



FEMA

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March 16, 2010

MEMORANDUM FOR: Write Your Own (WYO) Company Principal Coordinators,  
National Flood Insurance Program (NFIP) Servicing Agent and  
Selected Adjusting Firms



FROM: James A. Sadler, CPCU, AIC  
Director of Claims  
National Flood Insurance Program

SUBJECT: NFIP Improper Payment Information Act of 2002 (IPIA) Assessment

The National Flood Insurance Program (NFIP) was selected in 2009 to participate in the Department of Homeland Security's (DHS) Federal Emergency Management Agency (FEMA) Office of the Chief Financial Officer (OCFO) assessment of payments. The assessment included the testing of NFIP claim payments issued by the Write Your Own (WYO) Companies and the NFIP Servicing Agent (NFIP SA) to identify possible erroneous or improper payments. The assessment was conducted in compliance with the Improper Payment Information Act of 2002 (IPIA) and applicable Office of Management and Budget (OMB) guidance. DHS conducts IPIA assessments on a fiscal year basis, and the April 2009, IPIA review marked the beginning of this process.

To comply with this directive a random National sample from the NFIP population of claim loss payments reported through the Transaction Record Reporting and Processing Plan (TRRP) was selected. The payment transaction types that fall under this assessment include:

- Building Claim Payments
- Contents Claim Payment
- Increased Cost of Compliance (ICC) Claim Payments

For the purpose of the assessment, DHS uses the following definition of erroneous or improper payments as interpreted by OMB from Circular A-123, Appendix C:

*“An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments and underpayments (including inappropriate denials of payment or service). An improper payment includes any payment that was made to an ineligible recipient or for an ineligible service, duplicate payments,*

*payments for services not received, and payments that are for the incorrect amount. In addition, when an agency's review is unable to discern whether payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an error."*

This DHS/OMB definition does not always result in a finding that would trigger an Operation Review improper payment. However, for consistency among DHS Agencies, the definition was used for the testing. The results of the testing are rolled up and individual Insurer's are not identified.

In April of 2009, FEMA's Claims and Appeals Branch conducted the first IPIA testing of 369 claim payments from (FY) 2008. FEMA's Claims and Appeals Branch approached the review using Operation Review methods applied to the DHS definition. The testing results identified four erroneous or improper payment classifications. The categories are:

#### **Incorrect Estimate/Worksheet Calculation**

The claim file review indicated some of the claim files did not have sufficient room-by-room itemizations for building estimates or content inventories. There was misapplication of Overhead and Profit. In some instances there was evidence of improper determination of the scope of damage as well as incorrect Application of Coverage. Re-reviews of Litigation Claim files were inadequate or not conducted. In addition, there were files that had inadequate Management Controls to ensure that adjustment issues were correctly estimated and calculated.

#### **Payment Processing Errors**

Claim check(s) failed to either name a known Mortgagee. The failure to re-issue outstanding claim checks after stop payments, or stale date checks with no explanation provided in the claims file. There were issues involving payment timeframes that were not met. Additionally, there were indications that Salvage buy-back processing was not correctly handled.

#### **Insufficient Damage Documentation**

The claim review showed insufficient damage documentation lacking invoices, inventories and estimates. Also, in some cases a third-party expert should have been hired to assist with the damage documentation for commercial losses. In other cases, the claim did not show any evidence of Direct Physical Damage documentation in the file.

#### **Covered Loss Exceeded**

There was incorrect application of the Special Coverage limits with no supporting documentation.

This Bulletin highlights these categories of findings and underscores the need for appropriate documentation and explanation in claims processing and focus on established NFIP claims requirements and Standard Flood Insurance Policy provisions. Implicit in the findings are Industry Best Practices to encourage greater compliance with NFIP regulations and guidelines.

The 2010 testing of FY 2009 claim payments will begin in late April. Notice will be sent to the selected insurers as quickly as the test claims are identified. FEMA appreciates the cooperation it

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received from the insurers last year. Much was learned during the first year of testing that will make the second cycle more meaningful and efficient.

Cc: Vendors, IBHS, FIPNC, Government Technical Representative

Suggested Routing:, Claims, Training Adjusting Firms, Independent Flood Adjusters