Department of Homeland Security
Office of Inspector General

National Flood Insurance Program's Management Letter for FY 2013 DHS Financial Statements Audit

(Redacted)

OIG-14-92

May 2014

OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

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

MAY 5 2014

MEMORANDUM FOR: David Miller
Associate Administrator
Federal Insurance and Mitigation Administration
Federal Emergency Management Agency

FROM: Anne L. Richards
Assistant Inspector General for Audits

SUBJECT: *National Flood Insurance Program's Management Letter for FY 2013 DHS Financial Statements Audit*

Attached for your information is our final report, *National Flood Insurance Program's Management Letter for FY 2013 DHS Financial Statements Audit*. This report contains 4 observations and 12 recommendations related to internal control for management's consideration. The observations did not meet the criteria to be reported in the *Independent Auditors' Report on DHS' FY 2013 Financial Statements and Internal Control over Financial Reporting* dated December 11, 2013, which was included in the Department of Homeland Security's (DHS) fiscal year (FY) 2013 Agency Financial Report. We do not require management's response to the recommendations.

We contracted with the independent public accounting firm KPMG LLP (KPMG) to conduct the audit of the DHS' FY 2013 financial statements and internal control over financial reporting. The contract required that KPMG perform its audit according to generally accepted government auditing standards and guidance from the Office of Management and Budget and the Government Accountability Office. KPMG is responsible for the attached management letter dated December 11, 2013, and the conclusions expressed in it.

Consistent with our responsibility under the *Inspector General Act*, we will provide copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. In a February 18, 2014, memorandum to the OIG, the DHS Chief Privacy Officer requested that we redact certain information from the report. Specifically, the flood insurance policy numbers and date of loss are considered Sensitive Personally Identifiable Information as defined in the Privacy Office's *Handbook for Safeguarding Sensitive Personally Identifiable Information at the Department of Homeland Security*. As a result, we have redacted the policy numbers and date of loss information from the report and will post a redacted version of the report on our website for public dissemination.

Please call me with any questions, or your staff may contact Mark Bell, Deputy Assistant Inspector General for Audits, at (202) 254-4100.

Attachment

KPMG

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

December 11, 2013

Office of Inspector General
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 have audited the financial statements of the U.S. Department of Homeland Security (DHS or Department) for the year ended September 30, 2013, and have issued our report thereon dated December 11, 2013. In planning and performing our audit of the financial statements of DHS, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. In conjunction with our audit of the 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.

During our audit, 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 observations and recommendations have been discussed with the appropriate members of management of the named insurance companies (where applicable), FEMA's Office of the Chief Financial Officer, and FEMA's Federal Insurance and Mitigation Administration and communicated through a Notice of Finding and Recommendation. These observations and recommendations are intended to improve internal control or result in other operating efficiencies, are summarized in Exhibit I of this letter, and are not considered to reflect 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 and management in our *Independent Auditors' Report*, dated December 11, 2013, included in the fiscal year 2013 DHS *Annual Financial Report*.

Certain deficiencies related to FEMA information technology (IT) controls will be presented in a separate letter to the DHS Office of Inspector General and the FEMA Chief Information Officer. 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 Office of Inspector General 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 gained during our work to make observations and suggestions that we hope will be useful to you.

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

FEMA's response to the observations and recommendations identified in this communication is presented in Exhibit II. FEMA's response was not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response. Our auditors' response is presented in Exhibit III.

The purpose of this letter is solely to describe observations 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

I. BACKGROUND

The Federal Insurance and Mitigation Administration of the Department of Homeland Security (DHS) Federal Emergency Management Agency (FEMA) manages the National Flood Insurance Program (NFIP). Private insurance companies and the Direct Servicing Agent (DSA) administer the flood insurance policies issued through the NFIP. The insurance companies and DSA write NFIP policies, adjust flood claims, process and distribute claim payments to policyholders, and establish and maintain loss reserves. To assist in the management of the program, the Federal Insurance and Mitigation Administration has contracted with a third-party service provider. NFIP data is submitted from the insurance companies and the DSA to the third-party service provider via the Transaction Record Reporting and Processing (TRRP) system. The data associated with flood policies and claims are used to calculate estimates included in the year-end NFIP financial statements, which are recorded in the year-end DHS financial statements. Thus, the precision of the estimates used to reflect actual events is dependent upon the accuracy and consistency of the underlying data submitted by the insurance companies and the DSA on a monthly basis.

