these documents should make an appointment with the appropriate office at least 24 hours before the visiting day.

Air and Radiation Docket and Information Center (Air Docket 6102), U.S. Environmental Protection Agency, 443, 401 M Street SW., Washington, DC 20460.

Environmental Protection Agency, Region 4 Air Programs Branch, 345 Courtland Street NE., Atlanta, Georgia 30365.

North Carolina Department of Environmental, Health, and Natural Resources, Division of Environmental Management, Raleigh, North Carolina 27626–0535.

FOR FURTHER INFORMATION CONTACT: Mr. Randy Terry, Regulatory Planning and Development Section, Air Programs Branch, Air, Pesticides, and Toxics Management Division, Region 4 Environmental Protection Agency, 345 Courtland Street, Atlanta, Georgia 30365. The telephone number is 404/347–3555, ext. 4212.

SUPPLEMENTARY INFORMATION: For additional information see the direct final rule which is published in the rules section of this Federal Register.


Patrick M. Tobin,
Acting Regional Administrator.

[FR Doc. 96–1940 Filed 1–31–96; 8:45 am]

BILLING CODE 6560–50–M

40 CFR Parts 52 and 81

[OH60–1–6377b; FRL–5410–2]

Approval and Promulgation of Air Quality Implementation Plans, and Designation of Areas for Air Quality Planning Purposes; Ohio

AGENCY: Environmental Protection Agency (USEPA).

ACTION: Proposed rule.

SUMMARY: The USEPA proposes to approve the ozone State Implementation Plan (SIP) revision and redesignation requests submitted by the State of Ohio for the purpose of redesignating Franklin, Delaware, and Licking Counties (Columbus area) from nonattainment to attainment for ozone; and revise Ohio’s SIP to include a 1990 base-year ozone precursor emissions inventory for the Columbus ozone nonattainment area. In the final rules section of this Federal Register, the USEPA is approving this action as a direct final rule without prior proposal because USEPA views this as a noncontroversial action and anticipates no adverse comments. A detailed rationale for the approval is set forth in the direct final rule. If no adverse comments are received in response to that direct final rule, no further activity is contemplated in relation to this proposed rule. If USEPA receives adverse comments, the direct final rule will be withdrawn and all public comments received will be addressed in a subsequent final rule based on the proposed rule. It should be noted, however, that an adverse or critical comment on the direct final approval of the Columbus area redesignation request or maintenance plan will not result in a withdrawal of the direct final approval of the Columbus emission inventory, unless USEPA receives adverse or critical comments on the emission inventory approval, as well. USEPA will not institute a second comment period on this action. Any parties interested in commenting on this document should do so at this time.

DATES: Comments on this proposed rule must be received on or before March 4, 1996.

ADDRESSES: Written comments should be mailed to: J. Elmer Borzter, Chief, Regulation Development Section, Regulation Development Branch (AR18–J), U.S. Environmental Protection Agency, Region 5, 77 West Jackson Boulevard, Chicago, Illinois 60604.

Copies of the State submittal and USEPA’s analysis of it are available for inspection at: Regulation Development Section, Regulation Development Branch (AR18–J), U.S. Environmental Protection Agency, Region 5, 77 West Jackson Boulevard, Chicago, Illinois 60604.

SUPPLEMENTARY INFORMATION: For additional information see the direct final rule published in the rules section of this Federal Register.


Valdas V. Adamkus,
Regional Administrator.

[FR Doc. 96–1934 Filed 1–31–96; 8:45 am]

BILLING CODE 6560–50–P

FEDERAL EMERGENCY MANAGEMENT AGENCY

44 CFR Part 62

RIN 3067–AC40

National Flood Insurance Program; Audit Program Revision

AGENCY: Federal Insurance Administration (FEMA).

ACTION: Proposed rule.

SUMMARY: The Federal Insurance Administration (FIA) proposes to amend its regulations regarding the manner in which its audits are conducted under the National Flood Insurance Program’s (NFIP) Write Your Own (WYO) Program. The intent of the proposed regulations is to develop a comprehensive, less burdensome, more efficient audit program. FIA anticipates that these revisions will result in greater economy of resources and new savings to the NFIP public.

DATES: We invite your comments and ask that you submit them no later than March 18, 1996.


SUPPLEMENTARY INFORMATION: Recently, after reviewing the programs and services provided to the NFIP public, the Federal Insurance Administrator concluded that the services currently being provided could be enhanced and improved by revising the audit procedures. As a result, FIA intends to discontinue the self-audit program, along with the triennial claims and underwriting operations reviews. The “triennial” audit will be revised to be conducted on a biennial basis, and expanded to encompass greater claims and underwriting audits that are to be conducted by Certified Public Accountant (CPA) firms, selected by the WYO companies, at the companies’ expense. These changes are being made to facilitate improved management control over the audit process. FIA believes these efforts will result in appreciable program savings to both the WYO companies and the FIA.

National Environmental Policy Act

This proposed rule is categorically excluded from the requirements of 44
CFR Part 10, Environmental Consideration. No environmental impact assessment has been prepared.

Executive Order 12898, Environmental Justice

The socioeconomic conditions relating to this proposed rule were reviewed and a finding was made that no disproportionately high and adverse effect on minority or low income populations result from this proposed rule.

Executive Order 12866, Regulatory Planning and Review

This proposed rule is not a significant regulatory action within the meaning of section 2(f) of E.O. 12866 of September 30, 1983, 58 FR 51735, and has not been reviewed by the Office of Management and Budget (OMB). Nonetheless, this proposed rule adheres to the regulatory principles set forth in E.O. 12866.

