

OFFICE OF INSPECTOR GENERAL

**National Flood Insurance
Program's Management
Letter for DHS' Fiscal Year
2016 Financial
Statements Audit**



Homeland
Security

May 8, 2017
OIG-17-53



DHS OIG HIGHLIGHTS

National Flood Insurance Program's Management Letter for DHS' Fiscal Year 2016 Financial Statements Audit

May 8, 2017

Why We Did This Report

The *Chief Financial Officers Act of 1990* (Public Law 101-576) and the *Department Of Homeland Security Financial Accountability Act* (Public Law 108-330) require us to conduct an annual audit of the Department of Homeland Security's (DHS) consolidated financial statements and internal control over financial reporting.

During the FY 2016 audit of DHS' consolidated financial statements and internal control over financial reporting, KPMG LLP noted certain matters involving the Federal Emergency Management Agency's National Flood Insurance Program internal control and other operational matters, which are presented in this report for management's consideration.

For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-OIG.OfficePublicAffairs@oig.dhs.gov

What We Found

The independent public accounting firm KPMG LLP (KPMG), under contract with the DHS Office of Inspector General, audited the National Flood Insurance Program's internal control over financial reporting for fiscal year (FY) 2016. The resulting management letter contains nine observations related to internal controls and other operational matters for management's consideration. KPMG identified internal control deficiencies and the need for improvement in calculating written premiums, reviewing paid claims, monitoring third party service providers, and recording investments. These deficiencies are not considered significant and were not required to be reported in the *Independent Auditors' Report on DHS' FY 2016 Financial Statements and Internal Control over Financial Reporting*, dated November 14, 2016, included in the DHS FY 2016 *Agency Financial Report*. These observations are intended to improve internal control or result in other operating efficiencies.

FEMA Response

FEMA concurred with all of the observations and has begun implementing corrective actions.



OFFICE OF INSPECTOR GENERAL

Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

May 8, 2017

MEMORANDUM FOR: The Honorable Roy Wright
Deputy Associate Administrator
Federal Insurance and Mitigation Administration
Federal Emergency Management Agency

FROM: John V. Kelly 
Deputy Inspector General

SUBJECT: *National Flood Insurance Program's Management Letter
for DHS' Fiscal Year 2016 Financial Statements Audit*

Attached for your information is our final report, *National Flood Insurance Program's Management Letter for DHS' Fiscal Year 2016 Financial Statements Audit*. This report contains nine observations related to internal control deficiencies that were not required to be reported in our *Independent Auditors' Report on DHS' FY 2016 Financial Statements and Internal Control over Financial Reporting*, dated November 14, 2016, which was included in the Department of Homeland Security's (DHS) fiscal year (FY) 2016 *Agency Financial Report*. We do not require management's response to the recommendations.

The independent public accounting firm KPMG LLP conducted the audit of DHS' FY 2016 financial statements and is responsible for the attached management letter and the conclusions expressed in it.

Consistent with our responsibility under the Inspector General Act, we will provide copies of our report to congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. We will post the report on our website for public dissemination.

Please call me with any questions, or your staff may contact Maureen Duddy, Deputy Assistant Inspector General for Audits, at (617) 565-8723.

Attachment



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

January 25, 2017

Office of Inspector General and Chief Financial Officer,
U.S. Department of Homeland Security, and
Associate Administrator, Federal Insurance and Mitigation Administration,
U.S. Department of Homeland Security, Federal Emergency Management Agency
Washington, DC

Ladies and Gentlemen:

We planned and performed our audit of the consolidated financial statements of the U.S. Department of Homeland Security (DHS or Department), as of and for the year ended September 30, 2016, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. We considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements. In conjunction with our audit of the consolidated financial statements, we also performed an audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the internal control requirements included in OMB Bulletin No. 15-02.

