating effectively over operations.
   e. No new material weaknesses, no new significant deficiencies, and no new control deficiencies were identified during FY 2020.

II. Internal Control over Reporting (FMFIA - Section 2)
   a. RMA assessed the effectiveness of internal control over financial reporting as of June 30, 2020. The assessment followed USDA guidance, OMB Circular A-123, Appendix A (revised) and best practices established by the Department.
   b. The assessment included risk assessments, process descriptions, documentation of key controls, an assessment of the design of key controls, tests of operating effectiveness of properly designed key controls, summary of deficiencies, and the development of corrective action plans for control deficiencies. Key controls in the following processes were tested:
      1. Data Quality Assurance
      2. Daily Escrow Processing
      3. Insurance Monthly Settlement Report
      4. Fund Balance with Treasury
      5. Other Monetary Assets or Cash Held Outside of Treasury
      6. Budgetary Authority
      7. Period End Reporting
      8. Significant Management Estimates
      9. Unobligated Obligation Review

c. Management recognizes its responsibility for monitoring and correcting control deficiencies assessed as outside of its risk tolerance.
d. Management further certifies that there have been no changes in the operation of controls tested from the sample selection date through June 30, 2020.
e. Based on the results of RMA's internal evaluation and the prior year evaluation by RMA's external auditors, RMA provides an unmodified statement of assurance that internal controls over financial reporting are operating effectively.
f. No new material weaknesses and no new significant deficiencies were identified.

B. Compliance with Laws and Regulations (FMFIA-Section 2)

a. Anti-Deficiency Act
   i. Management has not entered into contracts that exceed the enacted appropriations for the year or purchased services and/or merchandise before appropriations are enacted.
   ii. RMA has maintained compliance with all provisions of law that are associated with the Anti-Deficiency Act.

b. Improper Payments Elimination and Recovery Act of 2010, as amended
   i. Management has reviewed all applicable programs and activities to identify any area that may be susceptible to significant improper payments.
   ii. RMA has maintained compliance with all provisions of law that are associated with the Improper Payments Elimination and Recovery Act of 2010, as amended.

c. Additional Supplemental Appropriations for Disaster Relief Act of 2017 and 2019/Bipartisan Budget Act of 2018/Further Additional Supplemental Appropriations for Disaster Relief Requirements Act of 2018
   i. RMA has not expended all funding associated with the Wildfire and Hurricane Indemnity Program that RMA received as part of an internal apportionment from USDA's Office of the Secretary.
   ii. RMA has established appropriate policies and controls, and corrective actions have been taken to mitigate the risk of fraud and inappropriate spending practices regarding activities and expenses related to emergency supplemental/disaster funding for the Wildfire and Hurricane Indemnity Program.
   iii. Management has not identified significant deficiencies associated with the management of emergency supplemental/disaster relief funding.

d. Families First Coronavirus Response Act (FFCR Act)/Coronavirus Aid, Relief, and Economic Security Act (CARES Act)

i. This is not applicable to RMA.

e. Data Act Reporting for USAspending.gov
   i. RMA did not complete data quality compliance testing due to known deficiencies. RMA does not provide assurance that data integrity processes and controls for Files A, B, C, D1 and D2 align with OMB Circular A-123, are designed effectively, implemented, and operating effectively for all reported data with the exceptions below. This includes controls over agency financial systems, award management systems, and procurement data reported to the Federal Procurement Data System – Next Generation (FPDS-NG).
   ii. Based on OMB Circular A-123, Appendix A testing, a design deficiency was noted regarding the fact that processes are not in place to ensure that all required data is reported.
   iii. The associated corrective action plans to become compliant are described in the attached Summary of Reportable Deficiencies chart.

f. Government Charge Card Abuse Prevention Act
   i. RMA has established appropriate policies and controls and corrective actions have been taken to mitigate the risk of fraud and inappropriate charge card practices.
   ii. Though some control deficiencies were identified, RMA has not identified significant deficiencies associated with internal controls for purchase and travel cards (i.e. centrally billed accounts and individually billed accounts).

g. Payment Integrity Information Act of 2019 which replaced the Fraud Reduction and Data Analytics Act of 2015
   i. RMA has established financial and administrative controls to identify and assess fraud risk and has designed and implemented control activities to prevent, detect and respond to fraud, including improper payments. Various financial and administrative controls are in place to detect and prevent fraud, including but not limited, to controls surrounding system access, segregation of duties, eligibility, and payments. Improper payment reviews are done annually to detect improper payment root causes, including fraud.
   ii. The Performance, Accountability and Risk (PAR) Division within the FPAC Business Center is partnering with RMA Management to more fully implement the fraud risk principle in the Standards for Internal Control and OMB Circular A-123 with respect to the leading practices for managing fraud risk. RMA annually reports fraud specific information to USDA/OIG as part of USDA's annual financial audit. RMA tracks fraud investigations, audit findings,

internal control deficiencies, and pending litigation. This information is provided to the Department. RMA identifies potential fraud when preparing the quarterly high dollar improper payment report that is provided to the Department. Additionally, as discussed above, RMA has several financial and administrative controls in place to prevent and detect fraud. As discussed below, fraud and OMB Circular A-123 risk assessments have been conducted and an Enterprise Risk Management framework has been established. From an IT perspective, RMA has developed policies and procedures to identify fraud risks (i.e., program vulnerability reporting tool, data analytics, hotlines) and determine appropriate responses. All systems undergo an assessment of all applicable security controls, and vulnerability scans as a part of the initial Authority to Operate (ATO) process. All systems also go through the mandated IT Risk Management Framework process by 3rd party assessors every 36 months. RMA assesses one third of the security controls annually to maintain and renew existing ATO(s) and communicate assessment results to designated system owners, as applicable. In addition to the controls currently in place, PAR is working with all FPAC agencies to develop fraud related policies and procedures and enhance existing controls.

iii. PAR has identified risks and vulnerabilities to fraud with respect to payroll, grants, large contracts, and purchase and travel cards. Fraud specific risk assessments for purchase cards, travel cards, contracts, and human resources, as applicable, were conducted by PAR at the FPAC level in FY 2019. Additionally, annual OMB Circular A-123 risk assessments were conducted that incorporate specific internal and external fraud risk questions in the "Inherent Risk Considerations" section. The questions allow the respondent to rate the risk of the agency's process as either highly susceptible, susceptible, or not susceptible to fraud. The overall risk rating is dependent on the agency's responses, tallied along with other risk responses, to determine the level and frequency of testing. Furthermore, the FPAC Enterprise Risk and Strategy Assessment was launched in FY 2020 to interview FPAC leadership and subject matter experts to create an FPAC Risk Profile that lists the top risks to achieving FPAC's mission and how FPAC will respond to these risks. FPAC launched an Enterprise Risk and Strategy Dashboard in FY2020 to provide continuous monitoring of FPAC's top enterprise risks using agency enterprise risk registers and an integrated executive dashboard. Risk Champions have been assigned to each agency to serve as primary points of contact for the creation of enterprise risks. Training on the Enterprise Risk and Strategy Program will be available on demand to all FPAC staff members by the end of FY 2020. Fraud risks are considered as part of this process.