Paperwork Reduction Act

In accordance with the provisions of the Paperwork Reduction Act of 1995, 44 U.S.C. 3501 et seq., the collections of information contained in this proposed rule have been submitted to and approved by the Office of Management and Budget. To request additional information or copies of the OMB submissions, contact the FEMA Informations Collections Officer, Muriel B. Anderson, by calling (202) 646-2625 or by writing to FEMA, 500 C Street S.W., Washington, DC 20472. The approved collections of information are:

OMB Number 3067-0169, Write Your Own (WYO) Program—To maintain adequate financial control over Federal funds, the National Flood Insurance Program requires each WYO company to meet the requirements of the WYO Transaction Record Reporting and Processing Plan and to submit monthly financial and statistical reports as required in FEMA regulation 44 CFR Part 62, Appendix B. The number of respondents is estimated at 105. The burden estimates per respondent are as follows: Reconciliation Report, 30 minutes; Biennial Audit Administrative Review Checklist, 1 hour; Monthly Financial and Statistical Reconciliation Reports Certification Statement, 3 minutes; and Monthly Statistical Transaction Reports Certification Statement, 3 minutes.

OMB Number 3067-0229, Mortgage Portfolio Protection Program (MPPP)—Lending institutions, mortgage servicing companies and others servicing mortgage loan portfolios can bring their mortgage loan portfolios into compliance with the flood insurance purchase requirements of the Flood Disaster Protection Act of 1973. The number of respondents is estimated at 6,526. The burden estimates per respondent are as follows: 150 hours for WYO companies to set up initial operations under the MPPP; 30 minutes per lender to sign an agreement with a WYO company to notify each mortgagor (3 notices at 10 minutes per notice); and 30 minutes for each mortgagor to ask questions and respond to the notices.

Although the collections of information have been approved by OMB, FEMA continues to solicit comments on (1) whether the collections of information are necessary for the proper performance of the functions of the agency, including whether the information will have practical utility; (2) the accuracy of the agency’s estimates of the burden of the collections of information; (3) ways to enhance the quality, utility, and clarity of the information to be collected; and (4) ways to minimize the burden of the collections of information on those who are to respond, including through the use of appropriate automated, electronic, mechanical, or other technological collection techniques or other forms of information technology.

Submit comments within 60 days of this notice to the Federal Emergency Management Agency, Attention: Information Collections Management, 500 C Street S.W., room 311, Washington, D.C. 20472.

Executive Order 12612

This proposed rule involves no policies that have federalism implications under Executive Order 12612, Federalism dated October 26, 1987.

Executive Order 12778, Civil Justice Reform

This proposed rule meets the applicable standards of 2(b)(2) of Executive Order 12778.

List of Subjects in 44 CFR Part 62

Flood insurance.

Accordingly, 44 CFR part 62 is proposed to be amended as follows:

§62.23 WYO Companies authorized.

(a) Pursuant to section 1345 of the Act, the Administrator may enter into arrangements with individual private sector property insurance companies whereby such companies may offer flood insurance coverage under the Program to eligible applicants for such insurance, including policyholders insured by them under their own property insurance business lines of insurance pursuant to their customary business practices including their usual arrangements with agents and producers, in any State in which such WYO Companies are licensed to engage in the business of property insurance. Arrangements entered into by WYO Companies under this subpart shall be in the form and substance of the standard arrangement, entitled “Financial Assistance/Subsidy Arrangement”, a copy of which is included in Appendix A of this part and made a part of these regulations.

(b) Any duly licensed insurer so engaged in the Program shall be a WYO Company.

(c) A WYO Company is authorized to arrange for the issuance of flood insurance in any amount within the maximum limits of coverage specified in §61.6 of this subchapter, as Insurer, to any person qualifying for such coverage under parts 61 and 64 of this subchapter who submits an application to the WYO Company; coverage shall be issued under the Standard Flood Insurance Policy.

(d) A WYO Company issuing flood insurance coverage shall arrange for the adjustment, settlement, payment and defense of all claims arising from policies of flood insurance it issues under the Program, based upon the terms and conditions of the Standard Flood Insurance Policy.

(e) In carrying out its functions under this subpart, a WYO Company shall use its own customary standards, staff and independent contractor resources, as it would in the ordinary and necessary conduct of its own business affairs, subject to the Act and regulations prescribed by the Administrator under the Act.

(f) To facilitate the marketing of flood insurance coverage under the Program to policyholders of WYO Companies, the Administrator will enter into arrangements with such companies whereby the Federal Government will be a guarantor in which the primary relationship between the WYO Company and the Federal Government will be one of a fiduciary nature, i.e., to assure that any taxpayer funds are accounted for and appropriately expended. In furtherance of this end,
the Administrator has established “A Plan to Maintain Financial Control for Business Written Under the Write Your Own Program”, a copy of which is included in Appendix B of this part and made a part of these regulations.

(g) WYO Companies shall not be agents of the Federal Government and are solely responsible for their obligations to their insureds under any flood insurance policies issued under arrangements entered into with the Administrator.

(h) To facilitate the underwriting of flood insurance coverage by WYO Companies, the following procedures will be used by WYO Companies:

(1) To expedite business growth, the WYO Company will encourage its present property insurance policyholders to purchase flood insurance and to transfer to the WYO Company, at the time of policy renewal, business placed by its producers with the NFIP Bureau and Statistical Agent.

(2) To confirm its underwriting practices to the underwriting rules and rates in effect as to the NFIP, the WYO Company will establish procedures to carry out the NFIP rating system and to provide its policyholders with the same coverage as is afforded under the NFIP.

(3) The WYO Company may follow its customary billing practices to meet the Federal rules on the presentment of premium and net premium deposits to a Letter of Credit bank account authorized by the Administrator and reduction of coverage when an underpayment is discovered.

(4) The WYO Company is expected to meet the recording and reporting requirements of the WYO Transaction Record Reporting and Processing Plan. Transactions reported by the WYO Company under the WYO Transaction Record Reporting and Processing Plan will be analyzed by the NIP Servicing Agent. A monthly report will be submitted to the WYO Company and the FIA. The analysis will cover the timeliness of WYO Company submissions, the disposition of transactions that have not passed systems edits and the reconciliation of the total generated from transaction reports with those submitted on the WYO Company’s reconciliation reports.