During our audits, we noted certain matters involving the Federal Emergency Management Agency's (FEMA) National Flood Insurance Program (NFIP) internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management of the named insurance companies (where applicable), FEMA's Office of the Chief Financial Officer (OCFO), FEMA's Federal Insurance and Mitigation Administration (FIMA), and communicated through a Notice of Finding and Recommendation, are intended to improve internal control or result in operating efficiencies. These observations and recommendations are summarized in Exhibit I of this letter and are not considered significant deficiencies or material weaknesses in internal control over financial reporting. Significant deficiencies and material weaknesses in internal control over financial reporting have been previously communicated to the DHS Office of Inspector General (OIG) and management in our *Independent Auditors' Report*, dated November 14, 2016, included in the fiscal year 2016 DHS Agency *Financial Report*.

Deficiencies related to FEMA information technology (IT) controls will be presented in a separate letter to the DHS OIG and the FEMA Chief Information Officer (CIO). In addition, certain other deficiencies related to FEMA's internal control exclusive of our IT findings will be presented in a separate letter to the DHS OIG and the FEMA Chief Financial Officer.

Our audit procedures are designed primarily to enable us to form opinions on the financial statements and on the effectiveness of internal control over financial reporting, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the NFIP organization gained during our work to make comments and suggestions that we hope will be useful to you.



We would be pleased to discuss these comments and recommendations with you at any time.

The purpose of this letter is solely to describe comments and recommendations intended to improve internal control or result in other operating efficiencies. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

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I. BACKGROUND

The Federal Insurance & Mitigation Administration (FIMA) of U.S. Department of Homeland Security Federal Emergency Management Agency (FEMA) manages the National Flood Insurance Program (NFIP). Private insurance companies, known as Write your Own (WYO) companies, and the Direct Servicing Agent (DSA) (NFIP insurers) administer the flood insurance policies issued through the NFIP. The NFIP insurers write NFIP policies, adjust flood claims, process and distribute claim payments to policyholders, and establish and maintain loss reserves. The NFIP has contracted with a third-party service provider to assist the NFIP in managing the program. The NFIP insurers submit NFIP data to the third-party service provider via the Transaction Record Reporting and Processing (TRRP) system. The service provider uses underwriting transactions (i.e., written premiums) data associated with flood policies to calculate the deferred revenue liability for the actual NFIP financial statements and the deferred revenue liability estimate for the year-end estimated NFIP financial statements, which is recorded in the year-end FEMA financial statements. The estimated financial statements are based on two months of actual data and one month of forecasted data, due to the timing of available data versus financial reporting deadlines. Once the actual data is available, FEMA compares the recorded estimated financial statements to the actual statements to determine whether any large or unusual differences exist to identify whether an on-top adjustment is necessary. The service provider's actuary uses the NFIP paid losses (i.e., claim payments) data for the current year and historical data to calculate the year-end actuarial liability for the NFIP financial statements, which is also recorded in the year-end FEMA financial statements. The case loss reserve data associated with flood claims may marginally and indirectly be used in this process, but is not separately disclosed in the NFIP financial statements. The consistency of this reserve from period to period is most important. Thus, the precision of the estimate to reflect actual events is dependent upon the accuracy and consistency of the underlying data submitted by the NFIP insurers on a monthly basis.

II. INTERNAL CONTROL DEFICIENCIES RELATED TO WRITTEN PREMIUMS

Observation #1 (Communicated in Notice of Finding and Recommendation (NFR) FEMA 16-29):

Controls over calculating net written premium amounts did not operate effectively in fiscal year (FY) 2016. During testwork over written premiums for the period October 1, 2015 to August 31, 2016, we identified one exception in which the Community Rating System (CRS) Discount was understated as applied to the policy resulting in an overstated premium of \$99.12 charged to the insured.

Cause:

The WYO company did not properly review and approve the premium policies when applying the related CRS Discount as required in the NFIP manual.