II. INTERNAL CONTROL DEFICIENCIES RELATED TO CLAIMS

A. Internal Control Deficiencies and Errors Identified over Claims Paid

Observation (NFR FEMA-13-07):
We selected nine insurance companies at which to perform audit procedures over the operating effectiveness of controls related to claims paid for the periods October 1, 2012, through March 31, 2013, April 1 through June 30, 2013, and July 1 through August 31, 2013. For the nine companies selected, we tested a sample of claims paid totaling 450 items covering the three testing periods identified above. During this testing, we noted the following internal control deficiencies and errors:

1 Based on March 31, 2013, testwork, for one sample item, the claim was paid without a signed Proof of Loss from the insured.

Company	Policy No.	Date of Loss	Payment Date
Allstate	[redacted]	[redacted]	02/10/2013

2 Based on March 31, 2013, testwork, for one sample item, the original Proof of Loss obtained for the supplemental payment was not available.

Company	Policy No.	Date of Loss	Payment Date
USAA	[redacted]	[redacted]	02/13/2013

3 Based on March 31, 2013, testwork, for one sample item, the insurance company did not request a 60-day Proof of Loss waiver prior to making the claim payment.

Company	Policy No.	Date of Loss	Payment Date
Southern Farm Bureau	[redacted]	[redacted]	03/22/2013

4 Based on March 31, 2013, testwork, for three sample items, the amount paid to the insured was calculated incorrectly.

Company	Policy No.	Date of Loss	Over/ (Under) Payment
Southern Farm Bureau	[redacted]	[redacted]	$(6.46)
Hartford	[redacted]	[redacted]	$(727.79)
Travelers	[redacted]	[redacted]	$413.58

FEMA's Federal Insurance and Mitigation Administration did not provide adequate oversight to ensure claim files were processed and reviewed in accordance with NFIP guidelines before the approval and issuance of claim payments.

Recommendations:
We recommend that FEMA's Federal Insurance and Mitigation Administration:

1) Follow-up with each of the insurance companies identified above to determine if appropriate corrective action has been implemented to ensure compliance with the Standard Flood Insurance Policy's Proof of Loss Requirement.
2) Enhance monitoring and oversight of the insurance companies participating in the NFIP to ensure claims files are being processed and reviewed in accordance with NFIP guidelines before approval and issuance of claims.
3) Identify and implement systemic solutions to ensure the accuracy of claim payments based on the information documented in the claim file.

B. Internal Control Deficiencies and Errors Identified over Claims' Loss Reserves

Observation (NFRs FEMA-13-15 and FEMA-13-29):
We selected nine insurance companies at which to perform audit procedures over the operating effectiveness of controls related to the establishment and maintenance of loss reserves for the periods October 1, 2012, through March 31, 2013, April 1through June 30, 2013, and July 1 through August 31, 2013. For the nine companies selected, we tested a sample of claims paid totaling 450 items covering the three testing periods identified above to ensure proper establishment and closure of loss reserves. We also performed substantive audit procedures over the accuracy and completeness of loss reserves reported as of February 28, 2013, and August 31, 2013, over all insurance companies. As of these dates, we tested a total sample of 130 loss reserves reported. During these audit procedures, we noted the following internal control deficiencies and errors:

1) Based on our February 28, 2013, and August 31, 2013, substantive testwork, for three sample items, the insurance company did not close the claim and/or related loss reserve when the claim was closed (paid or closed without payment).

February 28, 2013, Substantive Testwork Results:

Company	Policy No.	Date of Loss	Overstatement
USAA	[redacted]	[redacted]	$1,005
Allstate	[redacted]	[redacted]	$1,000

August 31, 2013, Substantive Testwork Results:

Company	Policy No.	Date of Loss	Overstatement
Allstate	[redacted]	[redacted]	$15,000

2) Based on our February 28, 2013, substantive testwork, for two sample items, the loss reserve related to the claim transaction was not properly updated to reflect advance payments or additional adjuster reports.