(5) If a WYO Company rejects an application from an agent or a producer, the agent or producer should be notified so that the business can be placed through the NFIP Servicing Agent, or another WYO Company.

(6) Flood insurance coverage will be issued by the WYO Company on a separate policy form and will not be added, by endorsement, to the Company’s other property insurance forms.

(7) Premium payment plans can be offered by the WYO Company so long as the net premium depository requirements specified under the NFIP/WYO Program accounting procedures are met. A cancellation of the WYO Company for non-payment of premium will not produce a pro rata return of the net premium deposit to the WYO Company.

(8) NFIP business will not be assumed by the WYO Company at any time other than at renewal time, at which time the insurance producer may submit the business to the WYO Company as new business. However, it is permissible to cancel and rewrite flood policies to obtain concurrent expiration dates with other policies covering the property. Where the insurance agent or producer of record of a flood insurance policy issued by the Administrator has authorized the NFIP, in writing, to release policy information for the conversion of the NFIP coverage to a designated WYO Company represented by the agent or producer of record, in order to facilitate policy issuance and reduce administrative burdens upon the NFIP and WYO Companies and their agents and producers, countersignature requirements in the several States shall not apply.

(i) To facilitate the adjustment of flood insurance claims by WYO Companies, the following procedures will be used by WYO Companies:

(1) Under the terms of the Arrangement set forth at appendix A of this part, WYO Companies will adjust claims in accordance with general Company standards, guided by NFIP Claims manuals. The Arrangement also provides that claim adjustments shall be binding upon the FIA. For example, the entire responsibility for providing a proper adjustment for both combined wind and water claims and flood-alone claims is the responsibility of the WYO Company.

(2) The WYO Company may use its staff adjusters and/or independent adjusters. It is important that the Company’s Claims Department verifies the correctness of the coverage interpretations and reasonableness of the payments recommended by the adjusters.

(3) An established loss adjustment Fee Schedule is part of the Arrangement and cannot be changed during an Arrangement year. This is the expense allowance to cover costs of independent WYO Company adjusters.

(4) The notice and adjustment of claims procedure currently operated by a WYO Company should be implemented in the event of a claim catastrophe situation. Flood claims will be handled along with other catastrophe claims.

(5) It will be the WYO Company’s responsibility to try to detect fraud (as it does in the case of property insurance) and coordinate its findings with FIA.

(6) Pursuant to the Arrangement, the responsibility of defending claims will be upon the Write Your Own Company and defense costs will be part of the unallocated or allocated claim expense allowance, depending on whether a staff counsel or an outside attorney handles the defense of the matter. Claims in litigation will be reported by WYO Companies to FIA upon joinder of issue and FIA may inquire and be advised of the disposition of such litigation.

(7) The claim reserving procedures of the individual WYO Company can be used.

(8) Regarding the handling of subrogation, if a WYO Company prefers to forego pursuit of subrogation recovery, it may do so by referring the matter, with a complete copy of the claim file, to FIA. Subrogation initiatives may be truncated at any time before suit is commenced (after commencing an action, special arrangements must be made). FIA, after consultation with FEMA’s Office of the General Counsel (OGC), will forward the cause of action to OGC or to the NFIP Bureau and Statistical Agent for prosecution. Any funds received will be deposited, less expenses, in the National Flood Insurance Fund.

(9) Special allocated loss adjustment expenses will include such items as: nonstaff attorney fees, engineering fees and special investigation fees over and above normal adjustment practices.

(10) The customary content of claim files will include coverage verification, normal adjuster investigations, including statements where necessary, police reports, building reports and investigations, damage verification and other documentation relevant to the adjustment of claims under the NFIP’s and the WYO Company’s traditional claim adjustment practices and procedures. The WYO Company’s claim examiners and managers will supervise the adjustment of flood insurance claims by staff and independent claims adjusters.

(11) The WYO Company will extend reasonable cooperation to FEMA’s Office of the General Counsel on matters pertaining to litigation and subrogation, under paragraph (i)(8) of this section.

(12) To facilitate the development of financial controls under the WYO Program, the WYO Companies:
(1) Select a Certified Public Accountant (CPA) firm to conduct biennial audits of the financial, claims and underwriting records of the company. These audits shall be performed in accordance with the Government Auditing Standards issued by the Comptroller General of the United States (commonly known as yellow book). FIA further requires that pre-selected policy and claims files the CPA firm is asked to review are in addition to any files that the auditors may select for their sample. A report of the detailed biennial audit conducted will be filed with the FIA which, after a review of the audit report, will convey its determination to the Standards Committee. The CPA firm chosen to conduct the audit is expected to use qualified, skilled persons with the requisite background in property insurance and a knowledge of the NFIP. Persons performing claims audits are expected to possess claims expertise which would allow them to ascertain whether the scope of damage was proper, and if all applicable NFIP policy provisions were properly followed. Persons performing underwriting audits should be able to ascertain if the risk has been properly rated, which would essentially require that the NFIP rating situations, such as elevated buildings.

(2) Meet the recording and reporting requirements of the WYO Transaction Record Reporting and Processing Plan and the WYO Accounting Procedures Manual. Transactions reported to the National Flood Insurance Program’s (NFIP’s) Bureau and Statistical Agent by the WYO Company under the WYO Transaction Record Reporting and Processing Plan and the WYO Accounting Procedures Manual will be analyzed by the Bureau and Statistical Agent and a monthly report will be submitted to the WYO Company and the FIA. The analysis will cover the timeliness of the WYO Company submissions, the disposition of transactions which do not pass systems edits and the reconciliation of the totals generated from transaction reports with those submitted on WYO Company reconciliation reports.


(4) Cooperate with FIA in the implementation of a claims reinspection program.

(5) Cooperate with FIA in the verification of risk rating information.


(k) To facilitate the operation of the WYO Program and in order that a WYO Company can use its own customary standards, staff and independent contractor resources, as it would in the ordinary and necessary conduct of its own business affairs, subject to the Act, the Administrator, for good cause shown, may grant exceptions to and waivers of the regulations contained in this title relative to the administration of the NFIP.