Recommendations:

We recommend that FEMA:

1. Follow-up with the insurance company to determine that they have implemented the appropriate corrective action to address the exception identified.
2. Provide increased oversight to the insurance company participating in the NFIP to ensure they process and review underwriting files in accordance with NFIP guidelines.
3. Include specific file review samples for verification by the underwriter that the proper CRS discount is being applied during the Operation Review.

III. INTERNAL CONTROL DEFICIENCIES RELATED TO PAID CLAIMS

Observation #2 (Communicated in NFR FEMA 16-19):

Controls over claims payments did not operate effectively in FY 2016. During testwork over 180 claims paid transactions for the period October 1, 2015 to June 30, 2016, we identified the following exceptions:

1. Eleven instances in which FIMA was unable to provide supporting documentation to evidence that the claims examiner was authorized to review the claim and issue payment.
2. One instance in which the amount of claim paid to the insured was greater than the amount listed on the Final Adjusters Report and Proof of Loss.

Cause:

1. The WYO insurance company did not properly maintain supporting documentation.
2. Personnel at the WYO did not adhere to established policies and procedures regarding review of claims.

Recommendations:

We recommend that FEMA:

1. Follow up with the NFIP WYO companies to ensure that appropriate corrective action has been taken to address the exception noted.
2. Enhance monitoring and oversight of the NFIP insurers to ensure:
 - a. Claim files are processed and reviewed in accordance with NFIP guidelines between issuance of claim payments.
 - b. WYO companies have established policies and procedures surrounding the authorization of the claims reviews performed by the WYO claims examiners.

IV. INTERNAL CONTROL DEFICIENCIES RELATED TO CASE LOSS RESERVES

Observation #3 (Communicated in NFR FEMA 16-28):

Controls to ensure case loss reserves are accurately recorded did not operate effectively in FY 2016. KPMG selected a total of 48 case reserve balances for the period October 1, 2015 to August 31, 2016 for substantive testwork purposes. In two instances, the amount recorded for case reserves in the August 31, 2016 population was not properly updated as additional claim information was obtained resulting in an understatement of \$30,000. In one instance, case reserves in the August 31, 2016 population was not properly updated as additional claim information was obtained resulting in an overstatement. Thus, the overall impact of the 3 misstatements, created a net \$28,000 understatement.

Company	Month of Loss	Reserve Amount per Sample	Reserve Amount per KPMG	Difference
Southern Farm Bureau	August 2016	\$45,000.00	\$65,000.00	\$20,000.00
Southern Farm Bureau	August 2016	\$38,000.00	\$48,000.00	\$10,000.00
First Insurance Co of Hawaii	July 2016	\$52,000.00	\$50,000.00	\$(2,000.00)

Cause:

Personnel at the WYO insurance companies did not adhere to policies and procedures related to updating open case-loss reserve balances.

Recommendations:

We recommend that FEMA:

1. Follow up with the NFIP insurer to determine that appropriate corrective action has been implemented to address the exception identified.
2. Develop a requirement for NFIP insurers to review case reserve transactions for accuracy prior to submission of the data to the third-party service provider.

V. INTERNAL CONTROL DEFICIENCIES RELATED TO NFIP SERVICE PROVIDER

Observation #4 (Communicated in NFR FEMA 16-01):

1. During our testwork over the Traverse journal voucher (JV) worksheet, we identified one instance in which the review and approval of a manual JV was performed by an individual who was in a position below that of the preparer of the journal voucher.
2. During our testwork over the December 2015 quarterly estimates, we noted there were incorrect descriptions for assumptions listed on the quarterly estimate worksheet. These assumptions related to the calculation of the forecasting figures for the Homeowners Flood Insurance Affordability Act (HFIAA) Surcharge and Change in HFIAA Surcharge. While the amounts recorded in the spreadsheet were correct, the incorrect assumptions were listed within the document, evidencing improper review and approval of the first quarter Financial Forecast.