Company	Policy No.	Date of Loss	Overstatement
Fidelity National Indemnity	[redacted]	[redacted]	$21,895
Nationwide	[redacted]	[redacted]	$2,500

3) Based on our February 28, 2013, substantive testwork, for one sample item, a claim was opened with two separate dates of loss, resulting in duplicate loss reserves.

Company	Policy No.	Correct Date of Loss	Over/(Under) Statement
American Bankers	[redacted]	[redacted]	$13,500

4) Based on our August 31, 2013, substantive testwork, for one sample item, a claim was reopened to correct an overpayment, and reserves were established and remained open in error.

Company	Policy No.	Date of Loss	Overstatement
Travelers	[redacted]	[redacted]	$10,000

5) Based on our August 31, 2013, substantive testwork, for one sample item, the loss reserve was calculated incorrectly.

Company	Policy No.	Date of Loss	Overstatement
NFIP Direct Servicing Agent	[redacted]	[redacted]	$95

6) Based on our August 31, 2013, substantive testwork, for one sample item, the loss reserve remained open on a claim with a date of loss older than 20 years which should have been closed due to inactivity.

Company	Policy No.	Date of Loss	Overstatement
Continental	[redacted]	[redacted]	$7,600

7) Based on our February 28, 2013 and August 31, 2013, substantive testwork, for two sample items, a loss reserve transaction was submitted via TRRP with a formatting error, causing loss reserves to be overstated.

February 28, 2013, Substantive Testwork Results:

Company	Policy No.	Date of Loss	Overstatement
Fidelity National Indemnity	[redacted]	[redacted]	$7,500

August 31, 2013, Substantive Testwork Results:

Company	Policy No.	Date of Loss	Overstatement
Fidelity National Indemnity	[redacted]	[redacted]	$1,485,000

8) Based on our February 28, 2013, substantive testwork, for two sample items, a 37A (Change Reserves) transaction was submitted to update the reserves for an advance payment. As advance payments automatically decrease reserves, this transaction double-counted the advance.

Company	Policy No.	Date of Loss	(Understatement)
Hartford Fire	[redacted]	[redacted]	$(15,000)
Harleysville Mutual	[redacted]	[redacted]	$(6,000)

9) Based on our February 28, 2013 and August 31, 2013, substantive testwork, for four sample items, a close loss transaction was not submitted upon issuance of claim payment; therefore, the loss reserve remained opened after claim payment.

February 28, 2013, Substantive Testwork Results:

Company	Policy No.	Date of Loss	Overstatement
NFIP Direct Servicing Agent	[redacted]	[redacted]	$2,618
Allstate	[redacted]	[redacted]	$0.11

August 31, 2013, Substantive Testwork Results:

Company	Policy No.	Date of Loss	Overstatement
Selective	[redacted]	[redacted]	$2
Selective	[redacted]	[redacted]	$974

10) Based on our fiscal year 2013 process walkthroughs with Federal Insurance and Mitigation Administration personnel, we determined that the insurance companies participating in the NFIP did not consistently update loss reserves following the receipt of additional claims adjuster information. For example, insurance companies and the DSA are not required to:

   a. Update loss reserves within a certain timeframe, or note in claims documentation why loss reserves were not updated, after new information is provided by the adjuster, or
   b. Review and update loss reserves, or note in claims documentation why loss reserves were not updated, as of specific period ends to ensure accurate reporting of loss reserve information to FEMA.

Loss reserves were improperly managed based on additional claims-related information received (e.g., advanced payments, subsequent adjuster reports, and final payments) or when claims were closed, improperly created, or incorrectly calculated based on claims-related information received.

TRRP transactions were not adequately reviewed prior to submission by the insurance companies to the third-party service provider. Additionally, controls were not in place to ensure all required TRRP transactions were submitted timely.

FEMA's guidance to participating insurance companies and the DSA did not include policies and procedures that require participating companies to adjust loss reserves according to specific guidelines.