(l)(1) WYO Companies may, on a voluntary basis, elect to participate in the Mortgage Portfolio Protection Program (MPPP), under which they can offer, as a last resort, flood insurance at special high rates, sufficient to recover the full cost of this program in recognition of the uncertainty as to the degree of risk a given building presents due to the limited underwriting data required, to properties in a lending institution’s mortgage portfolio to achieve compliance with the flood insurance purchase requirements of the Flood Disaster Protection Act of 1973. Flood insurance policies under the MPPP may only be issued for those properties that:

(i) Are determined to be located within special flood hazard areas of communities that are participating in the NFIP, and

(ii) Are not covered by a flood insurance policy even after a required series of notices has been given to the property owner (mortgagor) by the lending institution of the requirement for obtaining and maintaining such coverage, but the mortgagor has failed to respond.

(2) WYO Companies participating in the MPPP must provide a detailed implementation package to any lending institution that, on a voluntary basis, chooses to participate in the MPPP to ensure the lending institution has full knowledge of the criteria in that program and must obtain a signed receipt for that package from the lending institution. Participating WYO Companies must also maintain evidence of compliance with paragraph (l)(3) of this section for review during the audits and reviews required by the WYO Financial Control Plan contained in appendix B of this part.

(3) The mortgagor must be protected against the lending institution’s arbitrary placing of flood insurance for which the mortgagor will be billed by being sent three notification letters as described in paragraphs (l)(4) through (l)(6) of this section.

(4) The initial notification letter must:

(i) State the requirements of the Flood Disaster Protection Act of 1973, as amended;

(ii) Announce the determination that the mortgagor’s property is in an identified special flood hazard area as delineated on the appropriate FEMA map, necessitating flood insurance coverage for the duration of the loan;

(iii) Describe the procedure to follow should the mortgagor wish to challenge the determination;

(iv) Request evidence of a valid flood insurance policy or, if there is none, encourage the mortgagor to promptly obtain a Standard Flood Insurance Policy (SFIP) from a local insurance agent (or WYO Company);

(v) Advise that the premium for an MPPP policy is significantly higher than a conventional SFIP policy and advise as to the option for obtaining less costly flood insurance; and

(vi) Advise that an MPPP policy will be purchased by the lender if evidence of flood insurance coverage is not received by a date certain.

(5) The second notification letter must remind the mortgagor of the previous notice and provide essentially the same information.

(6) The final notification letter must:

(i) Enclose a copy of the flood insurance policy purchased under the MPPP on the mortgagor’s behalf, together with the Declarations Page.

(ii) Advise that the policy was purchased because of the failure to respond to the previous notices, and

(iii) Remind the insured that similar coverage may be available at significantly lower cost and advise that the policy can be cancelled at any time during the policy year and a pro rata refund provided for the unearned portion of the premium in the event the insured purchases another policy that is acceptable to satisfy the requirements of the 1973 Act. “(Approved by the Office of Management and Budget under OMB control number 3067-0229)”

Appendix B to Part 62 [Revised]

3. Appendix B to Part 62—National Flood Insurance Program, is proposed to be revised to read as follows:

Appendix B to Part 62—National Flood Insurance Program

A Plan To Maintain Financial Control for Business Written Under the Write Your Own Program

Under the Write Your Own (WYO) Program, the Federal Insurance Administrator (Administrator) may enter into arrangements with individual private sector insurance companies that are licensed to engage in the business of property insurance, whereby these companies may offer flood insurance coverage to eligible property owners using their customary business practices. To facilitate the marketing of flood
insurance coverage, the Federal Government will be a guarantor of flood insurance coverage for WYO Company policies issued under the WYO Arrangement. To ensure that any taxpayer funds are accounted for and appropriately expended, the Federal Insurance Administrator (FIA) and WYO Companies will implement this Financial Control Plan. Any departures from the requirements of this Plan must be approved by the Administrator. The authority for the WYO Program is contained in §134 of the National Flood Insurance Act of 1968, 42 U.S.C. 4081, and 44 CFR parts 61 and 62, §§ 61.13 and 62.23. The WYO Financial Assistance/Subsidy Arrangement (Arrangement) which is included in appendix A of this part is hereby made a part of this Financial Control Plan.

WYO Companies are subject to audit, examination, and regulatory controls of the various states. Additionally, insurance company operating departments are customarily subject to examinations and audits performed by Company internal audit (and/or quality control) departments and independent CPA firms. It is intended that this Plan use to the extent possible, the findings of these examinations and audits as they pertain to business written under the WYO Program (Parts 3 and 4).

The WYO Financial Control Plan contains several checks and balances that can, if properly implemented by the WYO Company, significantly reduce the need for extensive on-site reviews of Company files by the FIA staff or their designee. Furthermore, we believe that this process is consistent with customary reinsurance practices and avoids duplication of examinations performed under the auspices of individual State Insurance Departments, NAIC Zone examinations, and independent CPA firms. The WYO Financial Control Plan requires the WYO Company to meet the minimum requirements established by the Standards Committee. The Standards Committee consists of four (4) members from FIA, one (1) member from the Federal Emergency Management Agency’s (FEMA’s) Office of Financial Management, one (1) member designated by the Administrator who is not directly involved in the WYO Program, and one (1) member from each of six (6) designated WYO Companies, pools or other entities.

The WYO Financial Control Plan must require the WYO Company to:

1. Have a biennial audit of the flood insurance financial statements and claims andunderwriting activity conducted by an independent accounting firm at the WYO Company’s expense to ensure that the financial data reported to FIA accurately represents the flood insurance activities of the Company. Require that the CPA firm’s audit be performed in accordance with GAO yellow book requirements. Require that the audit company conduct their own review sample, even if pre-selected policy and claims files are given to them for review.