Cause:

FIMA did not effectively monitor the controls in place at the NFIP service provider.

Recommendations:

We recommend that FEMA:

1. Ensure that its service provider has sufficient resources to maintain proper internal controls.
2. Monitor its service provider to ensure that they develop and implement a process to review and update financial statement assumptions related to the calculation of the forecasting amounts related to the HFIAA Surcharge and Change in HFIAA Surcharge.

Observation #5 (Communicated in NFR FEMA 16-07):

During our testwork over the December 2015 financial versus statistical data variance report, we identified two instances in which there was not sufficient documentation to support the service provider's required follow up communication with the insurance companies. The lack of supporting documentation indicates a deficiency in monitoring the WYO companies' variances that exceeded the established thresholds.

Cause:

FIMA is not effectively monitoring the controls in place at the NFIP third party service provider to ensure that internal controls are operating and required supporting documentation is properly maintained.

Recommendation:

We recommend that FEMA monitor its service provider to ensure that they develop and implement a process to review and ensure variances are communicated to the appropriate insurance companies and NFIP standards committee as they are identified during the financial versus statistical data variance report process.

Observation #6 (Communicated in NFR FEMA 16-17):

1. During testwork over the June 2016 Financial Data Receiving Log, we identified one instance in which a WYO company was listed on the financial data summary but was omitted from the financial data receiving log.
2. During our testwork over the June 2016 Transaction Record Reporting and Processing (TRRP) preliminary financial statements and Financial Data Summary Reconciliation, we identified a monetary difference in the amount of the recoveries line item between the Financial Data Summary and the TRRP preliminary financial statements which had not been identified by FIMA as part of their monitoring process.

Cause:

FIMA did not effectively monitor the controls in place at the NFIP third-party service provider to ensure internal controls were operating effectively.

Recommendations:

We recommend that FEMA:

1. Enhance the Front-End Balancing process to ensure the accuracy and completeness of the Receiving Log and financial statements.

2. Utilize the Financial Data Summary generated to provide WYO report classification totals to verify the validity of the upload of exhibits to TRRP to ensure there is no difference between the Financial Data Summary and TRRP.

VI. INTERNAL CONTROL DEFICIENCIES RELATED TO INVESTMENTS

Observation #7 (Communicated in NFR FEMA 16-32):

FEMA records investment activity to its financial system, WebIFMIS, based on monthly Fed Invest reports provided by Federal Investments and Borrowing Branch (FIBB). However, FEMA does not perform procedures on those reports as recommended to users in the FIBB related Statement on Standards for Attestation Engagements (SSAE) 16 report nor reconciles the FEMA recalculated amounts to the Fed Invest reports as required by the Treasury Financial Manual (TFM) to ensure the accuracy of investment amortization premiums and/or discounts.

Cause:

FEMA has not designed and implemented adequate policies and procedures to determine the accuracy of investment data and the reconciliation of that data to Treasury Reports, specifically the amortization of investment premiums and/or discounts as recommended in the FIBB SSAE 16 report and required by the TFM.

Recommendation:

We recommend FEMA OCFO record investment activity to FEMA's financial system, WebIFMIS, based on the policies and procedures established under Treasury's TFM 4700, *Agency Reporting Requirements for the Financial Report of the United States Government*. Each quarter, FEMA should ensure the investment balance reconciles with Treasury's balances per TFM Volume 1 Part 2 Chapter 4700, Appendix 10. FEMA has stated it will establish procedures to recalculate investment amortization on three randomly selected Treasury Bonds for the NFIF, annually. This recalculation will support the FIBB SSAE 16 agency user control considerations.

VII. INTERNAL CONTROL DEFICIENCIES RELATED TO MISCELLANEOUS NFIP ACTIVITY

Observation #8 (Communicated in NFR 16-04):

1. Based on our walkthroughs, we determined that as of June 30, 2016 the NFIP Standards Committee had not met quarterly; and furthermore, had not met quarterly since April 2, 2015.
2. The NFIP Standards Committee did not review the results of neither the Financial Control Plan's WYO company audit nor other NFIP required reporting.