Recommendations:
We recommend that FEMA's Federal Insurance and Mitigation Administration:

1) Follow-up with each of the insurance companies identified above to determine if appropriate corrective action has been implemented to address the exceptions noted.
2) Provide increased oversight to insurance companies participating in the NFIP to ensure the specific and consistent establishment and reporting of loss reserves and subsequent adjustments to the loss reserves.
3) Require insurance companies and the DSA to develop and implement procedures to review transactions prior to submission to the third-party service provider and to ensure such transactions are submitted timely.
4) Require insurance companies and the DSA to formally document their loss reserving policies and procedures at the company level.
5) Perform a regular (e.g., monthly) review of the total outstanding NFIP loss reserve balance for all insurance companies and the DSA.

III. INTERNAL CONTROL DEFICIENCIES RELATED TO PREMIUMS WRITTEN

Observation (NFRs FEMA-13-08 and FEMA-13-08a):
We selected nine insurance companies at which to perform audit procedures over the operating effectiveness of controls related to premiums written for the periods October 1, 2012, through March 31, 2013, April 1 through June 30, 2013, and July 1 through August 31, 2013. For the nine companies selected, we tested a sample of premiums written totaling 450 items covering the three testing periods identified above. During this testing, we noted the following internal control deficiencies and errors:

1) Based on our March 31, 2013, testwork, for one sample item, we noted the policy effective date was incorrectly calculated from the policy quote date and did not adhere to the standard 30-day wait period from the endorsement request date.

Company	Policy No.	Policy Endorsement Effective Date	Correct Endorsement Effective Date
Travelers	[redacted]	02/17/2013	02/28/2013

2) Based on our March 31, 2013, and August 31, 2013, testwork, for two sample items, the property was not rated using the flood zone identified via the policy's DHS Standard Flood Hazard Determination form.

March 31, 2013, Control Testwork Results:

Company	Policy No.	Correct Zone	Rated Zone
Nationwide	[redacted]	X	A

August 31, 2013, Control Testwork Results:

Company	Policy No.	Correct Zone	Rated Zone
Hartford Fire	[redacted]	AE	V21

3) Based on our June 30, 2013 and August 31, 2013, control testwork, for two sample items, we were unable to verify the rated flood zone per the FEMA flood maps.

June 30, 2013, Control Testwork Results:

Company	Policy No.	Rated Zone	Address Description per Policy
NFIP Direct Servicing Agent	[redacted]	AE	Rural Route

August 31, 2013, Control Testwork Results:

Company	Policy No.	Rated Zone	Address Description per Policy
NFIP Direct Servicing Agent	[redacted]	A	¼ of Sec 20 Township 398

FEMA's Federal Insurance and Mitigation Administration did not provide adequate oversight to ensure premiums written were properly reviewed prior to issuance.

FEMA's *NFIP Flood Insurance Manual* allows flood insurance applicants to provide a legal description or geographic location of the insured property in lieu of a street address. The submitted property location was not verified as FEMA's *NFIP Flood Insurance Manual* does not require all flood zones included in insurance policy applications to be verified by the underwriter.

Recommendations:
We recommend that FEMA's Federal Insurance and Mitigation Administration:

1) Follow-up with each of the insurance companies identified above to determine if they have implemented the appropriate corrective action to address the exceptions noted.
2) Provide increased oversight to insurance companies participating in the NFIP to ensure they process and review underwriting files in accordance with NFIP guidelines.
3) Revise the *NFIP Flood Insurance Manual* to require that all flood zones included in insurance policy applications are subject to verification by an underwriter through the use of risk-based sampling techniques.

IV. OTHER INTERNAL CONTROL DEFICIENCY

A. Deficiency Identified Related to the National Flood Insurance Program Standards Committee

Observation (NFR FEMA-13-05):
Based on process walkthroughs, we determined the NFIP Standards Committee had not met since April 2012. Additionally, we determined five vacant positions existed on the Standards Committee as of July 31, 2013, and had existed for over two months. The five vacant positions represent members of the designated insurance companies, pools, or other entities.

Additionally, we determined Federal Insurance and Mitigation Administration personnel did not provide an accurate listing of the current NFIP Standards Committee members in May 2013 upon our request.