2. Meet the recording and reporting requirements of the WYO Transaction Record Reporting and Processing Plan. Transactions reported to the National Flood Insurance Program’s (NFIP’s) Bureau and Statistical Agent by the WYO Company under the WYO Transaction Record Reporting and Processing Plan will be analyzed by the Bureau and Statistical Agent and a monthly report will be submitted to the WYO Company and the FIA. The analysis will cover the timeliness of the WYO Company’s submissions, the disposition of transactions that do not pass systems edits, and the reconciliation of the total generated from transaction reports with those submitted on the WYO Company’s reports (part 1).


4. Cooperate with FIA in the implementation of a claims reinspection program (part 2).

5. Cooperate with FIA in the verification of risk rating information.


The Standards Committee will review and make a recommendation to the Administrator concerning any adverse action arising from the implementation of the Financial Control Plan. Adverse actions include, but are not limited to the FIA Operations Division’s recommendations not to renew a particular Company’s WYO arrangement.

This Plan includes the following guidelines:

Part 1—Transaction Record Reporting and Processing Plan Reconciliation Procedures
Part 2—Claims Reinspection Program
Part 3—Financial Audits, Underwriting Audits, and State Insurance Department Audits
Part 4—Reports Certifications
Part 5—WYO Financial Assistance/Subsidy Arrangement (Incorporated by Reference)
Part 6—Transaction Record Reporting and Processing Plan (Incorporated by Reference)
Part 7—Write Your Own (WYO) Accounting Procedures Manual (Incorporated by Reference)

The objectives are: To reconcile transaction detail with monthly financial statements submitted by the WYO Companies; to assess the quality and timeliness of submitted data; and to provide for the identification and resolution of discrepancies in the data. The reliance on computer processing to perform the review of transaction and financial data will help minimize the necessity for on-site audits of WYO Companies. Reconciliation of the statistical reports submitted will be performed by the WYO Companies and independently by the NFIP Bureau and Statistical Agent.

The Review of monthly financial statements and transaction level detail will involve five areas:

A. Financial control;
B. Quality control (audit trails);
C. Quality review of submitted data;
D. Policy rating;
E. Timeliness of reporting; and
F. Monthly reports.

A. Financial Control

1. WYO Companies are required to submit a reconciliation report (Exhibit “A”) with the submission of transaction level detail. This report will reconcile the transaction records data to the financial report, explaining any discrepancies.

2. WYO Companies are required to submit, on a form approved by the Administrator, a tape transmittal document with the submission of the statistical tape containing transaction detail. This will be used to validate record counts and dollar amounts.

3. The NFIP will review, at a minimum, the categories on the attached format and produce a similar report reconciling the transaction data to the monthly financial statement submitted by each WYO Company.

4. To facilitate financial reconciliation, transaction records which do not pass various edits employed by the NEIP to review the quality of submitted data will be so identified, but still maintain whenever possible until the error is corrected by the company in order to reconcile all financial data submitted to the NFIP.

B. Quality Control

Transaction level detail will be maintained in policy and claim history files for record-keeping and audit purposes.

C. Quality Review of Submitted Data

1. Transaction records will be edited for correct format and values.
2. Relational edits will be performed on individual transactions as well as between policy and claim transactions submitted against those policies.
3. Record validation will be performed to check that the transaction type is allowable for the type of policy or claim indicated.
4. Errors will be categorized as critical or non-critical. The rate of critical errors in the submission of statistical data will be the basis by which company performance is reported.

D. Policy Rating

1. The rating will be validated by the NFIP for all policies for which the following transactions have been submitted:
   a. New Business;
   b. Renewals;
   c. Endorsements involving type A transaction records; and
   d. Corrections of type A transaction records previously submitted for premium transactions.

2. Incorrect rating will be considered a critical error.

E. Timeliness of Reporting

1. WYO Companies will be expected to submit monthly statistical and financial
reports within thirty days of the end of the month of record.
2. The NFIP will provide reports based on review of submitted data within thirty days after the due date or the first processing cycle subsequent to the receipt of WYO Company submissions, whichever is later.

F. Monthly Reports
1. Reports for each WYO Company’s data submission will be sent to the respective WYO Company and the FIA explaining any discrepancies found by the NFIP review.
2. Reports to WYO Companies. Transaction records that fail to pass the quality review or policy rating edits will be reported to the appropriate Company in transaction detail with error codes, classification of errors as either critical or non-critical and any codes used by the Company to identify the source of the transaction data.

3. Report to WYO Companies and the FIA:
   a. Summary statistics will be generated for each monthly submission of transaction data. These will include:
      i. Absolute numbers of transactions read and transactions rejected by transaction type; and
      ii. Dollar amounts associated with transactions read and transactions rejected.
   b. Summary statistics for all policy and claim records submitted to date (which may be the result of multiple transactions) will be generated, separately for critical and non-critical errors. These will include:
      i. Absolute number of policy and claim records on file and those containing errors; and
      ii. Relative values for the number of records containing critical errors.
   c. Control totals will be generated for tapes submitted to and processed by the NFIP. This front-end balancing procedure will include:
      i. Numbers of records submitted according to the NFIP compared with numbers of records submitted according to the WYO Company transmittal document; and
      ii. Dollar amounts submitted according to the NFIP compared with dollar amounts submitted according to the WYO Company transmittal document.
   d. If there is any discrepancy between the NFIP reading of dollar amounts from the tape and the WYO Company tape transmittal document, then the monthly statistical tape submission will be rejected and returned to the Company. The rejected tape must be corrected and resubmitted by the next monthly submission due date.
   e. In cases where the NFIP reconciliation of transaction level detail with the financial statements does not agree with the reconciliation report submitted by the WYO Company, a separate report will be generated and transmitted to the Company for resolution and to the FIA.

Reporting of Company Rating to the Standards Committee and the Administrator
A. Satisfactory Rating
An annual end of the year report will be submitted to convey the satisfactory rating of WYO Companies’ submission of transaction data and the reconciliation of this data with financial reports.