iv. In addition to the fraud related activities discussed above, in FY 2019, PAR began to establish an anti-fraud program that provides oversight and guidance to all FPAC agencies to help prevent and detect fraud, waste and abuse. In FY 2020, PAR continued their partnership with Treasury's Bureau of Fiscal Services Payment Integrity Center of Excellence to help identify potential fraud, anomalies and improper payments by analyzing payment data. RMA uses data mining and advanced analytics through its partnership with the Center for Agribusiness Excellence at Tarleton State University to identify and investigate anomalies in the delivery of crop insurance which help detect fraud, waste and abuse.

v. PAR will continue to enhance FPAC's anti-fraud program in FY 2021 and beyond. This includes finalizing a charter, policies and procedures, performing data analysis, conducting audits, reviews and investigations as required, and performing testing on fraud specific controls. PAR will also develop audit requirements to determine to what extent FPAC agencies have policies and procedures in place to prevent and detect fraud at the agency level.

C. Conformance with Federal Financial Management System Requirements (FMFIA - Section 4)

a. RMA management evaluated its financial management systems under FMFIA (section 4) for the period ended June 30, 2020.
b. RMA's information systems do not conform to financial management system requirements.
c. There are three new non-conformances. The non-conformance from the prior year is awaiting an approval for a risk- based decision.
d. Plans of Action and Milestones have been entered into the Cyber Security Assessment and Management (CSAM) system and are identified on the Summary of Reportable Deficiencies chart.

D. Compliance with Section 803 (a) of the Federal Financial Management Improvement Act (FFMIA)

a. RMA management evaluated its financial management systems under FFMIA for the period ended June 30, 2020.
b. Based on the results of our evaluation, Financial Management systems are in substantial compliance with Section(s): 1. Federal Financial Management Systems Requirements; 2. Applicable Federal Accounting Standards; and 3. Standard General Ledger at the Transaction Level.

USDA

United States Department of Agriculture

Risk Management Agency

1400 Independence Ave, SW
Washington, DC
20250-0501

TO: Scott Soles
Principal Deputy Chief Financial Officer

THROUGH: William Northey
Under Secretary
Farm Production and Conservation

WILLIAM NORTHEY
Digitally signed by WILLIAM NORTHEY
Date: 2020.10.22 16:22:36 -04'00'

FROM: Martin R. Barbre
Administrator
Risk Management Agency

MARTIN BARBRE
Digitally signed by MARTIN BARBRE
Date: 2020.10.08 15:27:56 -05'00'

Margo E. Erny
Chief Financial Officer
Farm Production and Conservation

MARGO ERNY
Digitally signed by MARGO ERNY
Date: 2020.10.08 14:51:18 -04'00'

SUBJECT: Risk Management Agency's FY 2020 Annual Certification Statement-Bridge Memorandum as of September 30, 2020

The Risk Management Agency did identify one significant change for the period July 1, 2020 through September 30, 2020 that impacts the assertions or overall assurance provided in the Certification Statement reported to the Office of the Chief Financial Officer as of June 30, 2020.

A new material weakness has been identified related to internal controls over Estimating Losses on Insurance Claims.

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Financial Management System Framework

FCIC/RMA uses USDA's Financial Management Modernization Initiative (FMMI) as the financial system of record and will coordinate with USDA for all planned upgrades to the financial system. USDA will analyze any future upgrades to keep pace with the constant advancements in technology.

Other Management Information, Initiatives, and Issues

Fiscal year 2020 was a challenging year of constant change, which included a global pandemic, implementation of several new insurance products, and payment of over $9.9 billion in indemnities.

Weather is an ongoing uncertainty within the Federal Crop Insurance Program and is the trigger for the majority of crop insurance payments. As disasters hit, the agency looks to provide regulatory relief to producers in impacted areas. For example, this can involve situations where the agency allows additional time to file a notice of loss or extends the date upon which interest attaches to premium. RMA has done a successful job of allowing these flexibilities without jeopardizing program integrity; however, exceptions and flexibilities always pose a risk. RMA's compliance reviews and evaluations play an important role in identifying errors that may have evolved as a result of these flexibilities. The ability to use datamining and data analytics to identify anomalies enhances our oversight capabilities without overburdening producers.

Limitations on Financial Statements

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

Improper Payments Elimination and Recovery Improvement Act (IPERIA)

RMA uses an OMB-approved statistical sampling methodology to estimate the amount of improper payments in the Federal crop insurance program. FCIC had an improper payment rate of 2.31% in 2020 and 2.95% in 2019. RMA exceeded the reduction target of 2.89% for 2020; however, did not exceed the reduction target of 1.80% for 2019. The reduction target for 2021 is 2.31%.

FINANCIAL STATEMENTS

FEDERAL CROP INSURANCE CORPORATION
RISK MANAGEMENT AGENCY
BALANCE SHEETS
As of September 30, 2020 and 2019
(in millions)

	2020	2019
Assets		
Intragovernmental		
Fund Balance with Treasury (Note 3)	$ 2,853	$ 4,922
Advances	1	-
Total Intragovernmental	2,854	4,922
With the Public		
Cash Held Outside Treasury (Note 4)	299	390
Accounts Receivable, Net (Note 5)	2,947	2,846
General Property, Plant and Equipment (Note 6)	9	13
Total Public Assets	3,255	3,249
Total Assets	$ 6,109	$ 8,171
Liabilities (Note 12)		
Intragovernmental		
Other Liabilities	$ 3	$ 2
With the Public		
Accounts Payable (Note 7)	1,578	1,523
Federal Employee Benefits	2	2
Insurance Liabilities (Note 2)		
Estimated Losses on Insurance Claims (Note 8)		
Liability for Unpaid Insurance Claims	737	1,905
Liability for Losses on Remaining Coverage	4,149	3,010
Contingent Liabilities (Note 13)	5	8
Total Estimated Losses on Insurance Claims	4,891	4,923
Unearned Revenue (Note 11)	750	674
Underwriting Gain (Note 10)	2,058	3,270
Other Insurance Liabilities	9	7
Total Insurance Liabilities	7,708	8,874
Disaster Relief Program Liabilities	0	501
Other Liabilities (Note 9)	6	6
Total Liabilities	$ 9,297	$ 10,908
Commitments and Contingencies (Note 13)		
Net Position (Note 15)		
Capital Stock	$ 500	$ 500
Additional Paid-in Capital	38	38
Unexpended Appropriations	63	97
Cumulative Results of Operations	(3,789)	(3,372)
Total Net Position	$ (3,188)	$ (2,737)
Total Liabilities and Net Position	$ 6,109	$ 8,171

The accompanying notes are an integral part of these statements.