Cause:

1. FEMA has not ensured compliance with policies and procedures that require the NFIP Standards Committee to meet on a periodic basis throughout the year.
2. The Standards Committee has not met on a periodic basis in a manner to review and evaluate WYO Company audit results.

Recommendation:

We recommend that FEMA reinstitute regularly scheduled quarterly meetings with the NFIP Standards Committee to ensure there is proper WYO Company Statistical and Financial Review and oversight as directed in the Financial Control Plan (FCP).

FEMA has stated the program will coordinate with the Standards Committee in arranging and scheduling the Standards Committee meetings a year in advance during each quarter. In addition, FEMA stated it will engage the Standards Committee outside the regularly scheduled meeting times as the need arises. In instances in which travel proves difficult or where there are other extenuating circumstances, the Standards Committee meeting will be held via conference call or webinar.

Observation #9 (Communicated in NFR 16-26):

During our testwork over the WYO Biennial Audits and Operational reviews of Claims and Underwriting, we determined that the results of the reviews performed by FIMA were not properly communicated to all relevant parties. There was no consideration of the financial impact of both satisfactory and unsatisfactory results, as determined by FIMA during their review, pertaining to claims on FEMA's insurance liability calculation.

Cause:

FEMA has not established policies and procedures to ensure the findings of WYO companies' Biennial Audits and Operational reviews of Claims and Underwriting are communicated to the appropriate individuals for full consideration in the calculation of the actuarial insurance liability.

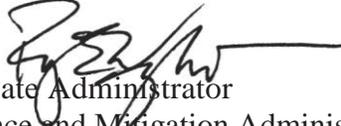
Recommendation:

We recommend that FEMA develop and implement policies and procedures to communicate the results of the Biennial Audits and Operational reviews of Claims and Underwriting to all relevant parties including FIMA's actuary for consideration in preparation of FEMA's insurance liability calculation.

**FEMA**

April 7, 2017

MEMORANDUM FOR: John V. Kelly
Deputy Inspector General
Office of Inspector General

FROM: Roy E. Wright 
Deputy Associate Administrator
Federal Insurance and Mitigation Administration

SUBJECT: National Flood Insurance Program's Management Letter
for DHS' FY 2016 Financial Statements Audit
OIG Project No. 17-033-AUD-FEMA

Thank you for the opportunity to review and comment on the draft report, "National Flood Insurance Program's Management Letter for DHS' Fiscal Year 2016 Financial Statements Audit." This memorandum addresses our responses to the nine observations and fifteen accompanying recommendations contained in the report. **FEMA concurs and requests the closure of six recommendations, and concurs and is remediating nine recommendations.**

Over the past year, the Federal Insurance and Mitigation Administration (FIMA) has taken significant action to transform the National Flood Insurance Program (NFIP) to (1) ensure that all policyholders get every dollar they are owed under their flood insurance policies, and (2) add additional oversight to the program to ensure that the companies with whom we partner share our values of customer-centric delivery and service.

FEMA appreciates the findings and recommendations from the Office of the Inspector General (OIG). We are committed to improving and strengthening our internal controls to ensure that the Program can better serve our policyholders and the Nation.

Recommendations 1, 2, and 3 relate to INTERNAL CONTROL DEFICIENCIES RELATED TO WRITTEN PREMIUMS.

Recommendation 1: Follow up with the insurance company to determine that they have implemented the appropriate corrective action to address the exception identified.

Response: Concur-Request Closure. As recommended, FEMA took corrective measures to remedy this finding. FEMA followed up with the identified insurer. The insurer corrected the Community Rating System (CRS) discount and adjusted the policy premium by crediting the overcharge of \$99.12.