B. Unsatisfactory Rating
The report of an unsatisfactory rating will be submitted as soon as errors and problems reach critical threshold levels. This rating will be based on: Continuing problems in reconciling transaction data with financial reports; statistics on the percentage of transactions submitted with critical errors; the percentage of policy and claim records on file that contain critical errors; and late submission of statistical and financial reports.

Exhibit “A”—WYO Statistical Tape Transmittal Document

Date Sent: ____________
WYPrefix Code: ______________
WYO Company Name: ____________
Address: ____________________________

Reel Number (S) of Enclosed Tapes: ________________
Density: ________ LRECL: ________
Blocksize: ______________
File Name (DSN): ________________
Contact Person: ________________
Contact Number: ________________
IBU Number: ________________ (WYO Use Only)

Monthly Reconciliation—Net Written Premiums

Company name: ________________
Month/year ending: ________________
Date submitted: ________________
Preparer’s name: ________________
Telephone No: ________________

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<tr>
<td>(–) Current month’s</td>
<td>23</td>
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<td>Other—Explain:</td>
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<td>(+) Current month’s</td>
<td>26</td>
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<tr>
<td>(–) Prior month’s</td>
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<td>14 and 81</td>
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<td>Total: Add 11 Through 23 less 26 and 29</td>
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Comments: ________________

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<td>Preparer’s name: ________________</td>
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<p>| Loss/paid recoveries | Trans. code | Record count | |
|----------------------|-------------|--------------|
| 100 Net paid losses  | (Income statement line 115) | 31 | $ |
| Unprocessed statistical: | | 34 | |
| 140 (+) Prior month’s | | 37 | |
| 150 (–) Current month | | 40 | |</p>
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**Monthly Reconciliation—Special Allocated LAE**

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**Monthly Reconciliation—Net Policy Service Fees**

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(A Approved by the Office of Management and Budget under OMB control number 3067-0169.)

**Part 2—Claims Reinspection Program**

WYO—NFIP Claims Reinspection Program

To keep WYO—NFIP Claims Management informed, to assist in the overall claims operation, and to provide necessary assurances and documentation for dealing with GAO, Congressional Oversight Committees, and the public, the FIA and WYO Companies have established a Claims Reinspection Program.

The Program is comprised of the following major elements:

A. All files are subject to reinspection.
B. Files for reinspection may be randomly selected by flood event, or size of loss, or class of business, as determined by WYO—NFIP Claims Management.
C. WYO—NFIP Claims Management will utilize a binomial table to define sample size for reinspections prior to payment. A larger sample may be used depending upon error ratio.
D. An agreed upon sample of closed files, by event, will be subjected to reinspection as well.

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**(Approved by the Office of Management and Budget under OMB control number 3067-0169.)**
Part 3—Financial Audits, Underwriting Audits, Claims Audits, Audits for Cause, and State Insurance Department Audits

A. Biennial Financial Audits

1. Objectives of WYO Biennial Financial Audit. The biennial financial audit is intended to provide the Federal Emergency Management Agency with independent assessment of the quality of financial controls over activities relating to the Company’s participation in the National Flood Insurance Program as well as the integrity of the financial data reported to FEMA.

   a. Participating WYO companies are responsible for selecting and funding independent certified Public Accounting firms to conduct the biennial audits. Such costs are considered part of the normal administrative cost of operating the WYO program and as such are included in the WYO expense allowance.

   b. The WYO Company’s representative will be notified in writing to arrange for a biennial audit. This notice should provide the WYO Company at least 120 days to prepare for the biennial audit.

   c. It is also intended that the biennial audit will reduce or eliminate the need for FEMA auditors or their designees to conduct on-site visits to WYO companies in their review of financial activity. However, the requirement may still exist for such visits to occur as determined by the auditors. The CPA firm’s audit shall be performed in accordance with GAO yellow book requirements. Further, the CPA firm is required to select its own sample, even though FIA may provide them with pre-selected policy and claim files for review. In addition, nothing in this section should be construed as limiting the ability of the General Accounting Office or FEMA’s Office of Inspector General to review the activities of the WYO Program.

   d. The purpose of the biennial audit is to provide opinion on the fairness of the financial statements, the adequacy of internal controls, and the extent of compliance with laws and regulations.

B. Audits for Cause

In accordance with the terms of the Arrangement, the Administrator, on his/her own initiative or upon recommendation of the WYO Standards Committee or the FEMA Inspector General, may conduct for cause audits of participating companies. The following criteria, in combination or independently may constitute the basis for initiation of such an audit.

1. Underwriting

   a. Excessively high frequency of errors in underwriting:
      i. Issuing policies for ineligible risks.
      ii. Issuing policies in ineligible communities.
   b. Consistent premium rating errors.
   c. Missing or insufficient documentation for submit for rate policies.
   d. Other patterns of consistent errors.
   e. Abnormally high rate of policy cancellations or non-renewals.
   f. Policies not processed in a timely fashion.
   g. Duplication of policy coverage noted.
   h. Problems with Rollover from National Flood Insurance Program (NFIP) to WYO (duplication of coverage, timeliness of changeover).
   i. Relational type edits indicate an unusually high or low premium amount per policy for the geographical area.
   j. Biennial audit results indicate unusual volume of errors in underwriting.

2. Claims

   a. Reinspection indicates consistent patterns of:
      i. Losses being paid when not covered.
      ii. Statistical information being reported on original loss adjustment found to be incorrect on reinspection.
   b. Salvage/subrogation on not being adequately addressed.
   c. Overpayment of claims.
   d. Unusually high count of erroneous assignments and/or claims closed without payment (CWP). (WYO Company is paid a flat fee for CWP cases where little or no work is done—risk is fraudulent CWP cases).
   e. Unusually low count of CWP. (May indicate inadequate follow-up of claims submitted).
   f. Averge claim payments which significantly exceed the average for the Program as a whole.
   g. Lack of (adequate) documentation for paid claims.
   h. Claims not processed in a timely fashion.
   i. Consistent failure of WYO Company to receive authorization for special allocated loss adjustment expenses prior to incurring them.
   j. High submission of Special Allocated Loss Adjustment Expenses (SALAE).
   k. Consistency high policyholder complaint level.
   l. Low/high count of salvage/subrogation.
   m. Biennial audit indicates significant problems.