FEDERAL CROP INSURANCE CORPORATION
RISK MANAGEMENT AGENCY
STATEMENTS OF NET COST
For the Years Ended September 30, 2020 and 2019
(in millions)

	2020	2019
Program Costs FCIC		
Intragovernmental Gross Costs		
Benefit Program Costs	$ 12	$ 11
Imputed Costs	3	4
Reimbursable Costs	43	36
Intragovernmental Costs	$ 58	$ 51
Gross Costs with the Public		
Indemnities	$ 9,937	$ 7,828
Program Delivery Costs	1,687	1,564
Other Program Costs	65	74
Total Gross Costs with the Public	$ 11,689	$ 9,466
Less: Earned Revenue from the Public		
Premium Revenue	$ 3,880	$ 3,786
Net (Gain)/Loss on Business Ceded from AIPs	(881)	(1,647)
Other Revenue	58	46
Total Earned Revenue with the Public	$ 3,057	$ 2,185
Net Costs with the Public	8,632	7,281
Net Cost of Operations - FCIC	$ 8,690	$ 7,332
Program Costs Disaster Relief		
Gross Costs with the Public	$ 95	$ 501
Less Earned Revenue	-	-
Net Cost of Operations – Disaster Relief	$ 95	$ 501
Total Gross Cost	$ 11,842	$ 10,018
Less Total Earned Revenue	$ 3,057	$ 2,185
Total Net Cost of Operations	$ 8,785	$ 7,833

The accompanying notes are an integral part of these statements.

FEDERAL CROP INSURANCE CORPORATION
RISK MANAGEMENT AGENCY
STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2020 and 2019
(in millions)

	2020	2019
Capital Stock	$ 500	$ 500
Additional Paid-in-Capital	$ 38	$ 38
Unexpended Appropriations		
Beginning Balance	$ 97	$ 67
Budgetary Financing Sources		
Appropriations Received	9,278	17,502
Appropriations Transferred (In/Out)	(12)	(7)
Other Adjustments – Returned to Treasury	(939)	(5,116)
Appropriations Used	(8,361)	(12,349)
Total Unexpended Appropriations	$ 63	$ 97
Cumulative Results of Operations		
Beginning Balance	$ (3,372)	$ (7,896)
Budgetary Financing Sources		
Appropriations Used	8,361	12,349
Transfers in/out without Reimbursement	4	4
Other Financing Sources (Non-exchange)		
Imputed Financing Sources	3	4
Total Financing Sources	8,368	12,357
Net Cost of Operations	(8,785)	(7,833)
Net Change	(417)	(4,524)
Cumulative Results of Operations (Note 15)	$ (3,789)	$ (3,372)
Net Position	$ (3,189)	$ (2,737)

The accompanying notes are an integral part of these statements.

FEDERAL CROP INSURANCE CORPORATION
RISK MANAGEMENT AGENCY
COMBINED STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2020 and 2019
(in millions)

	2020	2019
Budgetary Resources		
Unobligated Balance from Prior Year Budget Authority, net	$ 626	$ 582
Appropriations (Note 16)	8,331	12,381
Spending Authority from Offsetting Collections	3,948	1,292
Total Budgetary Resources	$ 12,905	$ 14,255
Status of Budgetary Resources		
New Obligations and Upward Adjustments	$ 12,303	$ 13,627
Unobligated Balance, End of Year		
Apportioned, unexpired accounts	599	621
Unapportioned, unexpired accounts	-	3
Unexpired unobligated balance, end of year	599	624
Expired unobligated - balance, end of year	3	4
Unobligated Balance, End of Year	602	628
Total Budgetary Resources	$ 12,905	$ 14,255
Outlays, Net		
Outlays, net	$ 10,490	$ 11,995

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Risk Management Agency's (RMA) serves 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.

Basis of Presentation and Accounting

The accompanying financial statements have been prepared to report financial status and activity in the balance sheet, net cost, changes in net position, and budgetary resources. The financial statements have been prepared 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 2020.

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

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

Fund Balance with Treasury

Fund Balance with Treasury (FBWT) represents the aggregate amount of funds in Federal Crop Insurance Corporation's (FCIC) 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 are depreciated using the straight-line method over useful lives that range from 6 to 10 years. There are no restrictions on the use or convertibility of FCIC's property and equipment.

Accounts Payable

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

Pensions and Other Employee Benefits

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.

Classified Activities

Accounting standards allow modification of certain presentations and disclosures, if needed, to prevent the disclosure of classified information.

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.

Prevented Planting Supplemental Disaster Program

The Prevented Planting Supplemental Disaster Payments Program was authorized by the Additional Supplemental Appropriations for Disaster Relief Act, 2019 (Disaster Relief Act; P.L. 116-20, June 6, 2019). The law provides supplemental appropriations for multiple USDA programs related to recent natural disasters occurring in calendar years 2018 and 2019 under such terms and conditions as determined by the Secretary. The Secretary assigned Risk Management Agency (RMA) to oversee the program. Producers participating in Federal crop insurance who received an indemnity payment for reinsurance year 2019 for prevented planting related to excess moisture/precipitation/rain, flood, cold wet weather, storm surge, tornado, volcanic eruption, hurricane/tropical depression, and cyclone and meet certain eligibility requirements will receive a supplemental payment calculated based on all qualified prevented planting payments received for insured crops. The values used for the factors will be 15 percent for those producers with revenue protection except those who select the harvest price exclusion option and 10 percent for those producers who do not have revenue protection. Of the $2.305 billion apportioned to the Office of the

Secretary in fiscal year 2019, $540 million was assigned to RMA for the Prevented Planting Supplemental Relief Program. In fiscal year 2020, an additional $60.8 million was assigned.

Apportionment Categories of Obligations Incurred

The Insurance Fund receives a direct apportionment that is apportioned by program (Category B). Fiscal years 2020 and 2019 insurance fund obligations incurred were $12.1 billion and $13.1 billion, respectively. For fiscal years 2020 and 2019 the S&E direct appropriation was $58.4 million for both. The S&E fund is apportioned by time (Category A). RMA is authorized to annually transfer up to $7 million in 2020 and 2019 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 2020 and fiscal year 2019, RMA transferred $7 million. In fiscal year 2020 and fiscal year 2019, RMA received $.78 million and $2.6 million. In fiscal year 2020, $2.4 million of S& E funds were transferred to other federal agencies. In fiscal year 2020 and fiscal year 2019 the S&E fund obligations were $65.5 million and $67.2 million. All S&E funds are subject to sequestration.