Recommendation:
We recommend that FEMA's Federal Insurance and Mitigation Administration develop and implement policies and procedures which require the Standards Committee to meet on a periodic basis and ensure vacancies are filled in a timely manner.

MANAGEMENT'S RESPONSE

U.S. Department of Homeland Security
500 C Street, SW
Washington, DC 20472

FEMA

March 19, 2014

Memorandum For:	David Kaufman Associate Administrator Policy, Program Analysis and International Affairs
From:	Edward L. Connor Associate Administrator Flood Insurance and Mitigation Administration
Subject:	FIMA's Response to OIG Draft Report: *NFIP's Management Letter for the FY 2013 DHS Consolidated Financial Statement Audit*

Thank you for the opportunity to comment on the FY 2013 draft NFIP Management letter for the FY 2013 Consolidated audit. Our comments are keyed to specific NFRs.

FEMA 13-08a: Internal Control Deficiencies Related to Premium Written

The NFIP rules do not require policies to be re-underwritten when they are moved from one insurer to another, since those policies are considered having continuous coverage. When a policy conversion takes place, the policy is allowed to continue with the rating based on the prior underwriting information from the prior insurer. The Write Your Own (WYO) companies are responsible for rating the policies correctly as required in the WYO Arrangement, 44 CFR 62. The WYO is responsible for collecting and forwarding the proper premium to the NFIP as well as making corrections to the policy.

With regards to the use of legal description as a property address, the NFIP rules allow a legal description since there are many flood applications for buildings in the course of construction that do not use a standard street addresses when applying for flood insurance coverage.

FEMA will continue remediation efforts by developing a corrective action plan for FY 2014, subject to resource availability, which will prioritize risk consistency with other NFRs and recognize the progress on efforts already initiated and completed.

FEMA 13 -15 and FEMA 13-29: Deficiencies Identified over Claim's Loss Reserves at Selected Insurance Companies that Participate in FEMA's National Flood Insurance Program

FIMA believes the auditor's concerns over the current case loss reserve procedures is misplaced since the case reserves they have analyzed are not directly reported on the financial statement. And while the loss reserve estimate that is carried on the financial statement is, in part,

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influenced by the case reserves, the NFIP actuaries have demonstrated, in analyses that have been shared with the auditors, that even a large change in the adequacy of the case loss reserves from the historical pattern has only a very small influence on the year-end estimated loss reserve. The actuaries that develop the sensitivity tests and loss reserve estimate that is carried on the financial statement have repeatedly assured us that case loss reserves do not have to be "accurate" in order for them to make a reasonable loss reserve estimate. What the actuary needs is a reasonably stable pattern of total case loss reserves. And the analysis referenced earlier demonstrates that even when that condition deteriorates it has only minor impact on the loss reserve that the actuary estimates.

There is no FEMA case loss reserving process between FEMA and the Write Your Program. The regulation at 44 CFR Part 62, Appendix A, the Arrangement, requires the insurers to use their normal business practices. Reserving is one business practice that all property and casualty insurers are involved with. With respect to property reserves, the reserve may be handled in different ways by different companies at different times. In one case just a few years ago, a WYO only bulked reserved catastrophe property losses. These short-tail property reserves (claim is typically paid within a year) are typically not the precise concern as the longer tail reserves, such as Workers' Compensation, auto bodily injury, or other catastrophic bodily injury liability claims. The first reserving rule is the company staff managing the case loss reserving process is given great latitude as to when and how much a reserve should be adjusted. Reserving, especially case loss reserving is not a science and each individual setting a reserve may have a different approach. Whether or not a reserve is increased or decreased and when should be left to the individual setting the reserve, not the adjuster. The adjuster has no authority other than to recommend. Each insurer can have different reserving procedures for the various lines of business (i.e., worker's compensation, liability, homeowners, wind, flood, and such). FEMA recognizes that those reserving practices that do not take down significant reserves to zero when the claim file is paid and permanently closed with no further exposure possible should be noted.