3. Financial Reporting/Accounting

   a. Consistently high reconciliation variations and/or errors in statistical information.
   b. Financial and/or statistical information not received in a timely fashion.
   c. Letter of Credit violations are found.
   d. WYO Company is not depositing funds to the Restricted Account in a timely manner, or funds are not being transferred through the automated clearinghouse on a timely basis.
   e. Premium suspense is consistently significant, older than 60 days, and/or cannot be detailed sufficiently.
   f. Large/unnatural balance in Cash-Other (Receivable and/or Payable).
   g. Large, unexplained differences in cash reconciliation.
   h. Large/unusual balances or variations between months noted for key reported financial data.
   i. Financial statement to statistical data reconciliation sheets improperly completed indicating proper review of information is not being performed prior to signing certification statement.
   j. Repeated failure to respond fully in a timely manner to questions raised by FIA or its servicing agent concerning monthly financial reporting.
   k. Biennial audit indicates significant problems.

C. Underwriting Audit

1. Samples of new business policies, renewals, endorsements and cancellations will be provided by the FIA with the biennial audit instructions, including samples of the Mortgage Portfolio Protection business, where applicable. The audit is to be conducted in accordance with GAO yellow book requirements. The CPA firm may supplement its own sample of risks which were in-force during all or part of the Arrangement Year under audit for detail testing.

2. Underwriting Audit Outline

   a. Review of the Underwriting Department’s responsibilities, authorities and composition.
   b. Personal interviews with management and key clerical personnel to determine current processing activities, planned changes and problems.
   c. Administrative review to verify compliance with company procedures.
   d. Thorough examination of a random sample of underwriting files to measure the quality of work. The CPA firm is expected to provide a representative sample of its review to substantiate its opinion and findings. At a minimum, the files should be reviewed to verify the following:
      i. Policies are issued for eligible risks;
      ii. Rates are correct and consistent with the amount of insurance requested on the application.
      iii. Waiting period for new business is consistent with government regulations;
      iv. Elevation certification or difference is correctly shown on application;
   e. No binder is effective unless issued with the authorization of FIA;
   f. The FIRM zone shown on the application is applicable to the community in which the property is located;
   g. Community shown on application is eligible to purchase insurance under the NFIP;
   h. Information on type of building, etc., is fully complete;
   i. Applicable deductibles are recorded;
   j. A new, fully completed application or a photocopy of the most recent application, or similar documentation, with the appropriate updates to reflect current information is on file for each risk, including those formerly written by the NFIP Servicing Facility.
   k. If any files to be audited are unavailable, determine the reason for the absence.
   l. Endorsement Processing.
      i. Complete tasks as applicable.
   m. Review requests for additional coverage to ensure that they are subject to the waiting period rule.
3. Review controls established to ensure that no risk is insured under endorsement provisions that are not acceptable as a new business risk (i.e., a property located in a suspended community). 
  f. Cancellation Processing. Verify controls to ensure that one of the necessary reasons for cancellation exists and that the transaction is accompanied by proper documentation. 
  g. Renewal Processing. Determine controls to ensure that all necessary information needed to complete the transaction is provided. 
  h. Expired Policies. Determine controls to ensure that each step is carried out at the proper time. 
  i. Observance of Waiting Period. Establish procedures to document, as a matter of WYO Company business record and in each transaction involving a new application, renewal, and endorsement, that any applicable effective date and premium receipt rules have been observed (44 CFR 61.11). Documentation reasonably suitable for the purpose includes retention of postmarked envelopes (for three (3) years) from date, date-stamping and retention (via hard copy or microfilm process) of application, renewal and endorsement documents and checks received in payment of premium; computer input of document and premium receipt transactions and retention of such records in the computer system; and other reasonable insurer methods of verifying transactions involving requests for coverage and receipts of premium.

D. Claims Audit Outline
  1. Review of the Claims Department’s responsibilities, authorities, and composition. 
  2. Personal interviews with management and key clerical personnel to determine current processing activities, planned changes and problems. 
  3. Administrative review to verify compliance with company procedures. 
  4. Thorough examination of a random sample of claims files which may be provided by FIA to measure the quality of work. At a minimum, the files should be reviewed to verify the following: 
  a. Verify controls to ensure that a file is set up for each Notice of Loss received. 
  b. Review adjuster reports to determine whether they contain adequate evidence to substantiate the payment or denial of claims, including amount of losses claimed, any salvage proceeds, depreciation and potential subrogation. 
  c. Ascertain that building and contents allocations are correct; 
  d. Determine whether the file contains evidence identifying subrogation possibilities. 
  e. Verify that partial payments were properly considered in processing the final draft or check. 
  f. Verify that the loss payees are listed correctly (consider insured and mortgagee). 
  g. Verify that the total amount of the drafts or checks is within the policy limits. 
  h. Ascertain the relevance and validity of the criteria used by the carrier to judge effectiveness of its claims servicing operation. 
  i. Confirm that when information is received from an independent adjuster, the examiner either acts promptly to give proper feedback with instructions or takes action to pay or deny the loss. 
  j. Determine whether the Claims Department is using an “impression of risk” program in reporting misrated policies, etc. 
  k. Where attempts at fraud occur, verify that these instances are being reported to FIA for referral to the FEMA Inspector General’s office. 
  l. If any files to be audited are unavailable, determine the reason for their absence. 