The Disaster Relief Fund obligations incurred for fiscal year 2020 and fiscal year 2019 were $95 million and $501 million, respectively.

NOTE 2 – INSURANCE PROGRAMS

The Federal Crop Insurance Program is considered a short-duration exchange transaction insurance program. The crop insurance policies insure against unexpected declines in yield and/or price due to natural causes. In crop year 2020, there were approximately 1.1 million standard reinsurance and livestock policies totaling approximately $127 billion insurance protection in force.

The insurance policies are structured as a contract between AIPs and producers, with the FCIC providing reinsurance to AIPs. Crop insurance policies automatically renew each year, unless producers cancel them by a published annual deadline.

Under the reinsurance agreements, AIPs agree to deliver insurance products to eligible entities under certain terms and conditions. The A&O subsidy compensates the AIPs for selling and servicing crop insurance policies, including the direct settling of claims. Producers pay a portion of premium and fees to participate in the insurance program benefit payments.

FCIC and AIPs share in underwriting gains or losses. The underwriting risk for the crop insurance program is shared by FCIC and the AIPs. The AIPs generally retain approximately 80 to 85 percent of the premium, and the risk associated with the premium. FCIC provides AIPs stop-loss reinsurance for the risk associated with their retained premium.

The AIPs for fiscal year 2020 are as follows:

- Ace American Insurance Company
- American Agri-Business Insurance Company
- American Agricultural Insurance Company
- CGB Insurance Company
- Church Mutual Insurance Company
- Country Mutual Insurance Company
- Farmers Mutual Hail Insurance Company of Iowa
- Great American Insurance Company
- Hudson Insurance Company
- NAU Country Insurance Company
- Producers Agriculture Insurance Company
- Rural Community Insurance Company
- Stratford Insurance Company
- XL Reinsurance America Inc.

The funds within the Federal Crop Insurance Program can be used to pay any authorized expense of the program. The following tables lists the type of funds received and the resources used of the program for 2020 and 2019.

Federal Crop Insurance Program Resource and Resources Used			
Resource	**Fiscal Year 2020 (millions)**	**Uses**	**Fiscal Year 2020 (millions)**
Producer Premiums Collected	$ 3,891	Obligations for Delivery Costs	$ 1,686
Producer Fees Collected	$ 23	Obligations for Indemnities	$ 9,886
Underwriting Loss Collected from AIPs	$ 35	Obligations for Underwriting Gain	$ 533
Appropriations	$ 8,217	Obligations for Initiatives & Other Costs	$ 38
Appropriations Transfers	$ (13)		
Unobligated Balance Beginning of Year	$ 584	Unobligated Balance End of Year	$ 594
Total	$ 12,737	Total	$ 12,737

Federal Crop Insurance Program Resource and Resources Used			
Resource	**Fiscal Year 2019 (millions)**	**Uses**	**Fiscal Year 2019 (millions)**
Producer Premiums Collected	$ 1,246	Obligations for Delivery Costs	$ 1,567
Producer Fees Collected	$ 43	Obligations for Indemnities	$ 9,315
Underwriting Loss Collected from AIPs	$ 2	Obligations for Underwriting Gain	$ 2,143
Appropriations	$ 11,787	Obligations for Initiatives & Other Costs	$ 34
Appropriations Transfers	$ (13)		
Unobligated Balance Beginning of Year	$ 578	Unobligated Balance End of Year	$ 584
Total	$ 13,643	Total	$ 13,643

In addition to the mandatory FCIC fund, RMA obligated $65.5 million in S&E funds to administer the Federal Crop Insurance Program in 2020. The Federal Crop Insurance Act requires the total premium, including producer paid premium and premium subsidy, to be established to achieve an overall projected loss ratio of not greater than 1.0 over an extended period of time. The FCIC Act dictates the percentage of subsidized premium. The estimation of expected indemnities is generally based on the observed historical rate of loss often referred to as the 'loss cost' method.

In order to provide COVID relief, RMA allowed additional time for policyholders to make payment of premium and administrative fees for the August 15 premium billing date, representing most of the year's premium due. The estimated deferred collections in fiscal year 2020 is $2.5 billion.

In fiscal year 2019 there was widespread severe flooding and excess moisture conditions in many parts of the nation, causing catastrophic damage to crops. To provide relief, RMA deferred collection of any unpaid producer premium without interest, by two months. The total amount of deferred collections was approximately $2.5 billion.

FCIC collects administrative fees from producers in return for catastrophic risk protection coverage and additional levels coverage. The rates are set by statute. For reinsurance year 2020, the catastrophic risk protection fees were $655 per crop per county and $30 for additional levels coverage per crop per county.

FCIC may request the Secretary of Agriculture to provide borrowing authority funds of the Commodity Credit Corporation (CCC) if at any time the amounts in the insurance fund are insufficient to allow FCIC to carry out its duties. Even though the authority exists, FCIC did not request CCC funds in the reporting period. Instead, FCIC uses such sums as are necessary from the U.S. Treasury to cover program costs that are in excess of collections.

FCIC does not have investments.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions. These assumptions affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amount 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 related to the insurance programs:

- Balance Sheet
    - Liability for Unpaid Insurance Claims,
    - Liability for Losses on Remaining Coverage,
    - Contingencies,
    - 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.

Loss Recognition

The end of the government's fiscal year, on September 30, occurs while many crops are still in the field and subject to ongoing natural risks. This misalignment between the government's fiscal year and the inherent business cycle of the crop insurance program results in significant uncertainty for the end-of-fiscal-year estimates of claims. Estimates can often vary by 20% or more from final results.

Estimates of claims are based on current crop conditions and historical trends for a given crop condition. Therefore, it is assumed the expected claims will be similar to levels observed historically.

The estimate model assumes that there is a relationship between crop yields, harvest prices, and the resulting loss ratios. The indemnity for an individual producer is based on the difference between the producer's actual yield and his/her average yield. Similarly, for revenue plans, the indemnity is based on the difference between the actual harvest price and the "base" price which is the estimated harvest price at the time the crop is planted.

Regression analyses are calculated based on the historic relationships between the crop yields and harvest prices (when necessary) for each crop in each state and the resulting loss ratios in each of those years. The resulting regression coefficients are used in conjunction with the most recent National Agricultural Statistics Service (NASS) forecasts and commodity futures prices to calculate a projected loss ratio for each crop/state combination.

There are uncertainties associated with these assumptions including:

- 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.

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. Indemnity costs are paid from premium proceeds, including producer paid premium and premium subsidies. If indemnity costs exceed funds available, additional funds will be requested and apportioned to FCIC.

Revenue and Liabilities Recorded

SFFAS 51 promulgates the recognition and measurement of:

1. Revenue and Liability for Unearned Premiums;
2. Liability for Unpaid Insurance Claims; and
3. Liability for Losses on Remaining Coverage

Revenue and Liability for Unearned Premiums

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 on the balance sheet.