For the vast majority of NFIP claims, the maximum reserve payment is $250,000 for the dwelling and $100,000 for dwelling contents. However, the average payment for all claims after Sandy was only about $55,000 and in New York only the average was $62,000. A very high percentage of claims are paid on average in less than 60 days unless the proof of loss time requirement is extended as it was after Sandy – to 18 months. To set up a complicated reserving scheme for each flood claim when the majority will be paid and/or closed in less than a year, will be expensive to implement and is not effective or practical. The reports recommended by the auditors can be an effective tool, but the cost of such review and working with each insurer or through each company's vendor on each individual reserve will also be expensive to implement. This process will also be expensive for the NFIP insurers and FEMA could be faced with requests for increases in their expense allowance to reimburse them for such additional expenses. FEMA is concerned that the cost versus benefit of such review and work may weigh extremely heavily on the cost side, for the true benefit, as described above, is negligible.

It is important to note that FEMA has already taken the step to have the NFIP insurers' review all outstanding pre-Sandy reserves and close out those that have been fully paid and no further exposure exist and to justify the others. In addition, a systematic process to review reported open reserves when there is an indication that all payments have been made is in development. Finally, a bulletin is in process to request that all WYO Companies provide FEMA with their case loss reserving practices and procedures. FEMA understands that outstanding ICC claims, those claims in litigation, and any claims involved in investigation by OIG, GAO or other investigative agencies may be open for an extended period of time.

FEMA 13-05: Lack of Oversight by the National Flood Insurance Program Standards Committee

There is no requirement for the WYO Standards Committee to meet. The Committee oversees the performance of WYO companies and recommends appropriate remedial actions when companies fail to comply with the requirements of the WYO Financial Control Plan. No WYO Company's performance required referral to the WYO Standards Committee for remedial or other action during FY 2013. During the time period under review, FEMA oversaw Company performance through its annual WYO Financial Control Plan review activities. These oversight activities were deemed to provide sufficient oversight to allow GAO to close recommendations in *Financial Management: Improvements Needed in National Flood Insurance Program's Financial Controls and Oversight,* GAO-10-66 regarding FEMA's oversight of the WYO companies. The WYO Standards Committee met on October 30, 2013 and will meet again in April, 2014. FEMA has filled all of the vacant industry positions.

Thank you again for the opportunity to comment on the draft report.

AUDITORS' RESPONSE

FEMA's response to the draft of this letter discussed several specific observations noted in the letter. As such, we provide the following additional information.

Regarding Observation III.3 (NFR FEMA-13-08a), we specifically noted two instances during our fiscal year 2013 testing in which the addresses were documented legal descriptions of the property. Although in compliance with FEMA policy, this specific condition prevented a conclusion regarding the proper flood zone rating of the policies, including whether the appropriate premiums were collected from the insured.

Regarding Observation II.B (NFRs FEMA-13-15 and FEMA-13-29), in conjunction with our audit procedures, we received a letter from the FEMA contracted actuary describing the data elements utilized in computing the actuarial insurance liability estimate as of September 30, 2013. This letter, which guided our testing approach related to the insurance liability estimate, included case reserves as one of the data elements used in the calculation. Our testing of data elements occurred throughout fiscal year 2013. FEMA's year-end analysis demonstrated that case reserves were not a significant factor in the calculation of the insurance liability estimate as of September 30, 2013; we took this information into consideration in determining the severity of the conditions identified, which we concluded to be control deficiencies, not more severe significant deficiencies.

Additionally, our recommendations related to Observation II.B are not intended to suggest that FEMA specify a uniform case reserving practice/procedure for all insurance companies participating in the NFIP. We understand that case reserving is a normal business practice for all property and casualty insurers and that FEMA must consider the costs versus benefits of implementing changes to such a disaggregated process. However, each participating insurance company should consistently adhere to its own policies and procedures related to case reserving, which should be documented as part of the company's internal control structure.

Regarding Observation IV.A (NFR FEMA-13-05), we acknowledge the functions of the NFIP Standards Committee outside of holding meetings. However, we recommend in our letter that the Committee meet on a periodic basis, in addition to the other review activities it performs, in order to strengthen this oversight process.

Appendix A
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ADDITIONAL INFORMATION

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