



United States
Department of
Agriculture

Risk
Management
Agency

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MANAGER BULLETIN NO.: MGR-08-003

TO: All Approved Insurance Providers
All Risk Management Agency Field Offices
All Other Interested Parties

FROM: Eldon Gould /s/ *Eldon Gould* February 28, 2008
Administrator

SUBJECT: Documentation to Support Nursery Plant Inventory Value Report
(PIVR) and Claims for Indemnity

BACKGROUND:

The United States Department of Agriculture Office of the Inspector General for Audit (OIG) has conducted an audit titled, "2005 Emergency Hurricane Relief Efforts in Florida," reviewing indemnity payments made for nursery claims related to hurricanes Katrina, Rita, and Wilma in Florida. Hurricanes Katrina and Rita struck during the 2005 crop year, while hurricane Wilma struck during the 2006 crop year. To date, OIG has found instances that involved significant dollars of coverage where policyholders did not have inventory records to support their PIVR.

The Nursery Crop Insurance Provisions, 7 CFR 457.162, states:

Section 6. PIVR.

(b) You must submit a PIVR for each insured practice, as applicable, and two copies of your most recent wholesale catalogs or price lists in accordance with subsection (k) to us with your application and on or before the sales closing date for each crop year following the year of application.

* * *

(c) The PIVR must include, by basic unit, all growing locations, basic unit value, coverage level selected, as applicable, and your share.

* * *

(2) At our option, you will be required to provide documentation in support of your PIVR, including, but not limited to, a detailed plant



The Risk Management Agency Administrators
And Oversees All Programs Authorized Under
The Federal Crop Insurance Corporation

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inventory listing that includes the name, the number, and the size of each each plant; acceptable records of sales and purchases of plants for the three previous crop years in the amount of detail we require; and your ability to properly obtain and maintain nursery stock. Acceptable records must contain the name and telephone number of the purchaser or seller, as applicable, name of the plants, the number of each plant sold or purchased, and the sale price for each plant.

* * *

(e) Your PIVR must reflect your insurable nursery plant inventory value by basic unit.

(1) The price for each plant and size listed on your PIVR will be the lower of the Plant Price Schedule (PPS) price or the lowest wholesale price in your nursery catalog or price list submitted in accordance with section 6(k).

(2) In no instance will we be liable for plant values greater than those contained in the Plant Price Schedule.

The information provided by OIG demonstrates that approved insurance providers (AIP) loss adjusters and quality review staff have failed to exercise this option. OIG also found that not all producers are aware of the requirements that their PIVR must be supported by acceptable records and that such records must be maintained in accordance with section 21 of the Basic Provisions.

Given the problems that have been identified, there are serious questions regarding the accuracy of the PIVRs on record. Therefore, AIPs must ensure that PIVRs are properly supported by a physical inventory and other appropriate documentation and are correctly determined.

The Peak Inventory Endorsement was introduced for crop year 1999 to provide insured producers the opportunity to add coverage during those temporary periods of increased inventory value. Under the Peak Inventory Endorsement, insured producers who have elected an additional level of coverage are eligible to submit a peak inventory value report which will serve as the application for coverage for Peak Inventory Endorsement.

Nursery Crop Provisions Peak Inventory Endorsement states:

Section 1. Definitions.

Peak Inventory Value Report – A report that increases the value of insurable plants over the value reported on the PIVR, declares the coverage commencement and coverage termination dates, and the other requirements of section 6 of the Nursery Crop Insurance Provisions.

Section 3. Coverage.

(a) The amount of insurance provided under the Nursery Crop Provisions for each basic unit is increased by the peak amount of insurance for such unit for the coverage term.

* * *

Section 6. Reporting requirements.

In addition to the reporting requirements of section 6 of the Nursery Crop Insurance Provisions you must submit a Peak Inventory Value Report on our form.

Based on preliminary findings of an OIG audit, it has been found that AIPs are not ensuring that peak endorsements are properly supported by a physical inventory.

Additionally, the Pilot Nursery Growers Price Endorsement (NGPE) was implemented for the 2006 crop year. Under the NGPE insured producers who can document they have actual sales records supporting the sale of plants at prices higher than those offered on the Eligible Plant List and Plant Price Schedule (EPL/PPS) may be insured at the higher prices.

Section 2(b)(6) of the NGPE states:

2. Eligibility

...

(b) To be eligible for coverage under this endorsement, you must:

...

(6) Provide all verifiable wholesale sales records for the most recent year of sales for each upgraded plant, in accordance with section 3, at the time of:

(A) Application for any upgraded plant and size that has an upgraded plant price that is at least 50 percent higher than the plant price schedule price for the same plant; or

(B) Loss adjustment for insurable damage on any upgraded plant.

Based on preliminary findings of an OIG audit, it has also been found AIPs are not always requiring the insured to provide verifiable wholesale sales records at the time of application if the plants are priced at least 50 percent higher than the EPL/PPS price.

ACTION:

Since there appears to be the potential for policies with significant liability to have inadequate documentation to support the PIVRs, Peak Inventory Endorsements, and NGPE, AIPs must ensure compliance with the terms of the Nursery Crop Insurance Provisions and Endorsements and that premium, liability and any indemnities are properly established and supportable.

For 2008 and succeeding crop year claims for indemnity, AIPs must obtain and inspect the records to support the PIVR, revised PIVR, Peak Inventory Value Report and the NGPE, if applicable, and determine whether the records are acceptable before completing any claim for indemnity. AIPs and their agents must ensure that policyholders are reminded of the record retention requirements and that failure of the producer to provide the documents supporting the PIVR, revised PIVR, Peak Inventory Value Report and the NGPE when requested at any time during the record retention period will result in a determination that no indemnity is due as provided in section 21(f) of the Basic Provisions. This includes requests for such documents in the event of an AIP internal quality control review, RMA or other government agency audits of claims, the AIP's mandatory review of any claims greater than \$100,000, and RMA's Large Claim Reviews.

For the 2009 and succeeding crop years, using a current physical plant inventory, agents should assist producers to use RMA's Crop Inventory Valuation Estimate Report (Nursery Inventory Software) to develop PIVRs. In all cases where the Nursery Inventory Software is not used to develop the PIVR, AIPs must review the supporting physical plant inventory and price documentation used by the policyholder to verify that the PIVR, revised PIVR, and/or Peak Inventory Value Report are properly supported.

Documentation to support the PIVR and the Peak Inventory Value Report includes, but is not limited to:

- A detailed plant inventory listing that includes the name, the number, and the size of each plant;
- Acceptable records of sales and purchases of plants for the crop year. Insureds may be asked to provide acceptable records of plant purchases and sales for the three previous crop years.
- Evidence of the insured's ability to properly obtain and maintain nursery stock.

Acceptable records must contain the name and telephone number of the purchaser or seller, as applicable, names of the plants, the number of each plant sold or purchased, and the sales price for each plant.

AIPs must also require policyholders to provide acceptable, verifiable wholesale sales records by the sales closing date if the plants are priced at least 50 percent higher than the EPL/PPS price schedule for the same plant in accordance with the NGPE.

RMA will annually spot check compliance with this bulletin.

DISPOSAL DATE:

This Manager's Bulletin will remain in effect until December 31, 2009, or until incorporated in the policy regulations or procedures.