Liability for Unpaid Insurance Claims

Liability for Unpaid Insurance Claims are claims for adverse events that occurred before the end of the reporting period. Under SFFAS 51, for the claim to be considered incurred, a single event or a series of events must be completed by the end of the reporting period to be considered an adverse event of the period.

The Liability for Unpaid Insurance Claims is comprised of the following:

- Funds in the Escrow accounts to cover payments to producers who have not cashed their indemnity payments
- Claims reported but not paid as of the end of the reporting period

- Incurred but Not Reported (IBNR) is estimated claims from events that have occurred as of the end of the reporting period but have not yet been reported for settlement.

FCIC uses a historical trend analysis based upon the data from the prior years to determine the value of claims incurred for the current reinsurance year as of the financial statement reporting date. When the Summary of Business (SOB) is higher than the estimate at year end, the SOB amount is used.

Liability for Losses on Remaining Coverage

The Liability for Losses on Remaining Coverage as of the end of the reporting period represents the estimated amounts to be paid to settle claims for the remaining open arrangement period in excess of losses associated with the related unearned premiums as of the end of the reporting period.

The liability for losses on remaining coverage is the total projected losses less actual losses reported, IBNR, and losses associated with unearned premium.

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. Underwriting losses are paid to FCIC periodically.

Contingencies

Various lawsuits, claims, and proceedings are pending against FCIC. In accordance with SFFAS 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 13, Commitments and Contingencies, to the financial statements for related disclosures.

NOTE 3 – FUND BALANCE WITH TREASURY

Fund balance with Treasury at September 30, 2020 and 2019 consists of:

2020	S&E Fund (millions)	Insurance Fund (millions)	Disaster Relief (millions)	Total (millions)
Obligated not yet disbursed	$ 13	$ 2,201	$ 0	$ 2,214
Unobligated available	1	594	5	599
Unobligated unavailable	3	36	0	39
Total Fund Balance with Treasury	$ 17	$ 2,831	$ 5	$ 2,853
2019	**S&E Fund (millions)**	**Insurance Fund (millions)**	**Disaster Relief (millions)**	**Total (millions)**
Obligated not yet disbursed	$ 12	$ 3,748	$ 501	$ 4,261
Unobligated available	1	581	39	621
Unobligated unavailable	4	36	0	40
Total Fund Balance with Treasury	$ 17	$ 4,365	$ 540	$ 4,922

*Totals may not add due to rounding.

FCIC and RMA maintain separate accounts for S&E (appropriated), Insurance (revolving), and Disaster Relief (appropriated) 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.

The significant lower balance in fiscal year 2020 is due to a lower level of obligation for the reinsurance year 2019 underwriting gain than the reinsurance year 2018 underwriting obligation at the end of fiscal year 2019. In fiscal year 2019, there was $540 million of appropriations for the initial funding of the Disaster Relief Program and obligations of $501 million. The Disaster Relief funds are used for supplemental Prevented Planting payments.

NOTE 4 – CASH HELD OUTSIDE TREASURY

Cash held outside of Treasury as of September 30, 2020 and 2019 is:

CASH HELD OUTSIDE TREASURY	2020 (millions)	2019 (millions)
Balance	$ 299	$ 390

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

NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable and allowance for uncollectible accounts as of September 30, 2020 and 2019 are:

Fiscal Year	Gross Accounts Receivable (millions)	Allowance for Uncollectible Accounts (millions)	Net Accounts Receivable (millions)
2020	$ 2,953	$ (6)	$ 2,947
2019	$ 2,853	$ (7)	$ 2,846

Accounts receivable includes premiums from AIPs due to FCIC. 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. In order to provide COVID relief, RMA allowed additional time for policyholders to make payment of premium and administrative fees for the August 15 premium billing date, representing most of the year's premium due**.** The estimated deferred collections in FY2020 is $2.5 billion. The higher than normal balance in 2020 and 2019 is mostly due to RMA allowing AIPs to defer uncollected premiums. The amount of the 2019 deferment was approximately $2.5 billion.

There is approximately $55.4 million of criminal restitution owed to FCIC. Of this amount, only $4 million is currently included in the gross accounts receivable balance and is monitored by RMA. Most of the $4 million is included in the calculation of the allowance for doubtful accounts. The remaining $51.4 million, has been removed from the accounts receivable balance and is categorized as Currently Not Collectible per OMB Circular No A-129, Policies for Federal Credit Programs and Non-Tax Receivables. The corresponding cases related to this amount have been turned over to the Department of Justice for monitoring and control of any collections. RMA believes the probability of significant collections for these cases are low.

NOTE 6 – GENERAL PROPERTY, PLANT, AND EQUIPMENT

General Property, Plant, and Equipment as of September 30, 2020 and 2019 is:

2020 (in millions)			
Category	**Cost**	**Accumulated Depreciation**	**Book Value**
Equipment	$ 3	$ (3)	$ 0
Internal Use Software	62	(55)	8
Internal Use Software in Development	1	0	1
Total	$ 66	$ (58)	$ 9
2019 (in millions)			
Category	**Cost**	**Accumulated Depreciation**	**Book Value**
Equipment	$ 2	$ (2)	$ 0
Internal Use Software	61	(48)	13
Internal Use Software in Development	0	0	0
Total	$ 63	$ (50)	$ 13

FCIC has implemented software to replace its reinsurance program systems. In accordance with 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.

A summary of the annual capitalization acquisitions, dispositions/ revaluations, depreciation expenses for FY2020 is as follows:

Net PP&E	
Balance Beginning of Year	$ 13
Capitalized Acquisitions	2
Dispositions / Revaluations	0
Depreciation Expense	(6)
Balance at End of Year	$ 9

NOTE 7 – ACCOUNTS PAYABLE

Payment of delivery costs, also known as A&O, 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, 2020 and 2019 are:

Accounts Payable	2020 (millions)	2019 (millions)
Delivery Costs	$ 1,577	$ 1,522
Other	1	1
Total	$ 1,578	$ 1,523

NOTE 8 – ESTIMATED LOSSES ON INSURANCE CLAIMS

The following tables show information for changes in the Estimated Losses on Insurance claims for fiscal year 2020 and fiscal year 2019.

Changes in Estimated Losses on Insurance Claims	2020 (millions)	2019 (millions)
Beginning Balance	$ 4,923	$ 6,091
Claims Expenses	$ 9,886	$ 9,313
Payments to Settle Claims	$ (9,974)	$ (9,001)
Adjustment of Accruals for Estimated Losses	$ 56	$ (1,480)
Ending Balance	$ 4,891	$ 4,923

The chart above provides a look forward of the Liability for Estimated Losses on Insurance Claims from the prior year to the current year. The Claims Expenses represents actual claims reported. In fiscal year 2020 the actual claims reported were $573 million dollars more than fiscal year 2019. This was a result of higher losses related to reinsurance year 2019. Payments to Settle Claims are the actual payments to producers.