Exhibit “B”—Administrative Review Checklist

Policy #
Insured’s name: [ ] [ ] [ ]
State: [ ] [ ] [ ]
Date of loss: [ ] [ ] [ ]
Date paid: [ ] [ ] [ ]
Amt. of loss: $ [ ] [ ] [ ]
Bldg. $ [ ] [ ] [ ]
Contents $ [ ] [ ] [ ]
Adjusting firm: [ ] [ ] [ ]
Examiner’s name: [ ] [ ] [ ]
Comments [ ] [ ] [ ]

1. Investigation and Adjustments
   A. Application of Coverage
      (1) Insurable interest? [ ] [ ] [ ]
      (2) Is loss from the flood peril? [ ] [ ] [ ]
      (3) Did loss occur within the policy term? [ ] [ ] [ ]
      (4) Does location and description of risk coincide with policy format? [ ] [ ] [ ]
      (5) Were proper deductibles applied? [ ] [ ] [ ]
      (6) Other insurance considered? [ ] [ ] [ ]
      (7) Other losses? [ ] [ ] [ ]
   
   b. Application of Sound Adjusting Practices
      (1) Was adjuster’s report accurate/complete? [ ] [ ] [ ]
      (2) Was an attorney used in the settlement? [ ] [ ] [ ]
      (3) Was a technical expert used in the settlement? [ ] [ ] [ ]
   
   c. Documentation
      (1) Are damages clearly identified? [ ] [ ] [ ]
      (2) Are damages flood related? [ ] [ ] [ ]
      (3) Are damages clearly and completely itemized and documented by the adjuster? [ ] [ ] [ ]
      (4) Was depreciation considered? [ ] [ ] [ ]
      (5) Has subrogation been considered? [ ] [ ] [ ]
      (6) Has salvage been properly handled? [ ] [ ] [ ]
      (7) Was salvage timely? [ ] [ ] [ ]
  
2. Supervision
   
   a. Assignments
      (1) Are assignments made promptly? [ ] [ ] [ ]
      (2) Is insured contacted promptly? [ ] [ ] [ ]
   
   b. Reserves
      (1) Are initial reserves indicated on the first report? [ ] [ ] [ ]
      (2) Are they adequate? [ ] [ ] [ ]
      (3) Does final settlement compare favorably with last reserve established? [ ] [ ] [ ]
   
   c. Diary Control
      (1) Automatic? [ ] [ ] [ ]
      (2) Timely? [ ] [ ] [ ]
      (3) Is file reviewed at diary date with examiner’s comments? [ ] [ ] [ ]
   
   d. Examiner Evaluation and Settlement Performances
      (1) Is examiner direct adjusting when needed? [ ] [ ] [ ]
      (2) Are files documented? [ ] [ ] [ ]
      (3) Is adequate control maintained over in-house adjuster? [ ] [ ] [ ]
      (4) Is adequate control maintained over outside adjuster? [ ] [ ] [ ]
E. State Insurance—Department Examination

1. It is expected that audits of WYO Companies by independent accountants and/or state insurance departments, aside from those conducted by the FIA or its designee, will include flood insurance activity. When such audits occur, a financial officer for the WYO Company will notify the FIA, identifying the auditing entity and providing a brief statement of the overall conclusions that relate to flood insurance and the insurer’s financial condition, when available. In the case of an audit in progress, a brief statement on the scope of the audit should be provided to the FIA. A checklist will be utilized for reporting and will be provided to WYO Companies by the FIA.

2. The WYO Companies will maintain on file the reports resulting from audits, subject to on-site inspection by the FIA or its designee. If the FIA’s request, the WYO Company will submit a copy of the auditor’s opinion, should one be available, summarizing the audit conclusion. “(Approved by the Office of Management and Budget under OMB control number 3067-0169)”

Part 4—Reports Certifications

A. Certification Statement for Monthly Financial and Statistical Reconciliation Reports

I have reviewed the accompanying financial and statistical reconciliation reports of XYZ Company as of __________. All information included in these statements is the representation of the XYZ Company.

Based on my review (with the exception of the matter(s) described in the following paragraphs, if applicable), I certify that I am not aware of any material modifications that should be made to the accompanying reports.

Signed (Responsible Financial Officer)

Date __________

B. Certification Statement for Monthly Statistical Transaction Report

I have reviewed the accompanying statistical transaction report control totals in conjunction with appropriate statistical reconciliation reports. All information included in these reports is the representation of the XYZ Company.

“(Approved by the Office of Management and Budget under OMB control number 3067-0169)”

Signed (Responsible Reporting Officer)

Date __________

FEDERAL COMMUNICATIONS COMMISSION

47 CFR Parts 20, 61, and 69

[CC Docket Nos. 95-185 and 94-54, FCC 95-505]

Interconnection Between Local Exchange Carriers and Commercial Mobile Radio Service Providers; Equal Access and Interconnection Obligations Pertaining to Commercial Mobile Radio Service Providers

AGENCY: Federal Communications Commission.

ACTION: Notice of proposed rulemaking.

SUMMARY: The Commission is issuing this Notice of Proposed Rulemaking seeking comment on possible changes in the regulatory treatment of interconnection compensation arrangements between LECs and CMRS providers and related issues. The Notice tentatively concludes that in order to ensure the continued development of wireless services as a potential competitor to LEC services, the Commission should move expeditiously to adopt interim policies governing the rates charged for LEC-CMRS interconnection. The Notice further tentatively concludes that, at least for an interim period, interconnection rates for local switching facilities and connections to end users should be priced on a “bill and keep” basis (i.e., both the LEC and the CMRS provider charge a rate of zero for the termination of traffic), and that rates for dedicated transmission facilities connecting LEC and CMRS networks should be set based on existing access charges for similar transmission facilities. The Notice seeks comment on these tentative conclusions and on a number of alternative pricing options for LEC-CMRS interconnection arrangements. The Notice tentatively concludes that information about interconnection compensation arrangements should be made publicly available, and seeks comment on what method to use to achieve this objective, such as tariffing, public disclosure, or some other approach. The Notice seeks comment on how to implement both interim and permanent interconnection policies (i.e., a non-binding model, or mandatory general or specific federal requirements), and tentatively concludes that the Commission has authority to adopt these approaches.