



FEMA

W-10013

February 25, 2010

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

FROM: Kevin Montgomery  
Contract Officer's Technical Representative  
Federal Emergency Management Agency

SUBJECT: NFIP Restricted Bank Account Reconciliation

This Bulletin provides additional guidance to clarify the proper control and maintenance of the NFIP restricted bank account.

The Financial Assistance/Subsidy Arrangement is an arrangement between the NFIP and a WYO company, which details the general requirements for claims processing, underwriting, and administration with which a company must comply. This arrangement includes the application for a WYO company to participate in SmartLink, the Department of Health and Human Services' (HHS) Payment Management System, to draw funds via a Letter of Credit (LOC) from the U.S. Department of Treasury (Treasury).

A WYO company must deposit premium receipts or any cash related to NFIP activities, net of the WYO expense allowance, into a restricted bank account solely for NFIP activity. WYO companies can pay for claims reported with net premium income received but not yet remitted to FEMA. WYO companies must reconcile the restricted account used for payment of claims and receipt of premiums and LOC draws on a monthly basis.

During an audit for the period ending September 30, 2009, audit test work performed over the NFIP restricted bank account reconciliation noted the following selected deficiencies:

- Lockbox receipts received on the last day of the month were not included in the respective month's general ledger. Thus, the deposits were included in the company's bank balance but not recorded in FEMA's general ledger. This resulted in understating recorded cash.
- Unsupported reconciling items were noted as included in the bank balance but not in the general ledger.

WYO companies and the Direct Servicing Agent must reconcile the restricted account on a monthly basis. This guidance is noted in the NFIP WYO Accounting Procedures Manual, effective 10/1/05, *Part C-Cash Management*: [http://bsa.nfipstat.com/manuals/acctproc\\_200510.pdf](http://bsa.nfipstat.com/manuals/acctproc_200510.pdf). Specifically, all companies must establish a separate general ledger account to record transactions and provide supporting detail for cash balances. In addition, monthly reconciliations between bank statements and the general ledger cash balance must be performed, to include underlying detailed support.

In this regard, each WYO Company and the NFIP Servicing Agent must ensure that proper control and maintenance over the NFIP restricted bank account are in place and that all transactions are properly recorded; all transactions are recorded timely; and that all reconciling adjustments are supported with relevant and reliable documentation.

FEMA intends to perform periodic reviews of the NFIP restricted bank account reconciliations. Please ensure that all NFIP restricted bank account monthly reconciliations are available for review upon request by FEMA.

cc: Vendors, IBHS, FIPNC

Suggested Routing: Accounting, Claims, Marketing

ARCHIVED APRIL 2018