The Adjustment of Accrual for Estimated Losses is the reversal of the prior year accrual combined with the current year accrual for estimated losses. 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 NASS 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 NASS Crop Production report is scrutinized by multiple sources, it is still an estimate and is subject to some uncertainty.

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. Again, this is subject to uncertainty due to fluctuations in markets.

NOTE 9 – OTHER LIABILITIES

Other Current Liabilities as of September 30, 2020 and 2019 consist of:

Other Liabilities, Federal and Non-Federal	2020 (millions)	2019 (millions)
Intragovernmental:		
Other Accrued Liabilities, Federal	$ 3	$ 2
With the Public:		
Annual Leave Liability	4	4
Accrued Payroll and Benefits	2	2
Other Accrued Liabilities		
Total Other Liabilities, with the Public	$ 6	$ 6
Total Other Liabilities	$ 9	$ 8

NOTE 10 – UNDERWRITING GAIN

The liability for underwriting gain as of September 30, 2020 and 2019 is:

Underwriting Gain	2020 (millions)	2019 (millions)
Current Year Estimated Gains	$ 1,525	$ 1,143
Actual Underwriting Gains	533	2,127
Total Underwriting Gain Liability	$ 2,058	$ 3,270

The Underwriting Gain Liability for fiscal year 2020 includes amounts for reinsurance year 2019 and 2020. The reinsurance year 2020 estimated Underwriting Gain of $1,525 million was based on an estimated loss ratio of .81. The actual reinsurance year 2019 Underwriting Gain was $533 million and was based on an actual loss ratio of 1.03 and will be paid in fiscal year 2021.

At the end of fiscal year 2019, the Underwriting Gain Liability includes amounts for reinsurance years 2018 and 2019. The reinsurance year 2019 estimated Underwriting Gain was $1,143 million and was based on a loss ratio of .92. The actual reinsurance year 2018 Underwriting Gain of $2,127 million was based on an actual loss ratio of .74 and was paid in fiscal year 2020.

NOTE 11 – UNEARNED REVENUE

Unearned revenue at September 30, 2020 and 2019 is:

Unearned Revenue	2020 (millions)	2019 (millions)
Total Unearned Revenue	$ 750	$ 674

Premium revenue is comprised of producer paid premium. Producer paid premium is recognized as earned proportionately over each crop's growing season. Much of the increase in fiscal year 2020 was due to the new Dairy Revenue Protection Program. 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 12 – LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources at September 30, 2020 and 2019 are:

Liabilities	2020 (millions)	2019 (millions)
Estimated Losses on Insurance Claims	$ 4,548	$ 4,491
Underwriting Gain	1,525	1,143
Unfunded Leave	4	3
FECA	2	2
Total Liabilities Not Covered by Budgetary Resources	$ 6,078	$ 5,639
Total Liabilities Covered by Budgetary Resources	$ 2,468	$ 4,595
Total Liabilities Not Requiring Budgetary Resources	$ 750	$ 674
Total Liabilities	$ 9,297	$ 10,908

Estimated losses on insurance claims liabilities not covered by budgetary resources were approximately $4.5 billion as of September 30, 2020, and $4.5 billion as of September 30, 2019.

Underwriting gains are paid two fiscal years after the end of the reinsurance year. Reinsurance year 2020 underwriting gain liability of $1.525 billion is considered unfunded as it is based upon estimated losses.

For fiscal years 2020 and 2019, Federal Employees Compensation Act (FECA) liability is $2 million for both years. Included are Intragovernmental Other Liabilities of approximately $.3 million for fiscal year 2020 and $.2 million for fiscal year 2019 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.

Included liabilities that are funded and covered by budgetary resources are:

- The FCIC escrow balances of reported unpaid claims held outside of Treasury used to pay producers losses
- The previous year's liability for underwriting gain. This liability will be paid in the year following the end of the current fiscal year.
- Accounts Payable for the AIP's delivery cost.

Included for liabilities not requiring budgetary resources is the Unearned Revenue.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

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

A contingency is considered probable when the chance of the future confirming event or events occurring is likely to occur. FCIC has two ongoing cases in which legal counsel believes the chances of unfavorable outcome is likely. Payment for one of these cases have been deemed probable for an estimated amount in the range from $5 to $9 million. The other case is deemed reasonably possible and the range of loss cannot be reasonably measured, and an estimate cannot be made. FCIC has recognized a liability in the financial statements for $5 million and will continue to contest certain aspects of these cases.

NOTE 14 – UNDELIVERED ORDERS AT THE END OF THE PERIOD

Undelivered Orders as of September 30, 2020 and 2019 are:

	2020 (millions)	2019 (millions)
Undelivered Orders, Federal, Paid	$ 1	$ 0
Undelivered Orders, Federal, Unpaid	24	43
Undelivered Orders, Non-Federal, Unpaid	21	13
Total Undelivered Orders	$ 46	$ 56

*Totals may not add due to rounding.

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

NOTE 15 – 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.

In fiscal year 2020, FCIC requested $8.2 billion less appropriations than fiscal year 2019. The higher amount in fiscal year 2019 was requested for excess losses caused by widespread flooding and excess moisture. In addition, there was $540 million in disaster relief funding. The appropriations were reduced in Fiscal Year 2020 due to the higher anticipated collections expected, as approximately $2.5 billion of reinsurance year 2019 premium collections were deferred to FY2020 as the result of penalty waivers granted in fiscal year 2019.

The amount of appropriations used was $4 billion less in fiscal year 2020 than fiscal year 2019. This decrease is due to the higher premium collections available for spending and lower level of obligations. FCIC returned $939 million to Treasury in fiscal year 2020, compared to $5.1 billion in fiscal year 2019.