Recommendation 2: Provide increased oversight to the insurance company participating in the NFIP to ensure they process and review underwriting files in accordance with the NFIP guidelines.

Response: Concur-Remediating. FEMA concurs with the need to provide increased oversight to stakeholders of the Program, to ensure they process and review underwriting files in accordance with the NFIP guidelines. FEMA is providing biannual updates to the Transaction Record Reporting and Processing (TRRP) Plan (system processing) and Flood Insurance Manual (agent information) through the October 2017 Program Changes. These updates will help to communicate clear system and procedural guidance for the processing of data elements and the correct application of rates, premium processing, and policy effective date rules. FEMA is also developing training materials, issuing bulletins, and conducting an annual training with Write Your Own (WYO) company underwriters to ensure our partners process and review underwriting files in accordance with the Program's guidelines.

Recommendation 3: During the Operational Review include specific file review samples for verification by the underwriter that the proper CRS discount is being applied.

Response: Concur-Request Closure. FEMA revised the Operational Review process to include the review of specific file samples for verification. FEMA also added additional oversight by instituting a pre-implementation procedure that requires the companies to provide a random sample of policies or documents related to program changes before the policy is processed, so the information can be validated before the policies become effective.

Recommendations 4, 5, 6, and 7 relate to INTERNAL CONTROL DEFICIENCIES RELATED TO PAID CLAIMS

Recommendation 4: Follow up with the NFIP WYO companies to ensure that appropriate corrective action has been taken to address the exception noted.

Response: Concur-Request Closure. As recommended, FEMA followed up with the identified insurer. The insurer took appropriate corrective action. WYO companies are approved to use their examination staff to handle their claims internally, in accordance with their normal business practices. However, the adjuster authorization is required by the NFIP. Moving forward, we have required the WYOs to submit the adjuster flood control number (FCN) and the adjusting company identifier on all claims transactions, starting from October 1, 2016, dates of loss, to confirm NFIP authorization. FEMA has further enhanced monitoring and oversight of claims processing.

Recommendation 5: Enhance monitoring and oversight of NFIP insurers to ensure:

- a) Claim files are processed and reviewed in accordance with NFIP guidelines between issuance of claim payments.
- b) WYO companies have established policies and procedures surrounding the authorization of the claims reviews performed by the WYO claims examiners.

Response: Concur-Remediating. FEMA is enhancing the monitoring and oversight of claims in various ways. To ensure claims are being handled properly at the beginning of the process, FEMA now conducts a Random Claims Quality Check (RCQC). FEMA reviews claims at various stages of the claim process to ensure that adjusters and insurers are on the right path. The claims are randomly selected for review, and 10 percent of the selected cases involve a field inspection with the policyholder and insurer representatives when possible. The RCQC identifies and mitigates technical and procedural problems early in the claim adjustment process, balancing resources with the size of an event to best serve the policyholder and to provide FEMA with trends and analysis on both open and closed files. A claim summary report follows each review. If an error is identified, the WYO company is notified. FEMA then asks that the WYO companies act on the findings immediately. If warranted, FEMA may require WYO companies to provide additional cases to be re-inspected. The RCQC standard operations process (SOP) document will be finalized no later than April 1, 2017. We will be requesting this finding to be closed.

FEMA has also taken steps to improve the appeal process for policyholders. A policyholder appeal provides us with an opportunity to ensure fair treatment for our policyholder and to confirm that the companies we oversee properly carry out their responsibilities. Over the last year, FEMA has established an Appeals Branch that is independent from the Claims Branch and claim process. The new Appeals Branch uses a case management approach through the resolution of the appeal, assigning an insurance examiner, program analyst, and attorney to every appeal. The Appeals Branch directs the readjustment of claims and settlements, when possible and appropriate. Finally, the new Appeals Branch is capturing key data points that it will provide to internal and external stakeholders with the dual goals of improving program delivery and increasing transparency. The SOP for the improved appeals process will be finalized no later than March 31, 2017. We will be requesting this finding to be closed.