NOTE 16 – STATEMENT OF BUDGETARY RESOURCES

Budgetary Resources/Appropriations as of September 30, 2020 and 2019 are:

Budgetary Resources/ Appropriations	2020 (millions)	2019 (millions)
Appropriations Received Program Fund	$ 9,159	$ 16,904
Appropriations Received S&E Fund	58	58
Appropriations Received for Disaster Relief Program	61	540
Return to Treasury	(939)	(5,116)
Other	(8)	(5)
Appropriations	$ 8,331	$ 12,381

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

The reconciliation of unobligated balance brought forward to October 1, 2020 is:

Reconciliation to Unobligated Balance at the End of Prior Year	FY2020
Unobligated balance, brought forward from prior year	$ 628
Adjustments to budgetary resources made during current year	
Downward adjustment of prior year delivered orders	1
Other Adjustments	(3)
Unobligated Balance from Prior year budget authority, net (discretionary and mandatory)	$ 626

NOTE 17 – DIFFERENCES BETWEEN THE SBR AND BUDGET OF THE U.S. GOVERNMENT

Fiscal Year 2019 Statement of Budgetary Resources v. President's Budget (in millions)				
	Account	**Budgetary Resources**	**Obligations Incurred**	**Net Outlays**
Statement of Budgetary Resources:				
	Insurance Fund	$ 13,642	$ 13,059	$ 11,927
	S&E	73	67	68
	Disaster Relief	540	501	0
	Total	$ 14,255	$ 13,627	$ 11,995
Reconciling Items:				
Expired Accounts		(5)	0	0
Shared Accounts - Disaster Relief		(540)	(501)	0
Rounding Difference		1	0	(1)
	Total	$ 13,711	$ 13,126	$ 11,994
Budget of the United States Government		$ 13,711	$ 13,126	$ 11,994

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 2019 Statement of Budgetary Resources, and the President's Budget. The comparison between the fiscal year 2020 Statement of Budgetary Resources and the fiscal year 2020 actual numbers presented in the fiscal year 2022 Budget cannot be performed as the fiscal year 2022 Budget is not yet available. The fiscal year 2022 Budget is expected to be published in February 2021 and will be available from the Government Printing Office, https://www.whitehouse.gov/omb/budget/

NOTE 18 – RECONCILIATION OF NET COSTS TO NET OUTLAYS

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

The reconciliation contains both intra-governmental and activity with the public, however the intra-governmental amounts are immaterial to total cost.

The lower liability for FY2020 was primarily the result of (1) higher actual RY 2018 underwriting gain booked at the end of fiscal year 2019 than the actual RY2019 underwriting gain booked at the end of fiscal year 2020 and (2) obligations for the disaster relief program in FY2019.

The $2.60 billion difference in fiscal year 2019 Accounts Receivable relates to the deferment of collections of premiums. In fiscal year 2019 there was widespread severe flooding and excess moisture conditions in many parts of the nation causing catastrophic damage to crops. In order to provide relief, RMA deferred collection of any unpaid producer premium without interest by two months.

The total $1.56 billion decrease in liabilities in fiscal year 2019 relate to (1) higher liabilities for underwriting gains in fiscal year 2018; and (2) lower liabilities of estimated losses on insurance claims in fiscal year 2019. The widespread severe flooding and excess moisture conditions resulted in more reinsurance year 2019 loss claims reported and paid in the current year.

Reconciliation of Net Cost to Net Outlays	2020 (millions)	2019 (millions)
Net Cost	$ 8,785	$ 7,833
Components of Net Cost that are Not Part of Net Outlays		
Property, plant, and equipment depreciation	$ (6)	$ (6)
Other	2	2
Increases(decreases) in Assets		
Accounts receivable	101	2,604
(Increases)decreases in Liabilities		
Accounts payable	(55)	(8)
Insurance and guarantee program liabilities	1,163	(2,901)
Other liabilities	503	4,475
Other Financing Sources		
Federal employee retirement benefits costs paid by Office of Personnel Management (OPM) and imputed agency	(3)	(4)
Total Components of Net Cost that are Not Part of Net Outlays	$ 1,705	$ 4,162
Components of Net Outlays that are Not Part of Net Cost		
Acquisition of capital assets	$ 0	$ 0
Total components of Net Outlays that are not part of Net Cost	$ 0	$ 0
Net Outlays	$ 10,490	$ 11,995
Related amounts of the Statement of Budgetary Resources		
Outlays, gross	$ 14,439	$ 13,288
Actual offsetting collections	(3,949)	(1,293)
Net Outlays	$ 10,490	$ 11,995

NOTE 19 – INTER-ENTITY COSTS

Goods and services are received from other federal agencies at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed are recognized as imputed cost in the Statement of Net Cost and are offset by imputed revenue in the Statement of Changes in Net Position. Such imputed costs and revenues relate to business-type activities, employee benefits, and claims to be settled by the Treasury Judgment Fund. However, unreimbursed costs of goods and services other than those identified above are not included in our financial statements. For fiscal year 2020, RMA recognized $3.1 million of imputed costs associated with accrued pension and post-retirement benefit expense.

NOTE 20 – COVID-19 ACTIVITY

RMA took numerous actions to provide relief in the face of the pandemic to ensure crop insurance continued to provide a farm safety net under such unprecedented times. RMA did not receive direct budgetary resources to respond to COVID 19 and most of the actions provided reporting flexibilities to AIP's and producers. The most significant action involving financial resources was to allow additional time for policyholders to make payment of premium and administrative fee. The amount of this deferral is estimated to be $2.5 billion. This deferral impacted the Accounts Receivable reported on the Balance Sheet and Note 5; the amount Returned to Treasury on the Statement of Changes in Net Position and Note 15 and Note 16; the reported amount for Appropriations, Spending Authority from Obligations, and Net Outlays on the Combined Statements of Budgetary Resources.

NOTE 21 – SUBSEQUENT EVENT

Hurricane Delta struck southern United States in October 2020 after the balance sheet date but prior to the release of the financial statements. The hurricane resulted in significant flooding impacting crops covered in the Federal Crop Insurance program; however, the full impact is not yet known.

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 2020 and 2019, FCIC had an improper payment rate of 2.31% and 2.95% respectively. RMA exceeded the reduction target of 2.89% for 2020; however, did not exceed the reduction target of 1.80% for 2019. The reduction target for 2021 is 2.31%.

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 four consecutive reporting years. Since October 2017, RMA has been removed from the annual high-priority improper payment reporting.

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

Sampling and Estimation

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

For fiscal year 2017 and beyond, OMB has approved RMA's statistically valid sampling methodology. Sampling period for fiscal year 2020 is reinsurance year 2018, which is based on the yearly reinsurance agreements in effect with AIPs for the period July 2017 to June 2018.

Improper Payment Reporting

RMA's most recent IPERIA data is for fiscal year 2020, examining reinsurance year 2018 data. Table 1 shows the sampling and estimation results by reinsurance year for the FCIC Program Fund.

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

FCIC Program Fund	RY 2016	RY 2017	RY 2018	RY 2019 EST
Outlays $	10,170	9,582	10,710	8,733
Properly Paid %	98.19%	97.05%	97.69%	
Improper Payment (IP) %	1.81%	2.95%	2.31%	2.31%
Properly Paid $	9,986	9,300	10,463	
IP $	184	282	247	202
Overpayment $	154	266	152	
Underpayment $	30	16	95	

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 2018 Reported in Fiscal Year 2020		
Program	Federal Government	Recipients of Federal Money
FCIC Program Fund	$ 0	$ 247

Table 3 provides the breakdown of FCIC Program Fund overpayment and underpayment dollars for reinsurance year 2018.

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

Reinsurance Year 2018 Reported in Fiscal Year 2020		
FCIC Program Fund	**Overpayments $**	**Underpayments $**
Inability to Authenticate Eligibility		
Inability to Access Data	$ 127	$ 24
Administrative or Process Error made by Other Party	25	71
TOTAL	$ 152	$ 95

Improper Payment Corrective Actions

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

Inability to Authenticate Eligibility: Inability to Access Data

Corrective Actions:

Almost one-third of the improper dollars associated with APH errors resulted from the policyholder's inability to support the selected unit structure. A majority of these policies dealt with enterprise unit (EU) structures certified below the EU level. The Basic Provisions of Insurance (BPOI) require producers to support their production certification when selected for APH Review, and The Crop Insurance Handbook (CIH) outlines the required consequences when unit structure can not be supported.

Based on IPERIA results, RMA will issue an Informational Memorandum reminding policyholders of the requirement to keep production separate by unit and to certify to the accuracy of their production evidence. Additionally, RMA will conduct and present an analysis of APH data to the Product Management division as a proactive measure to spearhead future APH issues.

Administrative or Process Error Made by Other Party

Corrective Actions:

The Standard Reinsurance Agreement (SRA) requires Approved Insurance Providers (AIPs) to conduct Actual Production History (APH) verification reviews. APH reviews are conducted to verify the accuracy of the approved APH yield which is used to determine the amount of insurance on a policy. As farming operations continue to grow in size APH reviews consequently consist of a larger amount of data that must be verified by the AIPs to assure accuracy of the crop insurance policy. APH keying errors, such as those found as the result of IPERIA, are inevitable with the amount of data that is transcribed to run a $105 billion dollar program. Almost half of the Administrative or Process Errors were related Actual Production History (APH). These errors range from unacceptable production evidence to the accuracy of production certification. To clarify the APH procedures and corrective action when conducting an APH review RMA issued Manager's Bulletin MGR-19-005. The procedures outlined in MGR-19-005 were incorporated into the Crop Insurance Handbook for RY2020. To address concerns specific to the Apple program, RMA entered into a contract to assess the program, address program vulnerabilities, and provide proposed program changes. As part of this review and specific to production reporting, RMA is in the process of developing guidelines for production reporting to include identifying the types of records and required entries on records for reporting apple production. The policy is expected to be updated to address these and other concerns for the 2022 crop year (August 31, 2021)

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 USDA's Strategic Goal Objective 2.1: Provide an Effective Financial Safety Net for Farmers and Ranchers to Sustain Economically Viable Agricultural Production and Support Rural Jobs and Economic Growth. RMA incorporated standards in fiscal year 2019 annual performance plans to ensure compliance personnel conduct IPERIA reviews to measure the Federal Crop Insurance Program (FCIP) improper payment error rate and perform data mining reviews to identify, reduce, and collect improper payments. RMA Regional Compliance Offices (RCOs) conducted IPERIA reviews between April 2018 – March 2019 using statistical sampling and data mining reports.

Agency Information Systems and Other Infrastructure

One of RMA's primary tools for assessing AIPs' compliance with all crop insurance program requirements is the AIP Performance Review (APR). During fiscal year 2020, RMA completed APRs of four AIPs to evaluate 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 2020, 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 2020.

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

	Overpayments Recaptured through Payment Recapture Audits - Other		
Fiscal Year	Amount Identified	Amount Recaptured	Recapture Rate
2020	$9.53	$4.77	50%

Overpayments Recaptured through Payment Recapture Audits - Other	
Fiscal Year	Recapture Rate Target
2021	100%
2022	100%

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 2019			
Program	Amount Recovered	Type of Payment	Original Purpose
FCIC Program Fund	$ 4.77	Crop Insurance	$ 4.77

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	$ 1.94	$ .004	$ .33	$ 0

The table identifies amounts not yet collected as of 4th quarter fiscal year 2020. This table identifies amounts from FY19 Q4 through FY20 Q3.

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

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

- RMA has integrated Social Security Administrator's full death file into its system to verify insurance policies received from AIPs prior to acceptance. Once crop insurance is awarded, any subsequent payments for indemnities are required regardless of DNP matches. Most of the award verification process is performed by the AIPs, not RMA.

- RMA verifies the AIPs registration in System for Award Management (SAM) and checks AIPs in the DNP website before the SRA is approved.

- RMA payments for reinsurance funds to a payee other than AIPs (e.g., refund of overpaid debt to a producer) are reviewed against the death master file through the DNP working system on a pre-payment basis.

- Risk Management Education Cooperative Agreements are awarded annually with a one-year period of performance. Before awarding the agreement, RMA staff reviews SAM for Exclusion Records (referred to in IPERIA as Excluded Parties List System/EPLS) Public & Restricted [General Services Administration] and the Federal Awardee Performance and Integrity Information System (FAPIIS) through SAM.

FRAUD REDUCTION REPORT

As required under the Fraud Reduction and Data Analytics Act of 2015, RMA is reporting on its efforts to reduce fraud. RMA has developed policies and procedures to identify fraud risks (i.e., program vulnerability reporting tool, data analytics, and hotlines) and determine appropriate responses. In Fiscal Year 2020, FPAC Business Center staff documented and assessed the internal controls related to financial reporting. The results of the assessments are communicated to USDA's OCFO staff.

In Fiscal Year 2020, FPAC Business Center conducted the 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 provided the Fiscal Year 2020 Statement of Assurance for FMFIA and FFMIA.

In Fiscal Year 2020, 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 assessed program vulnerability, fraud, and abuse; investigated alleged/indicated instances of fraud and abuse; and recommended changes in policies, procedures, and agreements within the Federal Crop Insurance Program. The Compliance Office conducts operational reviews of the AIPs on a triennial 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 also reviewed 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 Staff (SIS) within the Compliance Office that investigates complex, high-profile cases of alleged fraud, waste, and abuse.

SIS 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, SIS investigators work with the OIG to investigate and prepare the case for referral for criminal prosecution or Federal civil action. SIS also refers cases to the RMA Administrator for disqualification, civil fine, suspension, and debarment.

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	1	0	0	1

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

Conformance with Federal Financial Management System Requirements (FMFIA Section 4)					
Statement of Assurance	Federal systems conform				
Non-conformances	Beginning Balance	New	Resolved	Consolidated	Ending Balance
N/A	0	0	0	0	0
Total Non-conformances	0	0	0	0	0

Compliance with Section 803(a) of the Federal Financial Management Improvement Act		
	Agency	Auditor
1. Federal Financial Management System requirements	Compliance noted	No lack of compliance noted
2. Applicable Federal Accounting Standards	Compliance noted	No lack of compliance noted
3. USSGL at Transaction Level	Compliance noted	No lack of compliance noted

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