FEMA continues to monitor and provide oversight into claims by using audit processes such as the triennial Operational Reviews, which monitor the claims processing by WYOs and NFIP Direct, and the annual Improper Payments Elimination and Recovery Improvement Act (IPERIA), which audits any improper claim overpayments.

Recommendation 6: Follow up with the NFIP insurer to determine that appropriate corrective action has been implemented to address the exception identified.

Response: Concur-Request Closure. FEMA identifies any instances of improper reserving during the claims Operational Reviews. Improper reserves are considered critical errors and calculated into the total error percentage. Proper reserving instructions have been provided to the insurers and will be reiterated in the new Claims Manual that is currently being developed. The new Claims Manual will be finalized no later than October 1, 2017.

Recommendation 7: Develop a requirement for NFIP insurers to review case reserve transactions for accuracy prior to submission of the data to the third-party service provider.

Response: Concur-Request Closure. FEMA issued direction to the WYOs on the NFIP Case Loss Reserving procedures through WYO bulletin W-10100. This guidance instructs WYO companies on the procedure and requirements for case loss reserving throughout the claim lifecycle.

Recommendations 8, 9, 10, 11, and 12 relate to INTERNAL CONTROL DEFICIENCIES RELATED TO NFIP SERVICE PROVIDER

Recommendation 8: Ensure that its service provider has sufficient resources to maintain proper internal controls.

Response: Concur-Request Closure. In January 2017, as recommended, FEMA hired a new contract staff to serve the role of Finance Manager, to fulfill the review and approval over the Legacy Systems and Services (LSS) contractor deliverables.

Recommendation 9: Monitor its service provider to ensure that they develop and implement a process to review and update financial statement assumptions related to the calculation of the forecasting amounts related to the Homeowner Flood Insurance Affordability Act (HFIAA) surcharge and change in HFIAA surcharge.

Response: Concur-Remediating. FIMA convened meetings with stakeholders across the enterprise (Fund Management Directorate, Federal Insurance Directorate, and Risk Management Directorate) to discuss and identify appropriate Points of Contact (POCs) to be responsible for reviewing and approving LSS contractor activities/deliverables. This governance will better enable appropriate oversight and management of the LSS contractor. By June 30, 2017, FEMA will develop a contractual governance document that outlines the POCs and their respective roles (Responsible, Accountable, Consulted, or Informed) regarding monitoring and oversight of the LSS contractor. Formalizing the contract governance will enable a more adequate monitoring and oversight of the LSS contractor activities, and it can also be used for the NFIP IT S&S contractor, once those activities are transitioned in fall 2017.

Recommendation 10: We recommend that FEMA monitor its service provider to ensure that they develop and implement a process to review and ensure variances are communicated to the appropriate insurance companies and NFIP Standards Committee as they are identified during the financial versus statistical data variance report process.

Response: Concur-Remediating. As part of the deliverable noted in response to Recommendation 9, FEMA will develop and codify a process to review and ensure that variances are communicated to the appropriate insurance companies and the NFIP Standards Committee. The NFIP Standards Committee reviewed company variance reports and identified common errors at its March 2017 meeting.

Recommendation 11: Enhance the Front-End Balancing process to ensure the accuracy and completeness of the Receiving Log and financial statements.

Response: Concur-Remediating. As noted in the response to Recommendation 9, FEMA has taken initial measures to effectively monitor the controls in place at the NFIP service provider. The contractual governance document to be developed by June 30, 2017, will outline the appropriate policies and procedures to enable oversight of the NFIP service provider.

Recommendation 12: Utilize the Financial Data Summary generated to provide WYO report classification totals to verify the validity of the upload of exhibits to FOCUS to ensure there is no difference between the Financial Data Summary and FOCUS.

Response: Concur-Remediating. As noted in the response for Recommendation 9, FEMA has taken initial measures to effectively monitor the controls in place at the NFIP service provider. The contractual governance document to be developed by June 30, 2017, will outline the appropriate policies and procedures to enable oversight of the NFIP service provider.

Recommendation 13 relates to INTERNAL CONTROL DEFICIENCIES RELATED TO INVESTMENTS

Recommendation 13: We recommend FEMA OCFO record investment activity to FEMA's financial system, Web-IFMIS, based on the policies and procedures established under Treasury's TFM 4700, *Agency Reporting Requirements for the Financial Report of the United States Government*. Each quarter, FEMA should ensure the investment balance reconciles with Treasury's balances per TFM Volume 1 Part 2 Chapter 4700, Appendix 10. FEMA has stated it will establish procedures to recalculate investment amortization on three randomly selected Treasury Bonds for the NFIF, annually. This recalculation will support FIBB SSAE 16 agency user control considerations.

Response: Concur-Remediating. FEMA records investment activity in its financial system, Web-IFMIS, based on monthly FedInvest reports provided by the Federal Investments and Borrowings Branch (FIBB). However, FEMA does not perform procedures on those reports as recommended to users in the FIBB-related Statement on Standards for Attestation Engagements (SSAE) 16 report; rather, it reconciles the FEMA-recalculated amounts to the FedInvest reports, as required by the Treasury Financial Manual (TFM) to ensure the accuracy of investment amortization, premiums, and/or discounts. FEMA is developing an Excel spreadsheet to recalculate investment activity to ensure the accuracy of investment amortization, premiums, and/or discounts. A Reserve Fund SOP, which will be finalized no later than May 1, 2017, will include the process of recalculating investment activity in accordance with the TFM. Finally, FEMA will provide training to its staff no later than May 1, 2017, to ensure the updated processes are communicated and adhered to.

Recommendations 14 and 15 relate to INTERNAL CONTROL DEFICIENCIES RELATED TO MISCELLANEOUS NFIP ACTIVITY

Recommendation 14: We recommend that FEMA reinstitute regularly scheduled quarterly meetings with the NFIP Standards Committee to ensure there is proper WYO Company Statistical and Financial Review and oversight as directed in the Financial Control Plan (FCP).

Response: Concur-Remediating. In 2016, FEMA hired a new Branch Chief to lead the Industry Management Branch (IMB) and increased the staffing of the branch. In 2017, the IMB reconvened the NFIP Standards Committee and coordinated the scheduling of meetings for the remainder of Fiscal Year 2017.

No later than June 1, 2017, the committee plans to develop a NFIP Standards Committee Charter that outlines the roles and responsibilities of its committee members. In parallel to the charter effort, IMB is working to refresh the WYO Arrangement (which includes the Financial Control Plan that outlines the

purpose of the committee and the governance processes). FEMA will send the WYO Arrangement and Financial Control Plan to the WYO companies no later than July 1, 2017.

In consultation with WYOs and industry subject matter experts, FEMA has created a 3-year framework for major changes to the WYO Arrangement. The guiding principles for this framework are “Measure,” “Benchmark,” and “Reward.” In 2017, the WYO Arrangement will focus on delivering a report of performance metrics for the program’s identified areas of focus.

Recommendation 15: We recommend that FEMA develop and implement policies and procedures to communicate the results of the Biennial Audits and Operational Reviews of Claims and Underwriting to all relevant parties, including FEMA’s actuary, for consideration in preparation of FEMA’s insurance liability calculation.

Response: Concur-Remediating. FEMA is developing policies and procedures to ensure the results of the Biennial Audits and Operational Reviews are being communicated to all relevant internal parties. By August 31, 2017, FEMA will develop an SOP that outlines the process for communicating results to internal parties. By July 15, 2017, FEMA will develop an SOP on calculating FEMA’s insurance liability, taking into consideration the results of the Operational Review and Biennial Audit.



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Appendix B
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